



OFFICE OF RAIL REGULATION

Rail liberalisation in Great Britain – the longer view

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Some history

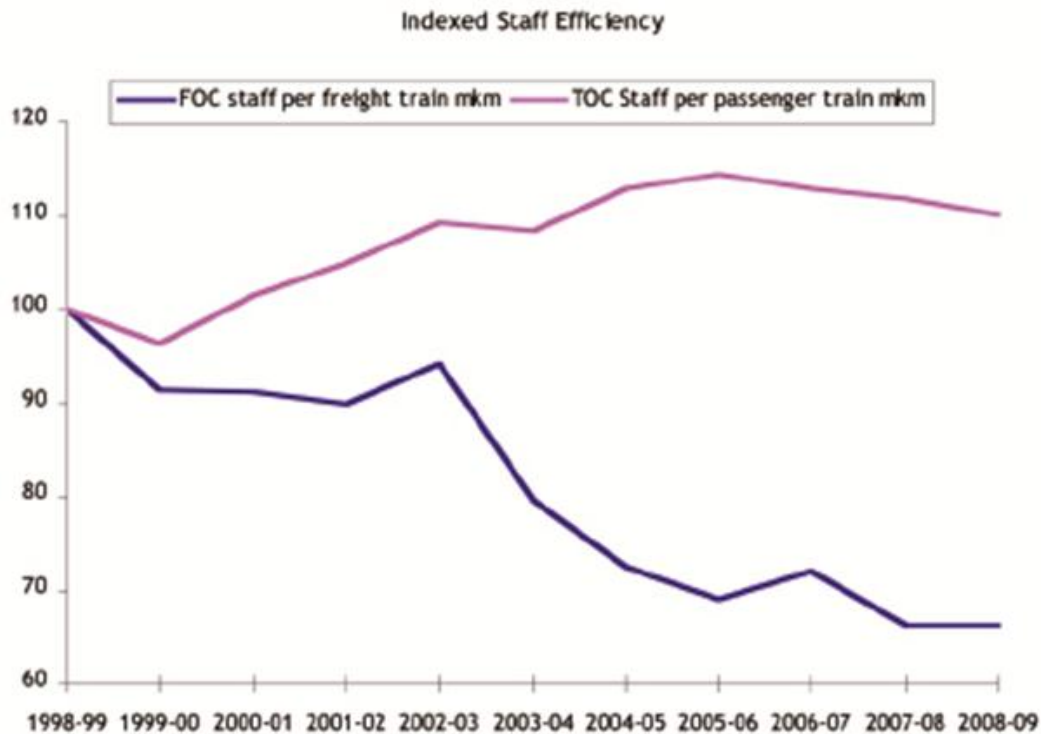
- British Rail
 - Limited liberalisation of supply market e.g. rolling stock manufacturing
- Radical privatisation 1994-7
 - Railtrack PLC
 - Management failings
 - Infrastructure work contracted out
 - Poor contract management
 - Loss of asset knowledge and asset management capability
 - Franchising of virtually all train operations in 18 months
 - Too radical?
 - Sale of freight
 - Sale of rolling stock
 - Sale of supply units



Freight

- Highly competitive freight market – 5 operators
- DB Schenker share now below 50%
- Success in productivity/cost reduction
- Still heavy dependence on (now highly competitive) coal market
- But also new traffics – innovation/flexibility
- Importance of infrastructure services market in development of new operators
- Facilitated by vertical separation and strong independent regulation

