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Director, Railway Markets and Economics
Office of Rail and Road
1 Kemble Street
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23 August 2017

Dear John,

Alliance application for new rail services between Southampton and London Waterloo

I am writing to you to comment on the Department for Transport's letter to you dated 2nd August 2017. In the letter the Department refers to its consultation response dated 20th December 2016, which itself was actually after the end of the formal consultation period and the date of Alliance's track access application to the ORR. The letter mentions that the Department would respond further once the franchise had been awarded. The announcement that First/MTR had won the right to the franchise was made on 27th March 2017 so it is a little surprising that it has taken a further four months for their follow-up correspondence.

The recent Network Rail Capacity Report¹ on the route that the ORR requested has been presented, and it makes clear that none of the services proposed by Alliance (including its peak services) impact on the delivery of the First/MTR proposals or the aspirations of freight. As a result none of the issues raised within the Department's letter will be impacted by the arrival of Alliance's [Grand Southern] services to this part of the network.

I have attached a more detailed response in an annex at the end of this letter, but in summary the new South West franchise will not be prevented (by Alliance) from delivering the benefits outlined in the Department's letter, and there can be no impact

¹ South Western Main Line 2018 Path Capacity Study

on the Secretary of State's funds as the new franchise is now operating with a premium profile in place, and Alliance is only seeking rights for 7 years².

We also note that First/MTR has agreed fare caps on its Exeter routes with the CMA, which is concerned about the lack of competition. The introduction of competition (albeit limited) on the important Southampton route will be welcomed by passengers.

Yours sincerely,



Ian Yeowart

² There can be no expectation of rolling over of rights, and this applies equally to franchised services within the legal framework.

Annex to letter to ORR 23rd August 2017

Decision-making process

The Department is again asking the ORR to further delay its decision on Alliance's application until detailed timetables have been developed and further analysis has been carried out.

Network Rail has been working hard over the past two or three months to assess the impact on capacity utilisation of both the franchise timetable commitments and Alliance's application. Its report has now been sent to you and (presumably) shared with the Department and South Western Railway (SWR). We understand that the ORR is currently undertaking its own assessment of the Alliance application and, with the Capacity Report now submitted, we believe the ORR has all the information it requires to make its decision.

Impact on new franchise commitments

The Department states that it is concerned about the impacts of awarding track access rights to Alliance for the Southampton to Waterloo service. The Network Rail report makes it clear that there are no impacts on the ability of SWR to meet its franchise commitments for improvements, including any additional services planned. In response to the specific bullet points raised:

- The vast majority of the 22,000 morning peak and 30,000 evening peak extra seats arise from the lengthening of suburban trains from 8 to 10 cars and the significant increase in services on the Windsor lines. As far as we can ascertain, there are no additional Main Line services planned by SWR for either high peak hour.
- Alliance's application in no way affects the provision of new or refurbished trains.
- The main changes to service frequency are on the Windsor Lines, not the Main Line, so are not impacted by Alliance's services.
- Earlier and later services to/from Portsmouth and Salisbury are not affected by Alliance's proposals. Services on other routes are similarly not affected.
- Alliance will also be seeking to operate the same level of service on Sunday afternoons as on Saturdays. Operating the same service on both afternoons will simplify the timetable.
- Alliance notes that the claimed faster journey times from Southampton will be achieved by a combination of removing the Woking call in the fast train that currently calls and a reduction in pathing time approaching Waterloo. We are happy that removing the Woking call increases the available capacity at Woking, which is a

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bottleneck on the route. Alliance trains will not call at Woking either. Whilst reduction in pathing time is to be welcomed, it is applied by Network Rail to ensure compliance with the Timetable Planning Rules, and is not solely at the operator's discretion.

There are significant passenger benefits from the Alliance service as well as from the franchise improvements. It appears that all the benefits can be delivered together. It is clear that the open access service does not put delivery of any of the franchise commitments at risk.

