



OFFICE OF RAIL REGULATION

The incentive regulation of Britain's rail infrastructure

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2e conférence économique de l'ARAF

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1. What is ORR and what does it do?
2. The periodic review and incentives
3. The incentive framework

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A combined independent regulator for the sector

Economic regulation of railway infrastructure
- Network Rail, HS1 & Ch Tunnel (+HS2)

Health & safety authority for the whole rail industry

Consumer and competition authority – powers concurrent with the CMA

Development of **European** rail markets & regulation

Crown Prosecutor, to enforce health & safety law



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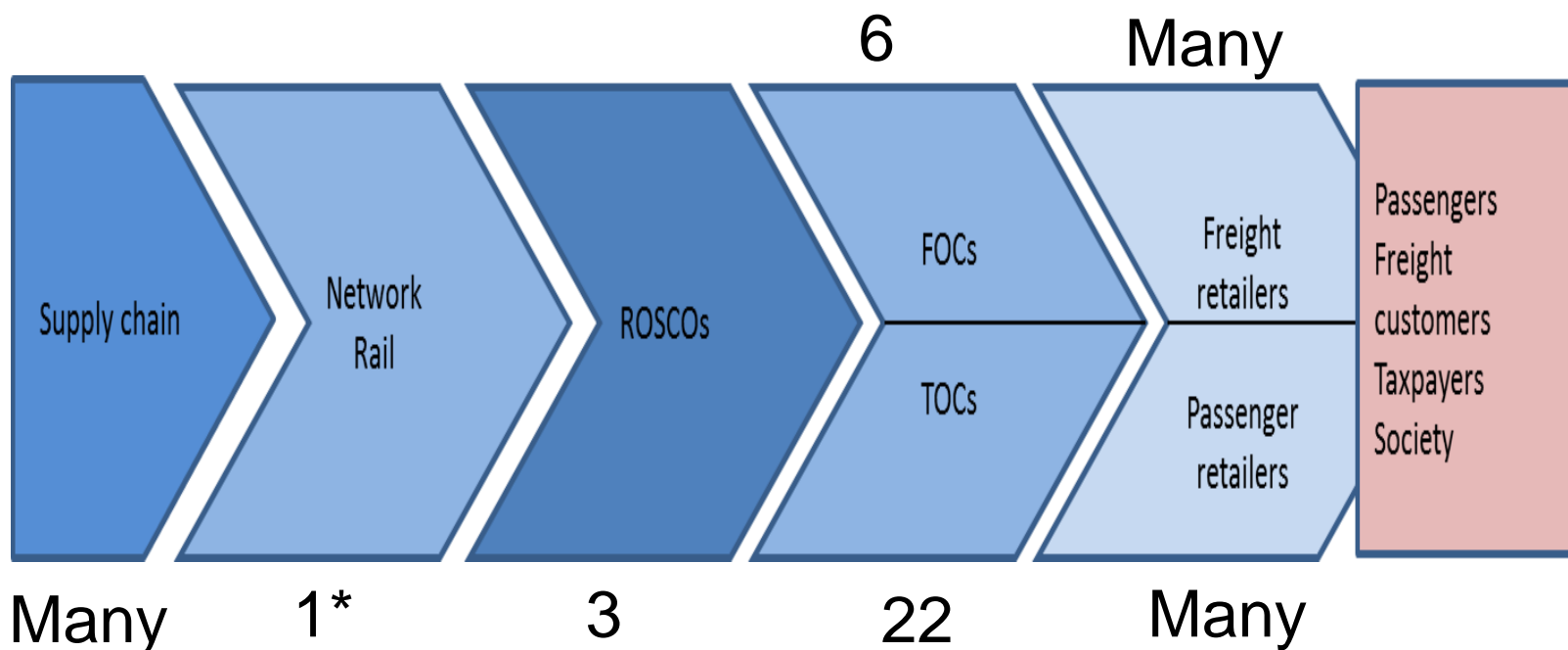
Track access regulation & appeals (including for Open Access)

Set and enforce **UK technical standards & licencing** in rail

Performance monitoring & official data (ONS accredited)

Highways Agency
monitor role

The rail industry's value chain



ROSCOs: Rolling Stock companies

FOCs: Freight companies

TOCs: Passenger operators

* Plus High Speed 1

5 Source: Office of Rail Regulation



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1. What is ORR and what does it do?

