

Owen Hazell
Bid Director
First Rail Holdings Limited
Capital House
25 Chapel Street
London NW1 5DH

12th December 2016

Dear Mr. Hazell,

Application for a Passenger Track Access Contract (Section 17) for services between Waterloo and Southampton by Alliance Rail trading as Grand Southern

Thank you for your response to the consultation for new services between London Waterloo and Southampton Central. Alliance has considered these and provided a response by reference to the paragraphs in your letter.

Paragraph 2

We note that First Group and MTR state:

"supportive of new competitive open access services, given the undoubted benefits that they can bring when serving new markets and attracting new users. Typically these benefits are achieved as a result of developing new services around the margins to new or underserved destinations or new market segments that are not currently catered for."

Open access of course is not restricted in the type of service that it may operate, indeed the last open access award was made in favour of First Group's East Coast Trains. In the Hearing¹ on the applications, Tim O'Toole stated "...Our average fares would be below half this level [of the franchise holder's fares]....". He went on to say "This unique proposition would simply

¹ ORR Hearing on the ECML applications 12 June 2015

transform this travel market, making rail travel affordable for all". The proposal put forward by First Group in that case did not serve any new markets or any underserved destinations. It plans to operate on the same route and serve the same stations which are served by Virgin Trains East Coast and some by Cross Country. The 'novel' aspect of the First Group application was to develop a low fare model to increase demand and make rail travel "*affordable for all*". Alliance has now further developed its own low fare model and developed a proposal that offers not only low fares, but serves underserved destinations and offers relief to passengers who currently have to stand.

Unlike the ECML, the SWML has had no open access competition on the route since the railways were first privatised, and as a result the franchise has been a monopoly supplier with significant disbenefits to its passengers. The Alliance proposal is to offer a total of only 18 daily services as against 1600 operated by the franchise.

Paragraph 5 – Revenue generation

We note that you have stated that:

"the primary overall impact would be abstraction of demand from the existing services to the new services"

First and MTR have provided no evidence to support this view. Alliance has developed its proposal based on a low fare model, and by providing faster services, particularly from Eastleigh and Hook to Wimbledon and London. In addition our analysis by our consultants AECOM has shown that the demand in the peak is significant and is not addressed by the franchised services. The analysis we have shared with the ORR indicates that such a service provision would exceed the NPA threshold by a significant margin, and would have the added benefit of providing, for the first time, choice to passengers.

Paragraph 6 – Revenue Generation

We note that you have identified that *"Some trains are full and standing at arrival / departure from London Waterloo"*. Alliance agrees with this and believe that the inability of the franchise to satisfy passenger demand is not acceptable. We believe that there is enough demand for Alliance to provide passenger services without the need for the government to specify public service obligations that will require subsidy from the taxpayer. Alliance is not seeking a monopoly as are First Group and MTR, but we are seeking to address a problem that has existed for sometime but which has not – and your response suggests it may not in the future

- been addressed by the franchise. At Waterloo, Grand Southern will account for less than 1% of the total services.

Paragraph 7 – Revenue Generation

We note that you have again stated that a " *significant proportion of the existing revenue will be allocated to Grand Southern rather than being generative*". We disagree with this and have provided evidence to support our position to the to the ORR.

Paragraphs 9 and 10 – Capacity

The Alliance application is based on a low fares model targeted at increasing patronage, relieving peak demand and by providing faster high quality intercity services. This combination exceeds the NPA threshold by a significant margin. First and MTR can rest assured that should Alliance be successful we will not be operating trains that are empty, nor indeed will the franchise for the evidence of recent market studies identifies significant suppressed demand on the route.

On the ECML, on track competition has driven demand. Franchise and open access services (some of which are operated by First) have seen demand and revenue greater than at stations where there is no competition. Competition on the ECML has been a great success. The Wessex Route Study has identified the overcrowding issues and seeks to address them. The route is not declared congested, and Grand Southern intends to operate with the maximum sized trains allowed. Our outline work identified that capacity exists and our application is the only application seeking that capacity. Just like First Group with its recent successful ECML application, we believe that passengers on this route should also have a choice and that healthy competition between the franchise and Grand Southern will lead to a step change in customer service and customer experience. Evidence clearly shows that competition will lead to lower fares, more passengers and better quality.

Paragraphs 11 – Capacity

We note that you raise your concerns that the presence of other operators using additional capacity could affect performance. Again you have provided no evidence of this. I would also point you to the ORR Hearing of 12 June 2015 where the issue of additional operators on a route were robustly defended by First Group (amongst others).

On the ECML Kings Cross has four train operators one of which is First Hull Trains. First is also to add a fifth operator in the shape of East Coast Trains. Experience has shown that performance can be managed well on multi operator routes.

We attach a copy of our indicative timetable (full service not only off-peak). Please see the accompanying explanatory note before reaching any conclusions from the timetable alone.

Paragraphs 12 and 13 – Capacity

First and MTR state:

"The ITT for the franchise asks bidders to provide details of a new timetable for both December 2018 and December 2020 which utilises the new infrastructure. The ITT specifies services in the peak that make full use of the newly available infrastructure.

If additional peak services at the level of service proposed were to be included in the train plan in addition to the ITT compliant franchise timetable , we believe that it is likely that there would be a significant adverse impact on performance of all peak time services"

Again we note that you have not provided any evidence to support this view. We do note that you have not argued that the additional peak services cannot be accommodated only that there would be an impact on performance – but presumably not if the franchise provided them. Alliance also notes that the new infrastructure is not solely for the exclusive use of the franchise. Indeed it is a legal principle of Directive 2012/34 that:

*"In order to boost competition in railway service management in terms of improved comfort and the services provided to users, Member States should retain general responsibility for the development of the appropriate railway infrastructure."*²

Paragraph 16

We note your offer to meet , however like yourselves much of our information is confidential. Given that a franchise process is underway we do not feel that it would be appropriate to meet with any of our potential competitors outside of the normal industry meetings or processes. We are happy to discuss operational issues as part of this consultation including timetable and performance issues. Clearly if our application is successful we would actively seek to work with the winning franchisee on developing a robust operational railway that delivers

² Directive 2012/34 Recitals

tangible benefits for all our customers – as indeed both ourselves and First Group do on the ECML.

I would finish by pointing out that our application has been made prior to the submissions of any bids for the franchise in order to allow all bidders and the ORR to consider any potential impact and the mitigation to that from increased competition. This is in rather stark contrast to First Group's ECML bid when the application came after the franchise had been awarded, and after First Group had been unsuccessful in winning that franchise.

Yours sincerely,



Jonathan Cooper
Head of Contracts and Compliance