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Distributed to:
All electrified TOCs and FOCs
ATOC
DfT
MSG
ORR

Thursday 8 September 2011

Dear colleague,

Use of the Safety & Environment fund for on-train metering– Revised policy

This letter supersedes that issued on Tuesday 23 August 2011. After that letter was distributed further comments were received, which has necessitated a further amendment to the details of the scheme in respect of:

- funding limits per train-set; and
- the extension of the scheme to trains opting-in for metered billing on 1 April 2014.

These amendments are discussed in the “*Criteria for the use of the S&E fund*” section of this letter.

Background

As part of the CP4¹ determination, a maximum of £8.75m² was made available to facilitate on-train metering (OTM). As of May 2010 there were around 2,110 electrically powered train-sets in the GB fleet (excluding Virgin Trains’ fleet of Pendolinos and 28 trains that are covered under a franchise commitment to install metering equipment).

¹ Control Period 4, this is the period from 1 April 2009 – 31 March 2014

² 2006/07 prices



In May 2010, the industry (by way of a consultation) allocated a fixed grant of £4,327³ for each train-set that opted-in for OTM.

In June 2011, Network Rail consulted on the revised use of the Safety & Environment (S&E) fund for OTM. The main change was to propose that operators could claim the funding allocated for their whole set of electric trains, regardless of the number of train-sets opted-in for OTM. Five responses to this consultation were received, they were from ATOC, Freightliner, London Midland, Southern and Transport Scotland, all of which were supportive of the proposals. A summary of the issues raised in the responses are addressed in annex A to this letter.

Following the consultation, ORR also provided some comments on the proposal. It was concerned that allocating funding in this way may encourage behaviours associated with cost-plus pricing. ORR was keen that operators were encouraged to spend the S&E metering fund monies in a way that achieved 'Value for Money'.

In response to ORR's concerns, Network Rail suggested that a maximum fund limit, per train-set, be set. This was discussed at the Metering Steering Group (MSG) in August 2011 and was broadly accepted to be reasonable.

Criteria for the use of the S&E fund

Network Rail can now confirm that the revised criteria for the use of the S&E fund will apply retrospectively from 1 April 2011 and is as follows:

- The grant will be made available regardless of whether there is full or partial opt-in of an operator's total set of electric trains for metered billing.
- The grant available per operator can all be spent, but on full or partial metering e.g. a grant equivalent to 100 DC train-sets at £4,327 for TOC A could be spent on, say, 30 trains, but still costing £432,700.
- The grant, per operator, is subject to a maximum funding limit per metered train-set. The limits are based on approximately 75% of the reasonably efficient costs of metering⁴, they are:
 - a. £9,000⁵ per AC train-set; and/or

³ 2010/11 prices

⁴ By setting the cap at less than the full current cost of installing meters, TOCs should have a powerful incentive to drive down suppliers' costs of installation

⁵ 2010/11 prices



- b. £18,000⁶ per DC train-set.
 - c. dual voltage AC/DC trains can be regarded as DC trains for the purposes of this exercise, so long as they are opted in for either DC metered billing only, or for both AC and DC metered billing.
- The grant will only be available for trains opted-in for metered billing by 1 April 2014.
 - The grant stated above will be subject to the relevant annual RPI uplift each year and will be based on the monetary amount stated in receipts at time of fitment.
 - Train-sets covered by a franchise commitment to install meters are excluded from the scheme.
 - Monies will only be released based on receipted expenses associated with upgrading train-sets for OTM.
 - Train-sets for which a grant is allocated should be opted-in for metered billing for traction electricity⁷, within a year of the installation of the equipment / upgrade of systems, limited by the cut-off date of 1 April 2014 above.
 - Trains which will create metered data using Train Management Systems (TMS) are not excluded from the scheme. It could be that TMS systems may, for example, need to be upgraded to make them capable of metering power usage. Such upgrade expenditure should qualify for this scheme.

