INFORMED SOURCES e-Preview August 2017

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It’s been quite like old times analysing why another InterCity East Coast franchise operator has got its revenue forecast wrong. But there’s also an update on a radical development with Traffic Management and a call to arms over the clearances regulations which are crippling electrification.

Intercity East Coast - franchise renegotiation inevitable
Stagecoach – big payer has to spend
Resonate hits Digital Railway sweet-spot
OHLE clearance regulations punishing electrification

It had been common talk around the industry for some months that Virgin Trains East Coast (VTEC) was struggling. Official confirmation came with Stagecoach’s preliminary which revealed that provision had been made for losses of £84.1 million on the franchise over the next two years.

As ever, revenue growth was proving insufficient to cover the combination of rising premium payments to government and ‘movements in operating costs’. Note that far from ‘handing in the keys’, VTEC is still paying the premiums in the franchise agreement.

Making the announcement, Stagecoach Chief Executive Martin Griffiths said , ‘We are engaged in discussions with the Department for Transport regarding our respective contractual rights and obligations under the current VTEC franchise and reflecting the reprioritisation of Network Rail's infrastructure programme’.

What’s this all about? VTEC’s winning bid assumed a radical transformation to East Coast services starting with the May 2019 timetable. This would provide more-frequent and faster services operated by the brand new fleet of Hitachi Intercity Express Programme(IEP) trains.

And as this column has been warning for some time, because Network Rail can’t deliver the infrastructure upgrades the 2019 timetable won’t happen. The most optimistic start date is now 2021.

So while Stagecoach is prepared to take the losses on the current timetable the delay to the service improvements, when the premium profile continues to rise year on year, would make a continuation of the VTEC franchise on its current terms untenable after May 2019. As Tim Shoveller, Managing Director of the Stagecoach UK Rail Division told Tony Miles, ‘by definition the (East Coast) bid was based on certainties, and the only thing that’s certain is that the certainties are no longer certain’. Mind you, in retrospect, some of those certainties were a bit vague at the time of the ICEC bids.

So we face an action replay of Virgin’s West Coast franchise where the West Coast Route Modernisation ended up over-budget, de-scoped and very late. But it proved possible to take the principles in Virgin’s original 1997 franchise plan and tailor them to what Network Rail eventually delivered. That policy resulted in ‘really significant passenger growth year after year after year and satisfying passengers’, Tim adds.

Drawing on this precedent, Tim Shoveller believes that in the current renegotiation of the franchise with DfT, ‘we can take the phoenix from this and there will be a good solution to it – and that will be in the best interests of the taxpayer, the best interests of the customer and the right deal for our shareholders’. Well, that’s the aspiration, but as Tim points out ‘That’s not where we are today – that’s where we’ve got to get to’.

Network Rail’s business plan for the East Coast Main Line in the current Control Period 5 (2014-2019) funded a range of enhancements supporting the introduction of IEP, such as power supply upgrades and gauging. There was also a ring-fenced East Coast Connectivity Fund worth £240 million.
Together these should have provided the additional capacity with the new May 2019 IEP timetable. However, projects have slipped and the scope of work progressively cut back. The Hendy Review of 2015 cut the East Coast Connectivity fund spending in CP5 to £197.2 million.

As a result, the most optimistic guess for the start of the new timetable is May 2021. But this depends on completion of the original upgrade programme.

Let’s hope that phoenix wrangler Tim Shoveller can pull something out of the flaming wreck. And a final, merry thought, if VTEC can’t use all those IEPs, we will still keep paying for them under DfT’s 27.5 tear train service provision contract.

Stagecoach – Third time still unlucky

Given the previous failures how did Stagecoach – the 90% shareholder in Virgin Trains East Coast - get their revenue forecasts so wrong? To the tune of £40 million a year?

Back in August 2006, only 14 months after the start of its replacement GNER franchise, owner Sea Containers announced that revenue growth had been 3.3% compared with the forecast 9.9%. Factors contributing to the shortfall included the London bombings and a softening of the economy.

In August 2007 National Express (NatEx) won the bidding to take over the franchise with a premium profile even more back-end loaded than the failed GNER franchise it was replacing. NatEx took over in December 2007 and for the first year all seemed rosy, with ‘robust’ revenue growth of 9%.

But by early 2009, the recession was biting, revenue was falling and NXEC was not eligible for Cap & Collar until 2011. In the first half of 2009 NXEC lost £20 million while its premium increased by £48 million.

So with DfT proclaiming ‘we do not renegotiate franchises’, and NXEC haemorrhaging cash, NatEx supported the franchise until the £72 million of committed funding was used up. Then it defaulted and Directly Operated Railways (DOR) took over as East Coast.