Performance

Network Rail has indicated in its capacity report that Alliance services only have a very small impact on capacity utilisation and that, in the off-peak at least, the capacity utilisation is not at a level that would give any concern about performance. The passenger benefits from an additional service and relief of crowding in the high peak outweigh any small performance risk arising from one additional train.

We note that the Department is particularly concerned about timetable resilience. If resilience is determined by the number of trains, please note that the franchise itself is adding one train per hour between Portsmouth and Southampton, a route where headways are longer than on the main line, and is doubling the frequency of trains to Reading and Windsor all day. Although there is no specific 'fire break' (referred to in the Gibb report), Alliance services will only operate at two-hourly intervals, which does provide some sort of break in alternate hours, as well as there being a Fast Line slot in the opposite half hour that is not used.

The franchise is proposing to reduce journey times by removing pathing time and by reducing dwell times at certain locations (e.g. Woking and Basingstoke reduced from 2 minutes to 1½) below the current values set in the Timetable Planning Rules. Whilst Alliance supports this approach, provided the dwell times are still achievable, this does potentially have a negative impact on resilience.

Peak Capacity

Network Rail has made it clear in its latest report that, with the exception of one weekday afternoon Up service, there is capacity for all Alliance services as well as all franchise services, including any additional trains being proposed by SWR. It should be noted that there is capacity for Alliance to operate an Up service in the morning high peak hour, and a Down service in the evening high peak hour without removing any franchise services.

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Alliance has examined the one service for which Network Rail has been unable to find a path. We believe there is an earlier slot, and platform capacity at Waterloo, and we will continue to explore this with Network Rail.

Fares

Whilst the South West Main Line does indeed act as a busy commuter route, it also has a good mix of leisure and business travel that would respond well to choice in the marketplace. Alliance will be offering operator-specific tickets, both walk-up and advance fares. This is no different to what happens at, for example, Peterborough which is roughly the same distance from London as Southampton. Southampton, Winchester and Basingstoke are all commercial centres in their own right and will attract business and leisure travel in both directions, as well as local commuting. Alliance is looking to operate more of an inter-city service than a pure London commuting railway.

The outgoing South Western franchisee offered limited advance fares from Southampton to Waterloo, presumably to compete with the much slower GTR service from Southampton to London. This is simply proof that passengers are offered better deals where there is competition. We would expect the new franchise to respond to Alliance's fares by offering its own advance tickets from other stations on less busy trains. This is a significant benefit to passengers whichever operator they choose.

Platform Capacity at Waterloo

It appears that the franchise plans to use platforms 7 to 18 at Waterloo in the morning peak from December 2018, a total of 12 platforms, 2 more than are scheduled for use in the current timetable. It is likely that the station throat – with conflicting moves every time a train arrives at a low-numbered platform – will become the main capacity constraint, rather than platform availability. In any case, the turn-round time proposed by Network Rail for Alliance services in the 2018 timetable is typically 21 minutes. Franchise turn-round times for Main Line trains in the morning peak range from 7 (the minimum allowed) to 36 minutes and are typically in the range 18 to 21 minutes: the Alliance turn-round time in the December 2017 timetable is clearly not abnormally long. Furthermore, where longer turn-round times can be accommodated they add to timetable resilience.

The Department suggests that the additional platform capacity could be better used by high-frequency high-capacity franchise services. Firstly, the Alliance service is over and

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above what is proposed by the franchise and can be accommodated. Secondly, on the South Western Main Line the franchise proposes to continue to use 10-car Class 444 trains. These have slightly lower, though very similar, seating capacity to the 10-car Class 442 train that Alliance would run in the peak. The Alliance service will not displace a higher capacity franchise service, and is the only additional service planned in the peak to offer crowding relief on this busy route.

The Department will naturally achieve best value for money from its investment in additional platform capacity at Waterloo if optimum use is made of that capacity. Alliance will make a financial contribution to that through the station access charges that it will pay for the services it operates.