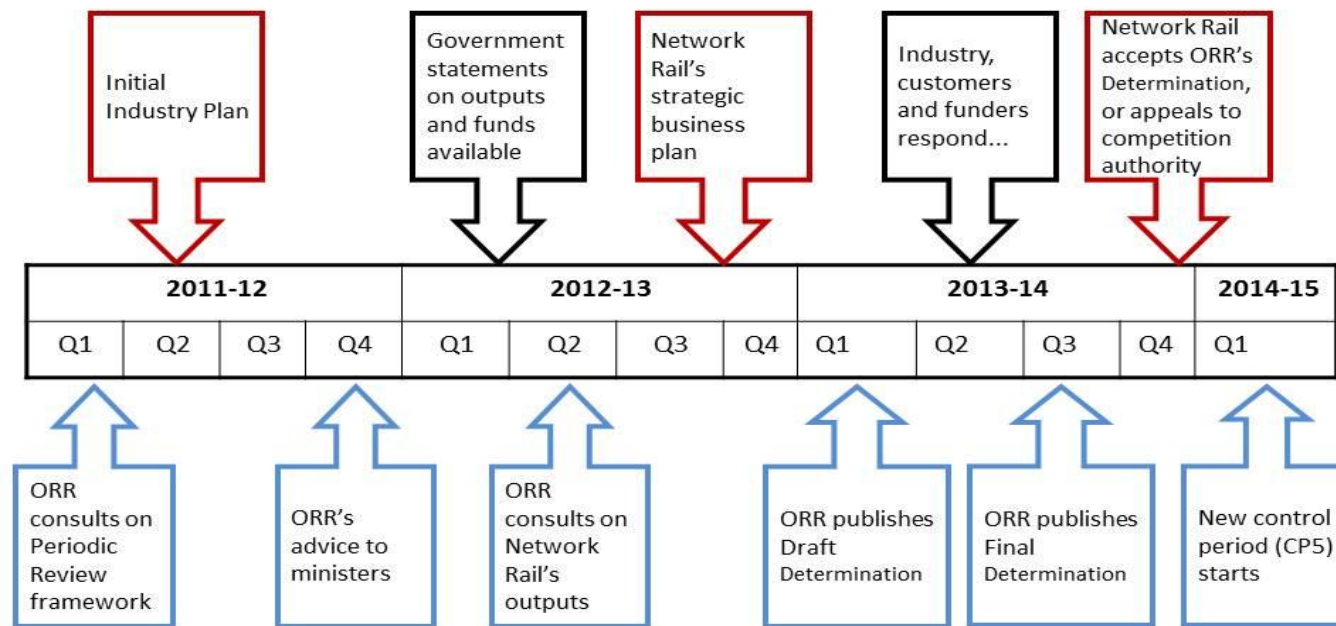
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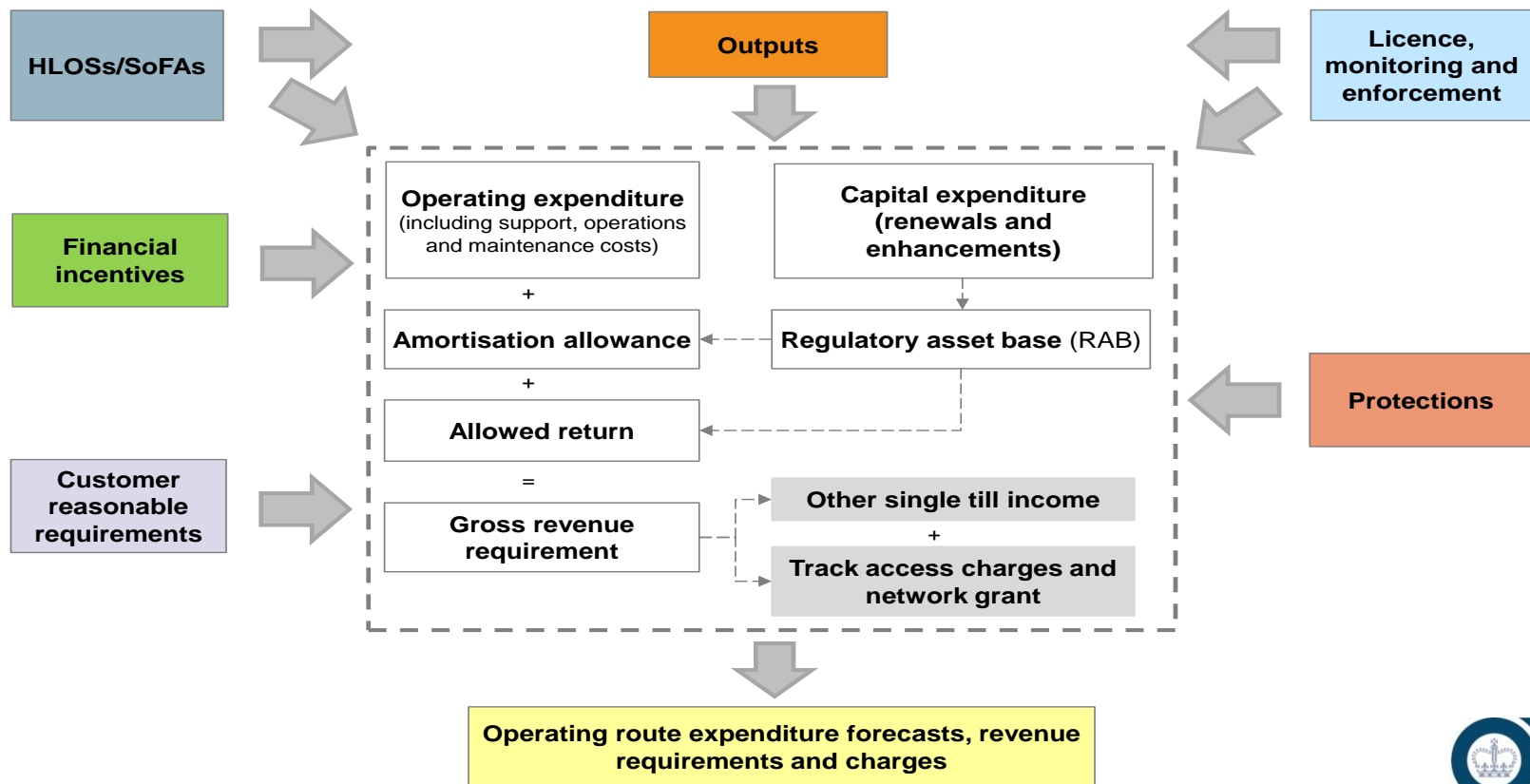