Freight vs passenger TOC efficiency

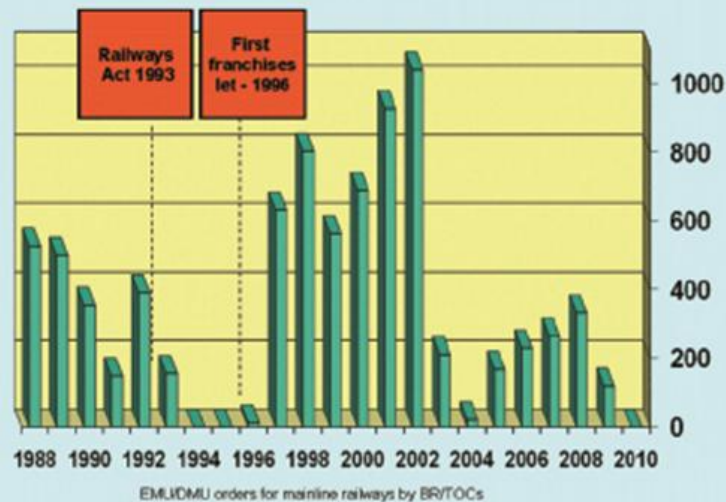


Competition in the supply market

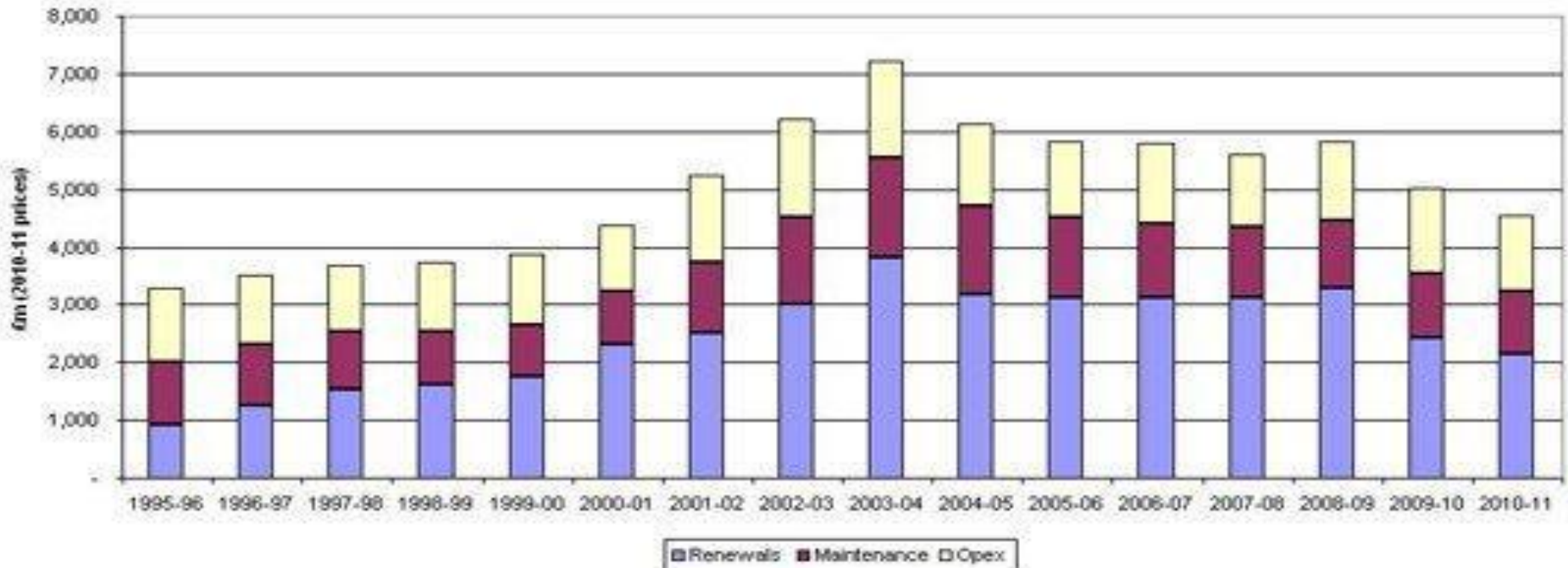
- Rolling stock new build
 - Well established international market
 - Different approaches to train provision and funding
 - Order profiles/ Political pressures
- Rolling stock 'heritage' fleets
 - Rolling stock leasing
- Infrastructure equipment and services
 - Increasingly international market
 - Potential interoperability benefits
 - Network Rail approach key to success
- Specialist services

