Keolis UK

David Lowrie
Keolis (UK) Limited
Evergreen Building North
160 Euston Road
London, NW1 2DX
23rd December 2015

Nicola Shaw
HS1
12th Floor, One Euston Square
40 Melton Street
London, NW1 2FD

Dear Nicola

The Future Shape and Financing of Network Rail

We welcome your review and the publication of the Scoping Study. We have been involved in discussions at ATOC, RDG and your workshops, but have taken this opportunity to provide additional comments as there are areas where we believe that more radical action than the RDG consensus view would be beneficial.

The prime purpose of the rail industry is to deliver rail services, with responsibility currently split over several components. The logical structure follows once each components' purpose is assessed:

1. **Franchises** exist to serve the travelling public and their interests. They should therefore be focussed on customer markets, which means:
    a. Do not bundle them to be contiguous with routes; and
    b. Split the existing businesses to mirror true markets. Franchises were clustered to help performance more than a decade ago and are now too large to properly focus on markets, or to fully exploit the benefits from competition for the market (as there is insufficient churn in the market).
2. **Fixed infrastructure provider(s)** exist to allow franchises access to physical infrastructure. Their shape need not reflect the passenger market, and a single national provider model is possible. However, this prevents regulation by comparison, which has been essential in other regulated industries. Splitting along the inherent geographic and technical characteristics of routes allows residual economies of scale to be exploited. We recommend using the existing route definitions, to minimise change. Routes must have control and be fully accountable.
3. **A system operator** exists to provide day-to-day traffic control services (i.e. signalling) as well as annual timetabling and capacity planning. This role need not rest with infrastructure maintenance and renewals, and the organisation needs to be sufficiently strong to engage on an equal footing with the components above. Your review (in partnership with the ORR review of System Operator) would be best placed to consider whether the system operator role should be geographically dis-aggregated or not (e.g. to make passive provision for ERTMS).

Keolis UK

Once these building blocks are in place it would then be possible to be flexible with the ownership structure and level of integration utilised across the network. This would allow a **long-term concession** to be let for at least one, and possibly all, routes to demonstrate the effectiveness of capital market discipline. This enhances the benefits of geographic separation as it will also improve contestability, and provide a credible threat for under-performing routes. It would also be possible to trial vertical integration.

Other ancillary activities would then be subject to secondary structural changes, but they could be minimised or outsourced. For example, safety, licensing and arbitration could be functions of ORR, to avoid conflicts of interests with the core economically incentivised activities, and DfT could revert to only funding and specifying.

We would be delighted to meet to discuss further in the New Year.

Yours sincerely

David Lowrie
Chief Financial Officer
Keolis (UK) Limited

Keolis (UK) Limited
Evergreen Building North • 160 Euston Road • London • NW1 2DX • United Kingdom
Phone +44 (0)20 3691 1715 • Company registration number: 3292357
www.keolis.co.uk