2013 Periodic Review of Network Rail's charges and outputs: timeline

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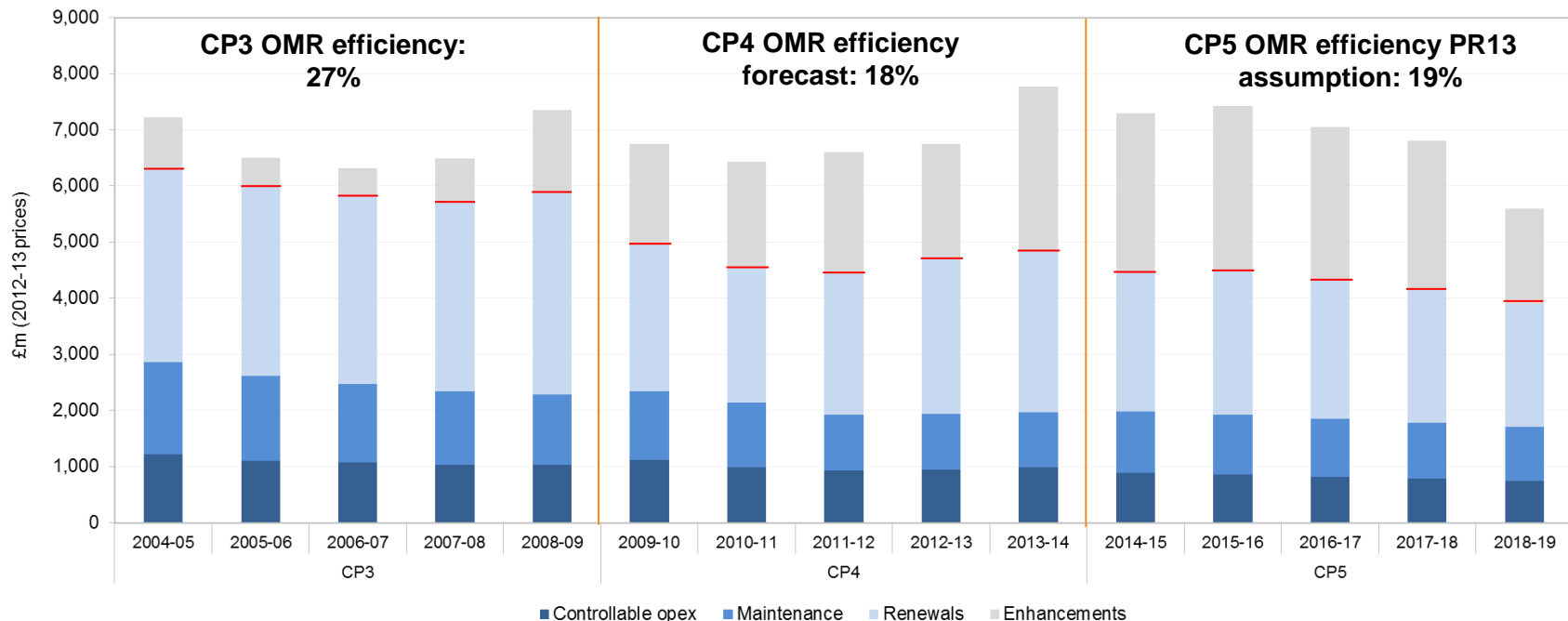