Wimbledon station

Alliance understands the safety, and corresponding security, issues at Wimbledon. However, we note that the franchise currently uses the Fast Line platforms every day early each morning and late at night; extensively on Sundays, throughout the day; and during Wimbledon fortnight. Alliance will seek to path any Wimbledon calls in the shadow of a train that calls at Clapham Junction (following it in the Up direction, preceding it in the Down), so that efficient use is made of capacity and any performance impact is minimised. It should be noted that we are only seeking pick up and set down calls: the service will not be advertised to passengers between Wimbledon and Waterloo and dwell times will be minimised where passenger flow is one way only.

Alliance's assessment is that the impact of Wimbledon calls on the generation to abstraction ratio is broadly neutral compared with applying the test without the calls. Alliance believes that, if it can be accommodated in the timetable, the call offers significant benefits to passengers, enabling them to interchange with a number of other National Rail, tram and London Underground services, and should generate far more new journeys than the models predict.

Clapham Junction station

The Department's concerns about stops at Clapham Junction for operational reasons are unfounded. Network Rail has now revised its timetable offer for 2018 and removed these calls. Alliance does not intend to apply for rights to call at Clapham Junction.

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Secretary of State's funds

The impact on the franchise and the impact on the Secretary of State's funds are not the same. Alliance's proposals were known, and the application made to ORR, before the financial closure of the franchise bid. The Department and SWR must have taken into account the risk that rights would be awarded to Alliance.

The franchise premiums are committed and will not be affected by Alliance's operation. It is this that determines the funds available to the Secretary of State. As the Network Rail Capacity Report shows, there is no impact (from Alliance's services) on the ability of the franchise to deliver its commitments.

The Department has often argued that open access negatively impacts the long term franchise value. Experience on the East Coast Main Line does not support that argument, and the CMA noted that competition can grow the value of a franchise.

Secretary of State's guidance

Although the CMA focused its attention on competition on long-distance routes it did not specifically rule out open access competition elsewhere. Even if Alliance accepted the argument that it is difficult for an open access operator to make a sensible contribution to a turn-up-and-go metro service in a big conurbation, this does not apply to our Southampton to Waterloo proposal.

A service where the first call out of London to which passengers are conveyed is Hook does not constitute a dense commuter market or a turn-up-and-go service. We do not see how additional Alliance services could do anything other than benefit existing and new passengers as they will still be able to use inter-available tickets on these new services should they wish to.

Offer of a shoulder peak service to Alliance

The timetable offer made by Network Rail to Alliance for December 2017 was based on the quantum of services requested and available capacity. Network Rail also took into account the use of rolling stock and platform capacity. This led them to include a 1627 Waterloo departure in the offer.

We understand that this constitutes a peak service. For this reason we would understand that the ORR might choose not to award rights for this service before December 2018, which is when we have sought to operate peak trains. However, as the capacity is clearly available we would still wish to commence operation of this

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service before the December 2018 recast if at all possible. We would still only operate seven services a day each way at this time, in line with the overall quantum in the application.

Summary

- Network Rail's recently-completed capacity assessment report confirms that there is capacity for both the franchise aspirations for the December 2018 timetable and all but one of the 18 weekday passenger services sought by Alliance, as well as for existing contractual rights of other operators.
- With the completion of this assessment we believe ORR now has all the information it needs in order to make a decision on Alliance's application.
- A decision this autumn would allow all parties sufficient time to ensure an efficient timetable and smooth introduction of new services for December 2018. We will continue to work with Network Rail to make optimum use of the available capacity.
- Awarding track access rights to Alliance will have no impact on the ability of SWR to deliver the improvements that it has committed to under its franchise agreement.
- Approving Alliance services will bring significant benefits for passengers and will make efficient use of increased platform capacity at Waterloo.
- Allowing Alliance services to operate can have no negative impact on the funds available to the Secretary of State.

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