A quick and dirty analysis suggests that the VTEC premium profile assumes a Compound Annual Growth Rate (CAGR) of around 8%. Even

without the bitter experience of two previous ICEC franchises, Stagecoach's optimistic growth projection was still puzzling. In East Coast's final full year under public sector management revenue growth was 4%, which fell to 2.16% in 2014-15.

While the new train fleet and timetable should have driven ridership from 2019, that doesn't explain why the pre-IEP years were over-optimistic to the tune of £84 million.

As for the future, consider some key dates. The VTEC franchise ends on 31 March 2023. Even if it is all systems go with the May 2021 ECML timetable, ridership and revenue will take time to build up.

Clearly the cost of supporting the losses over the next two years cannot be recovered over the remaining life of the current franchise. So what sort of deal can be renegotiated?

A management contract, seems the obvious solution, but to manage what? Presumably the replacement of IC125 and IC225 with IEP will go ahead, but operating pretty much to the existing timetables. Stagecoach reckons that any renegotiated arrangement would be profitable from 2019.

Clearly DfT would still receive substantial payments under a new arrangement But even if growth of 6% kicked in from 2021, I estimate that there would still be a £200-250 million hole in DfT's CP6 budget.

And don't forget, DfT is already negotiating extensions with Stagecoach at East Midlands Trains (EMT) and VTWC. EMT has just been extended to August 2019.

Resonate to fund GWML TM

Back in the April column I broke the news that Network Rail was planning to award a contract to Derby-based Resonate which would add Integrated Traffic Management to the Company's IECC Scaleable upgrades at the Thames Valley Signalling Centre. TM would cover the Great Western Main line from Paddington to Bristol.

As reported in last month's news pages, on 8 June Resonate and Network Rail finally signed the contract. The deal had its genesis in June last year when, with Network Rail's Digital Railway programme failing to deliver, David Waboso was recruited from London Underground to the new post of, Group Managing Director, Digital Railway. One of his first moves was to set up the Early Contractor Involvement (EIC) group.

Instead of telling suppliers what was wanted, the members of the ECI, including Resonate, were asked what they could do for Network Rail. 'I asked people for their ideas and initiatives, including bringing in finance', David Waboso explained to me, 'I told them the door is wide open'.

One topic was reducing the costs of delays where the 'big money was'. In David's words, Resonate 'joined the dots up and said "we have this product and if you let us have a trial on IECC Scaleable we think we could do quite a lot, quite early"'.

With the workstations at TVSC already upgraded to Scaleable, it was a no brainer to add the TM capabilities I had seen demonstrated back in 2014. But the killer move was to bring in finance. Resonate decided here was an opportunity to put it's money where its mouth is. They would upgrade TVSC to TM at their own cost and then get paid by results.

A value is put on delay minutes for Schedule 8 compensation payments to train operators for disruption. If the TM upgrade cuts reactionary delay minutes, Network Rail and Resonate will share Schedule 8 payment savings. Great Western Route's payments under Schedule 8 have been, typically, around £18-20 million a year and Network Rail forecasts delay reductions from TM of up to 15%.
Resonate will provide its new Luminate TM platform with the dedicated servers based at Swindon Control. Network Rail will be paying for the training of staff, a project team to support the supplier, provisions of drawings and access plus the various interfaces with the rail network.

Features to be provided are train graphing, plan/re-plan of the timetable, possession management and automated platform docking. Other facilities, such as integrated train and crew rostering and Connected-Driver Advisory System (C-DAS) can be added later. Commissioning is scheduled for June 2018, after which the trial will run for 12 months.

Conference highlights OHLE clearance impact

You can always rely on the Railway Division of the Institution of Mechanical Engineers to get the timing spot on when it comes to organising conferences. And the events team pulled it off again on 6 June with their Electrification Seminar.

First up was my old chum British Rail electrification veteran Peter Dearman. Peter was Network Rail's Head of Network Electrification in 2011 when the Great Western Electrification Programme (GWEP) was in its infancy. But in 2013, like so many other experienced engineers, he left for the world of railway consultancy and is now advising Bechtel on … GWEP.

His paper 'The cost of electrification - Adequate or perfect', was inspired by the cost explosion on the Great Western scheme. He told the audience 'We are sleep walking towards nailing down the coffin lid on rail electrification. Unless we actively and passionately address cost reduction that will be the result'. As you will see in Late breaking news', he got the tense wrong.

His primary concern was the change in the regulations applying to electrical clearances – covered in detail in the December 2016 Informed Sources. Most of the change in the UK has been driven by the Office of Rail & Road's interpretation of the relevant European Technical Specification for Interoperability.

In Peter's view not only are the TSI numbers derived from continental European loading gauges, the TSI is 'dominated' by the thinking around the new-build high speed networks. As a result, 'blind adoption of those clearances is at best irrational'. I do like that 'at best'.

Obviously increased clearances will be safer. But Mr Dearman argues that it is a 'grotesque over simplification to conclude automatically that the increased safety is significant or economically justified'.