Building blocks of a Periodic Review



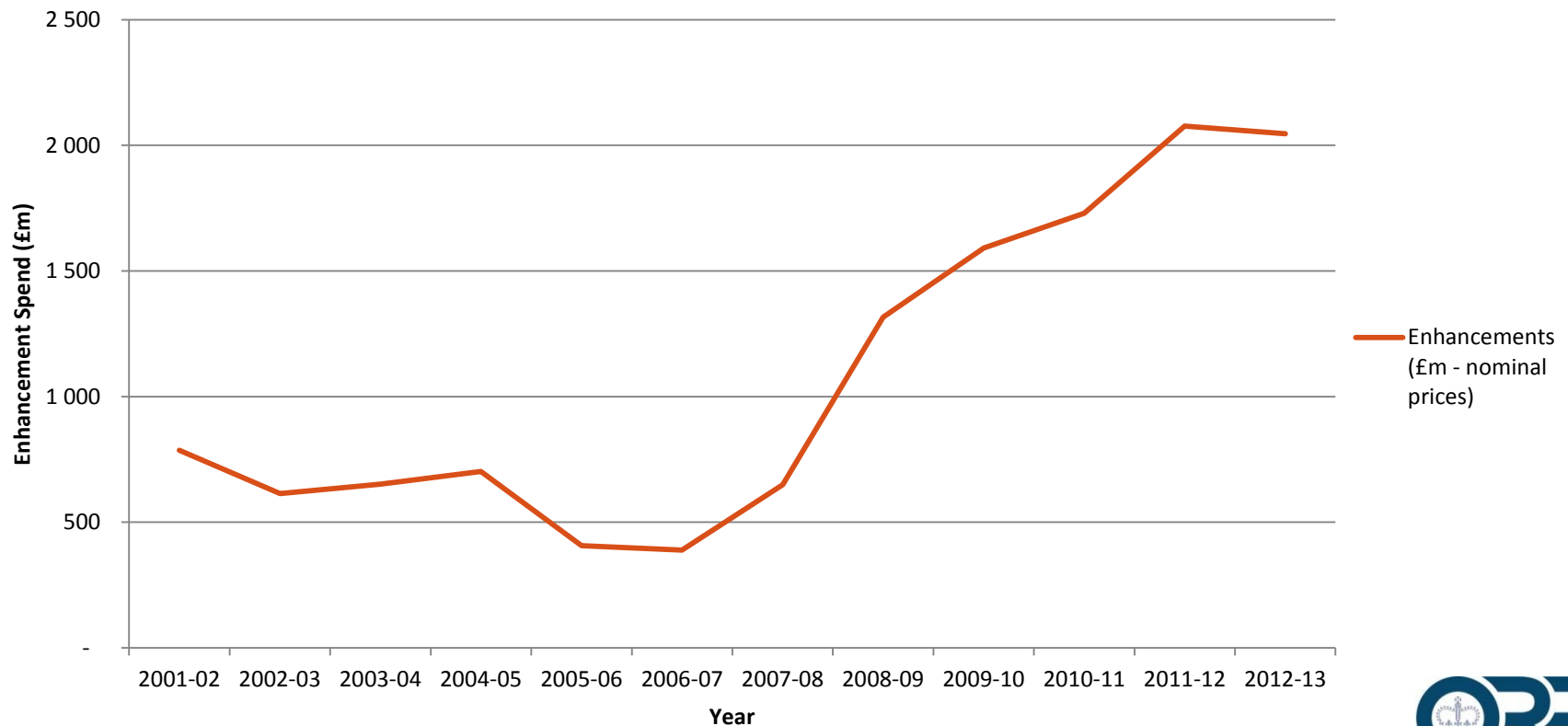
Network Rail efficiency gains are being re-invested in new capacity

Cumulative efficiency gains of £9.3 billion since 2004



New investment has quadrupled, and will stay at this level up to 2019

Network Rail Spend on Enhancements since 2001-02



What will be different in CP5



Train operators will have more say in the specification and effectiveness of enhancement projects and over how punctuality is delivered

Freight will see further investment in infrastructure across Great Britain, with £230m ring-fenced for freight specific schemes



What will be different in CP5

Passengers will benefit from a major programme of enhancements, extra capacity and higher standards of punctuality and reliability



Safety improvements will continue to be a priority. Extra funding approved in certain safety critical areas including maintenance and civils renewals



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3. The incentive framework

- Contractual incentives
- Financial incentives
- Reputational incentives
- Earned autonomy