Process for claiming funding

To claim this fund an operator should contact its Customer Relationship Executive (CRE) at Network Rail to:

1. Establish the level of funding available to it using the criteria shown above.
2. Formally notify Network Rail of its intent to opt-in for OTM no later than 90 days before the start of the relevant year.

⁶ 2010/11 prices

⁷ Funding is released after the section 22 supplemental agreement to the relevant operator's Track Access agreement, to make contractual amendments for OTM, has been approved by ORR.



3. Obtain, together with Network Rail, approval from ORR of its section 22 supplemental agreement to its track access agreement with relevant modifications to schedule 7 for OTM.
4. Complete and sign the template Funding Agreement form (this can be obtained from David Cooke at Network Rail).

Once these steps have been completed, the funding will be released.

If you would like to discuss any of the issues raised in this letter please contact Ekta Sareen (Ekta.Sareen@networkrail.co.uk), David Cooke (David.Cooke@networkrail.co.uk) or myself.

Yours sincerely,

Peter Swatridge

Head of Regulatory Economics, Network Rail



Annex A

A summary of the consultation responses are set out below:

Stakeholder	Response	Network Rail response
ATOC	Supportive of proposal Does point 6 mean that operators have to opt-in to metered billing after 1 year, or does it mean that metered installations have to be complete after 1 year and that metered billing is still optional?	Bullet 6 said: "Trains for which a grant is allocated should be metered within a year of the installation of the equipment / upgrade of systems." This means that operators must opt-in for metered billing within 1 year of installing meters or upgrading of systems. This has been clarified in the criteria.
First Scotrail	Is the fund to be allocated on a fleet by fleet basis for each operator?	We have clarified this in the revised policy. The wording relating to "fleet" now says "whole set of electric trains". Under the revised approach, operators will be able to claim funding based on full or partial metering of their whole set of electric trains.
Freightliner	Supportive of proposal 1. We recognise the arguments for revisiting the rules around eligibility for DC operators due to the higher per train cost they face. We would suggest that the revised policy is targeted to the DC operators to remedy this specific cost issue and not include AC operators who do not attract the same magnitude of cost when fitting meters. 2. The stated rationale that "partial metering of a fleet would be better than none" is one we would now broadly support as the OTM project has evolved over time. However, we would strongly urge that any partial fitment is subject to a calculated minimum number of meters fitted	1. The funding is subject to limits which differ between AC and DC train-sets. The new funding limit policy allows a train operator to use the funding more flexibly which may also encourage further meter fitment. 2. Where there is partial metering, only the vehicles which are fitted with meters will be billed based on metered data. (ATOC's project to consider sample metering, where a small amount of metered data is extrapolated across the full set of an operator's electric trains, is a separate matter). 3. For the avoidance of doubt, funding will be made available only to those operators which have opted-in for metered billing within one year of installation of



Stakeholder	Response	Network Rail response
	so a statistically sound dataset is generated before any funding is made available. 3. We request, for absolute clarity, that it is stated whether the funding is available to those who opt-in or just fit meters.	equipment.
London Midland	Supportive of proposal	
NXEA	1. If partial fleet fitment is allowed why would anyone bother to fit their full fleet? There must be a 'critical size' where metered vehicles can be considered to accurately represent the entire fleet. What is this? 2. Will the fund still be available for opt-in from April 2012?	1. We are metering partial fleets already, and ORR has stated that it is content for operators to opt-in for partial metering. There is no critical size; (this is not connected to the work being done on sample metering). This means that even if just one train has been fitted with a meter, it will be eligible for the fund, subject to the relevant funding limits per train-set. 2. Subject to the criteria in the policy, the funding will be available until 1 April 2014.
ORR	1. A maximum fund limit per train-set should be set. 2. Network Rail should clarify the requirement that vehicles must be formally opted-in for metered billing to qualify for funding. 3. Clarify at which time operators can claim funding.	1. A maximum fund limit has been set (£9,000 for AC trains, and £18,000 for DC trains) 2. This clarification has been made in the process for claiming funding. 3. This clarification has been made in the process for claiming funding.
Southern	Supportive of proposal	
Transport Scotland	Supportive of proposal	