At the heart of the clearance issue is the increase in the minimum distance between the platform and the live equipment from 2.75m to 3.5m. But, as Peter argued, in the 60 years during which the standard UK clearance has been 2.75m, an estimated 15bn passengers have used the stations on the electrified network without a recorded incident involving electric shock.

ORR's insistence on 3.5m clearances is increasing cost and 'diminishing the case for electrification'. In addition 'money spent on this is obviously then not available to address risks of much more significance', Mr Dearman pointed out.

Following Peter was Network Rail's Professional Head of Contact Systems Philip Doughty. For him, too, the top challenge in achieving cost effective electrification was legislation and the application of the Energy TSI in the form of electrical clearances and separation at public locations.

These changes, in conjunction with ORR's greater focus on the application of Regulation 7 of the Electricity at work regulations (EAWR) , have 'resulted in confusion across the industry which in turn has led to cost escalation and delay for new electrification schemes'.

I've republished the relevant section of the EAWR in the column and when you have read it you will understand Philip's aside, 'We have had many debates with ORR on what Regulation 7 means'.

Network Rail has produced a new standard covering electrical clearances in public areas. This refers to 'reasonably foreseeable' system level hazards and operating conditions.

Which raises the question of how you define a 'reasonably foreseeable hazard'? Network Rail is meeting with ORR in pursuit of a ruling.

Following publication of the new standard colleagues have been sending Philip photographs of people potentially at risk on platforms. One photograph showed a man carrying a 9ft long curtain pole. 'reasonably foreseeable or stupidity', Philip asked?

To date, ORR has taken a firm line on the justification for risk assessments where 3.5m clearances cannot provided economically. Philip Doughty believes that this attitude may be changing, arguing that the cost of any intervention must be proportionate to the risk.

That may be so, but I believe that the only way to bring common sense to this issue is to take on ORR with a high profile test case. There are a couple of bridges on Scottish electrification schemes, where 2.75m can be provided economically but 3.5m requires a highly disruptive rebuild with massive inconvenience to the local population. Time to make a stand.

LATE BREAKING NEWS 1

Last Thursday was the deadline for the Government to publish its High Level Output Specification HLOS) and Statement of Funds Available (SoFA) to Network Rail for the next Regulatory control Period staring on 1 April 2019.

This extract says it all:

'In the context of overall public spending he (the Transport Secretary)is concerned about the affordability of the initial cost estimates, which do not contain an allowance for efficiencies, particularly of operations and maintenance. He is therefore initiating work to provide further assurance on the costs of these activities to provide confidence in setting the level of public funding available to the railway in order to confirm a final SoFA. The Government wishes to further assure itself that the volumes and costs of operations and maintenance activity are reasonable and affordable in order to fulfil its statutory role to set a SoFA. Once this assurance has taken place, Government will confirm the SoFA in October 2017'.

So the answer to 'How much is that HLOS in the window?' is 'Dunno, let's get some consultants in'.

Pathetic.
LATE BREAKING NEWS 2

Announced on the same day was the cancellation of the Cardiff-Swansea and Midland Main Line electrification schemes. Here's another extract to cheer you up.

In the case of the MML, 'the next operator will be required to deliver modern, fast and efficient intercity and commuter trains, including a brand new set of bi-mode intercity trains from 2022, maximising the benefits of the largest upgrade of the Midland Main Line since it opened in 1870. This will improve journeys sooner, without the need for wires and masts on the whole route, with further investment to come to ensure Sheffield is ready for HS2'.

So it's bi-modes with everything. There was no mention of Trans-Pennine and I imagine Rail North and the Northern Powerhouse will not be fobbed off with a overweight EMUs/underpowered DMUs any more than Transport Scotland . Obviously a topic for next month's column.

Roger's Blog

So what has been happening since the last e-Preview? First of all there were the Modern Railways Innovation Awards where I did my bit on the podium. As you may have noticed from past columns, I am sceptical of state sponsored 'innovation', where research funds seem to go to academics. However the Modern Railways Innovation Awards, which go back to the early days of privatisation, are all about practical developments and I thought this was a particularly good year.

The following week it was the Stagecoach Summer reception. Earlier that day the company had announced the VTEC losses. So no shortage of things to talk about. Next day I had an early morning briefing from David Waboso on the Resonate contract plus an update on digital railway developments in general.

Last week I packed a month's meetings into a day, starting with the launch of Phase 2 of Digital Railway's Early Contractor Involvement scheme, going onto a Siemens trade press lunch, having afternoon tea with a high level chum who must remain nameless, and ending up at Hitachi's summer party in Wapping.

After that, the August pages of the diary are blank, but as ever there are meetings to arrange. Meanwhile make the most of the holidays, it's going to be an interesting autumn – even if we are going to have to wait for the HLOS.

Roger