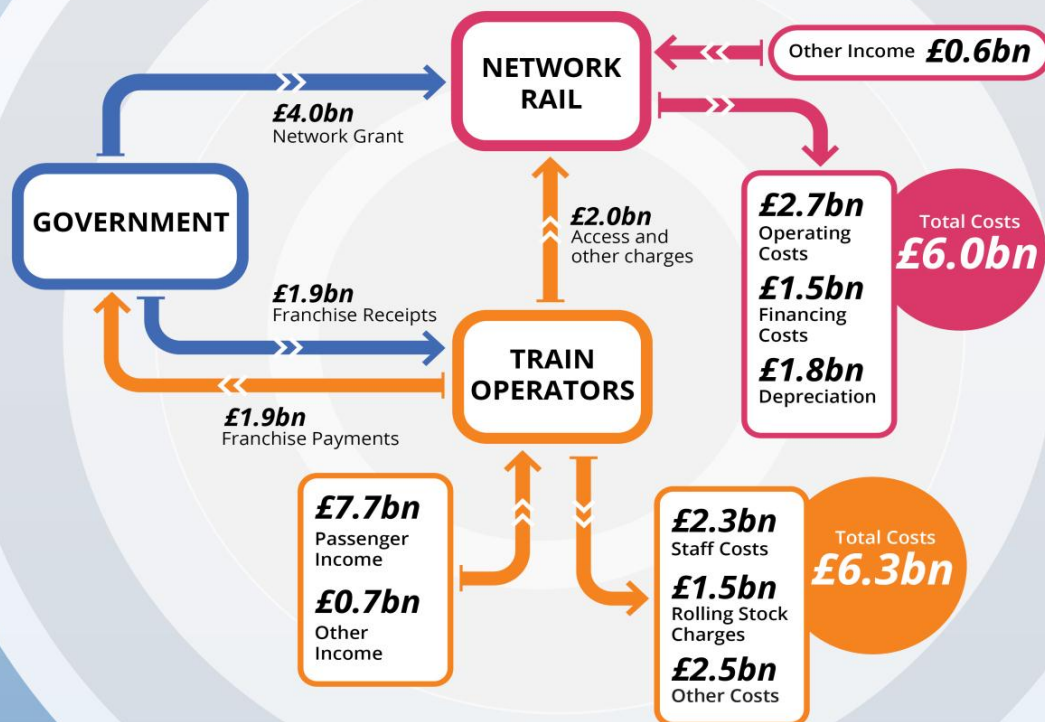
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- Contractual incentives – examples:
 - Possessions regime
 - Performance regime
- Financial incentives
- Reputational incentives
- Earned autonomy

Rail funding comes from various sources

INDUSTRY INCOME, EXPENDITURE AND GOVERNMENT FUNDING APRIL 2012 - MARCH 2013



The cost of running Britain's railways was **£12.3bn** in 2012-13, a real terms increase of **2.1%** compared to 2011-12 and a real terms increase of **0.1%** compared to 2010-11. After adjusting for passenger growth, industry expenditure increased very marginally from 2011-12 (**up 0.2%**), but decreased significantly since 2010-11 (**down by 6.2%**).

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3. The incentive framework

- Contractual incentives
- Financial incentives – examples:
 - Route-level efficiency benefit sharing
 - Volume incentive
- Reputational incentives
- Earned autonomy

Already moving away from uni-polar infrastructure



Today

Limited concession (PPP) for HS1
South West Alliance
Limited devolution outside England
Metropolitan transport authorities



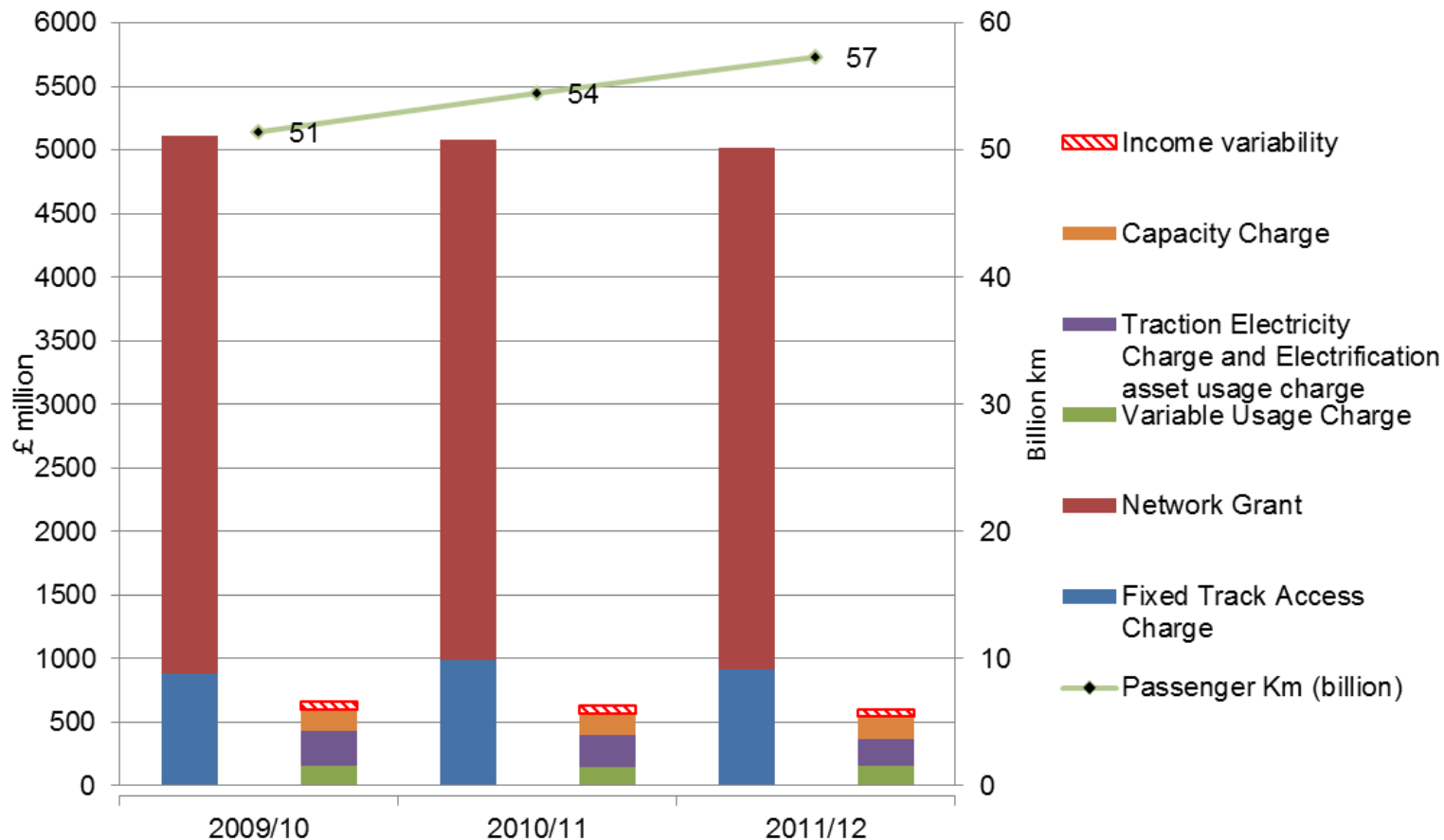
Future?