But we need to make better use of the supply chain

Passenger rolling stock orders placed



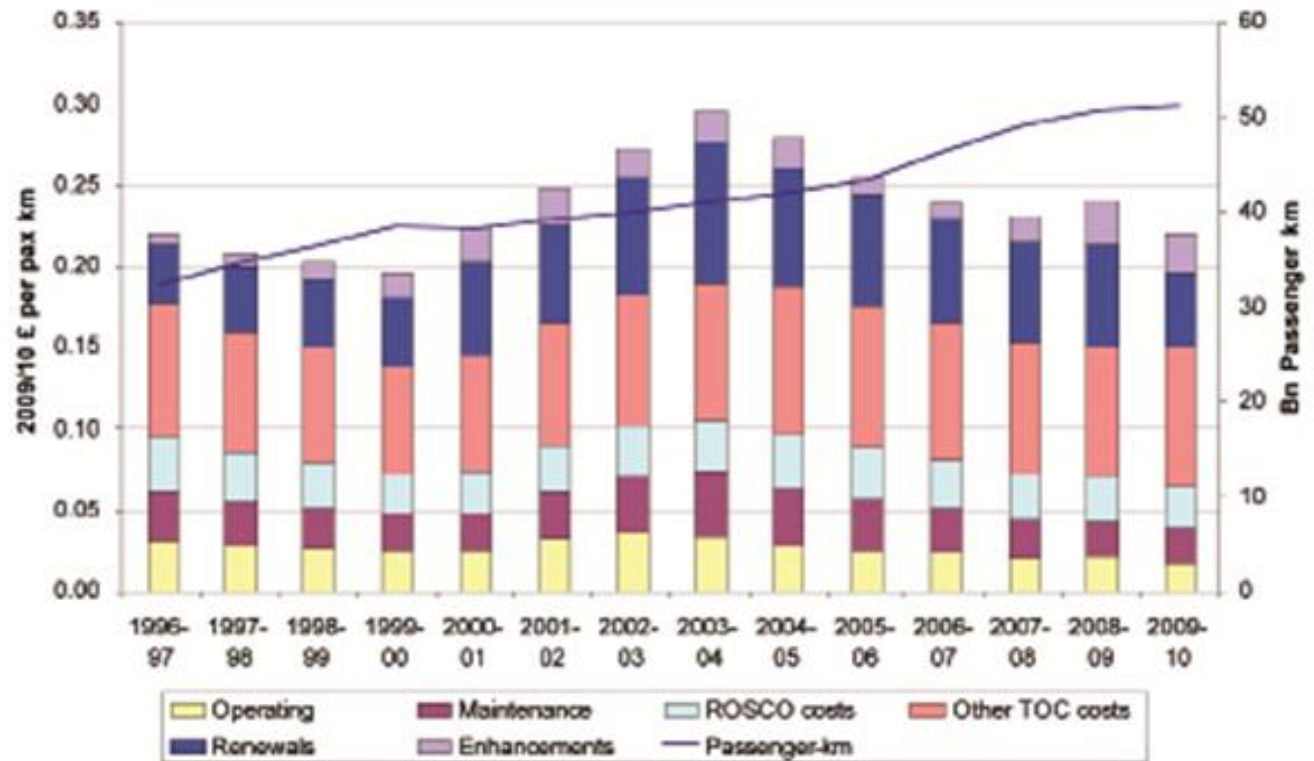
The Network Rail cost challenge



Introducing contestability into Network Rail

- Operations/maintenance all now 'in house'
- Renewals/enhancements contracted out
- ORR benchmarking and other comparative studies
- Separation of 'client role' from project delivery/management
- Decentralisation of management to 10 routes
- Alliances with train operators
- Possible development of route based concessions
 - High Speed 1 lessons
 - Comparability/testing the market
 - ? Financing implications
 - ? Link with alliancing

Passenger rail unit costs



Competition for and in the passenger market

- Competition for the market
 - Franchising
 - Franchise reform
 - Longer, less specified franchises on some routes
 - Localisation
- Competition in the market
 - Limited 'open access competition
 - 'not primarily abstractive test 'to balance financial interests of franchisees/government with wider benefits of new competing services
 - In parallel with this open access operators only pay variable access charges
 - Possible relaxation of 'primarily abstractive test' alongside higher 'path 'price

Some conclusions

- Very competitive rail freight market has delivered significant benefits
- Generally open and competitive supply market
- How to introduce contestability into core Network Rail activities?
- Next steps in passenger competition?