Further route alliances?
Full devolution to Scotland?
Mainline route concessions or sale?
Local public partnerships?
HS2 – concession for infrastructure?



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Weak commercial growth incentives

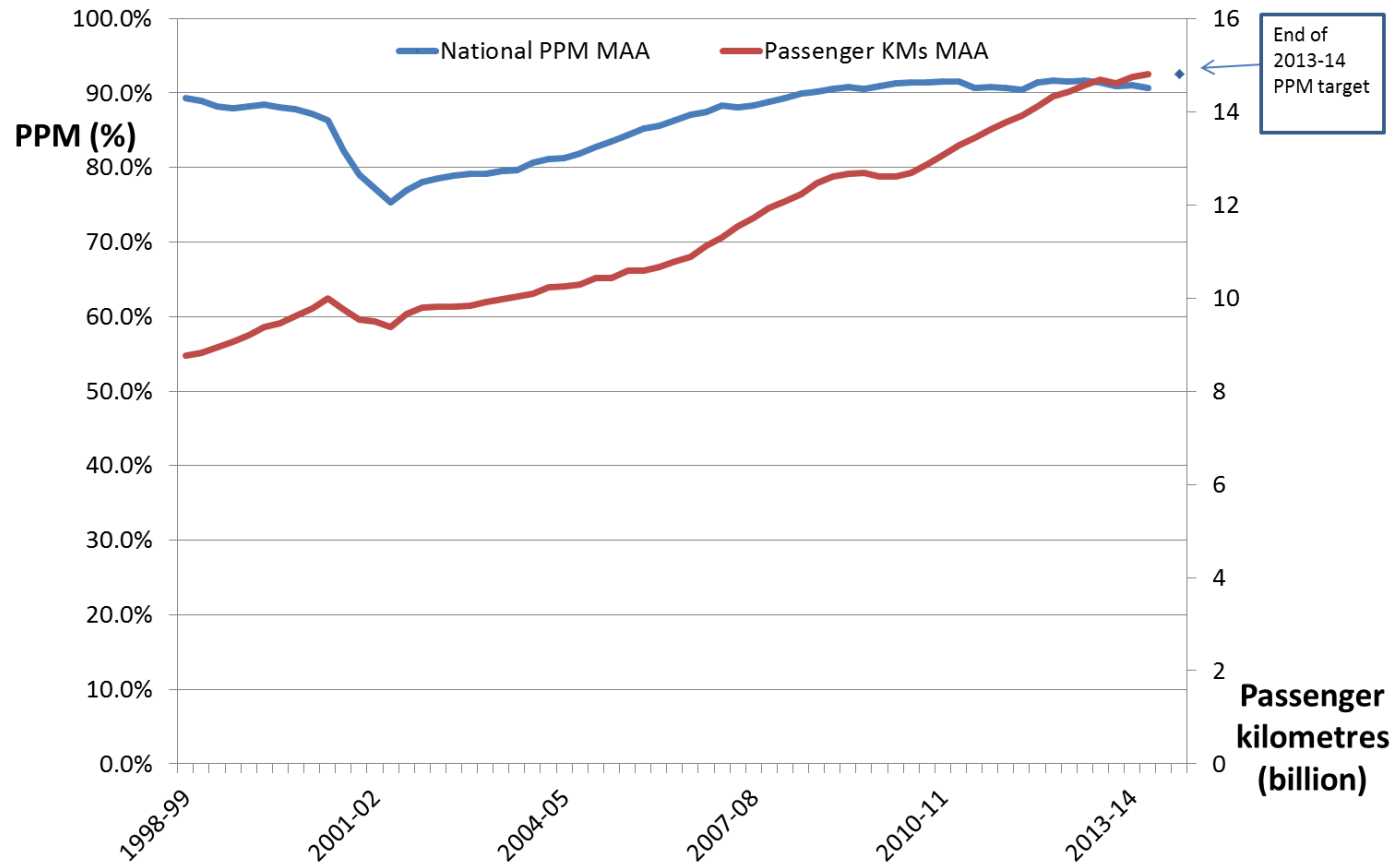


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Punctuality/reliability improvements over the last 10 years

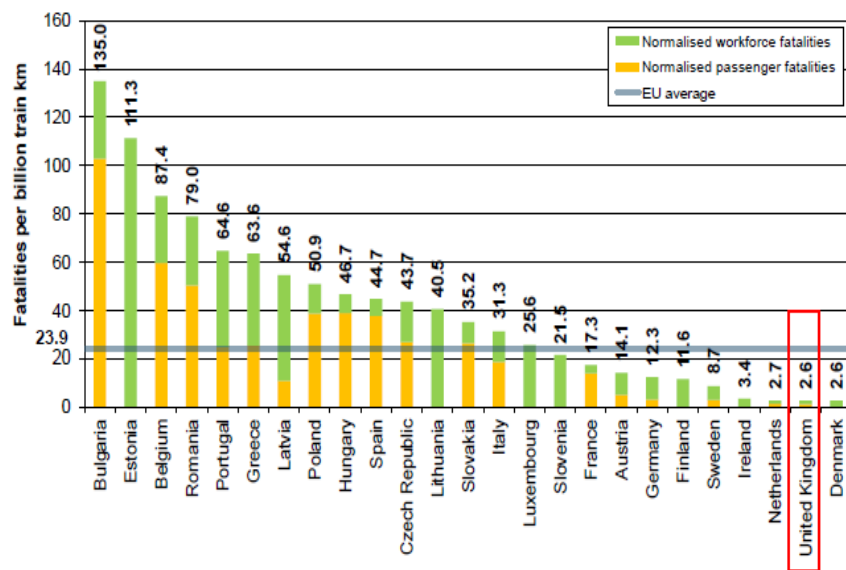


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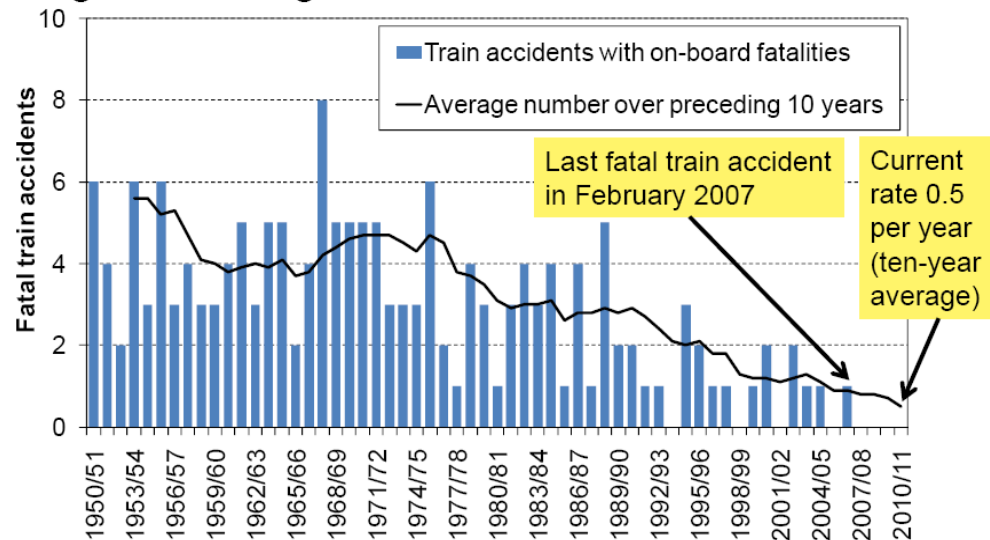


Value of safety regulation—reduced harm

Comparison of passenger and workforce fatality rates across the European Union railways, 2007-11

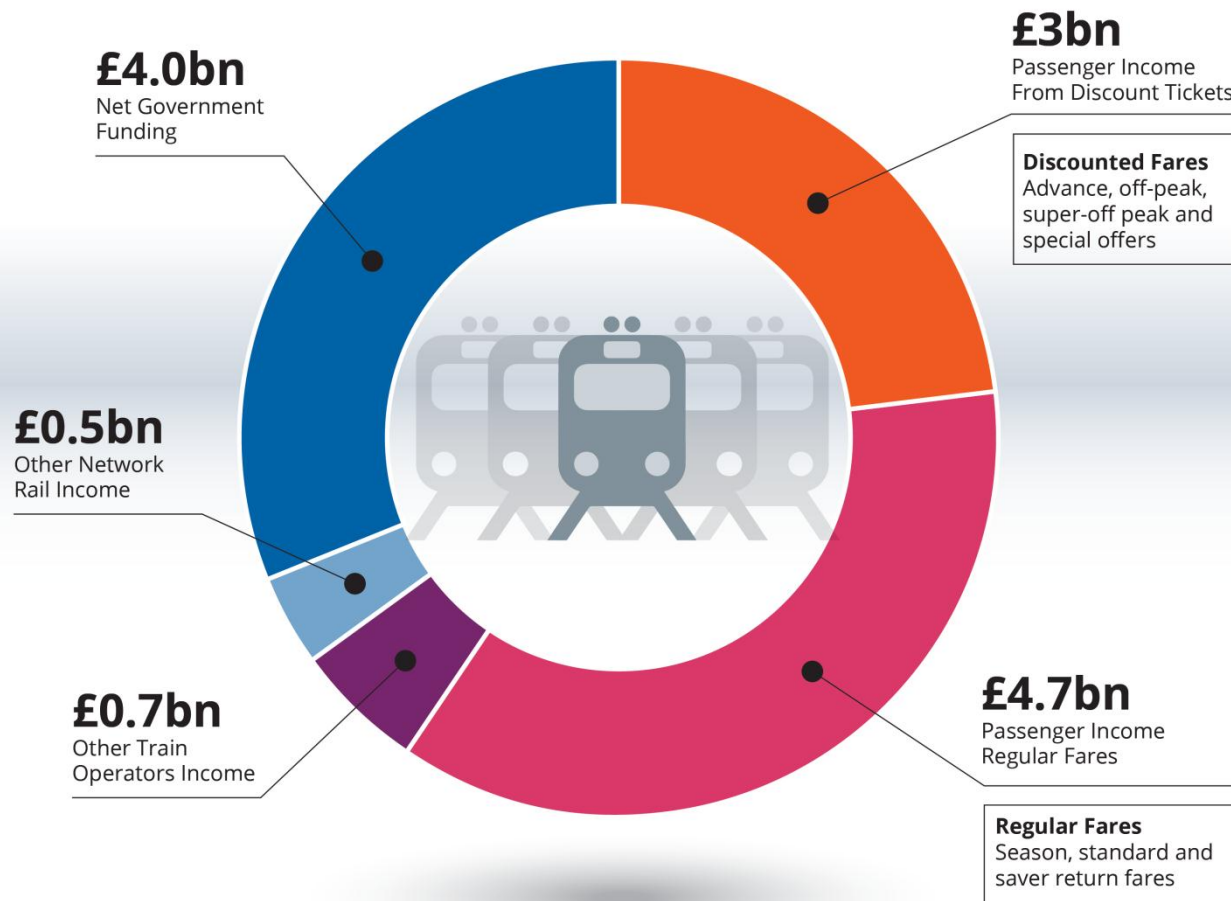


Significant long-term reduction in train accident risk



► Steady improvement in safety –amongst the best in Europe

Government still contributes one-third of whole-industry revenue directly



Better performance
for passengers

92½%

of trains on time

A **safer** railway

- Assets gripped
 - Resilient to climate change
 - £99m for level crossing safety
- Safe & sustainable maintenance

**More
capacity**

Including...

- Northern Hub
- Thameslink
- Crossrail
- Welsh Valley lines
- Edinburgh-Glasgow
- Electrification
- Freight network

No line left
behind:
9/10

~~trains on time; more reliable~~

More say to operators on new
improvements achieved for their
customers

£12bn
investment
in a better
railway

with major Government investments

Train operators and passengers
have a bigger say on the spec
and delivery of a better railway

£1.8bn savings

from Network Rail's plans
...day-to-day cost of the railway
down to £21½bn over 5 years.

£400m

extra to put right
decades of
neglect on
embankments,
bridges, tunnels

19.5% efficiency

by 2019, building on
over the last decade

40%

The **McNulty**
efficiency challenge for
Network Rail
addressed – more to
do across the wider
industry

Debt

70% of

asset value –
within our limit,
In line with other

28 % reduction in day-to-day
costs per passenger mile by 2019

ORR's Final Determination for Network Rail, Oct 2013



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