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Dear

CONSULTATION ON NETWORK RAIL'S PROPOSED CP6 RAIL FREIGHT GROWTH FORECAST

PURPOSE OF THIS CONSULTATION

Since the publication of the Freight Market Study in October 2013, which set out rail freight growth projections to 2043, there have been various developments which have meant that the projections for 2023 (for Great Britain rail freight in total) have not followed the assumed trajectories.

Network Rail has commissioned MDS Transmodal to provide updated rail freight forecasts until the end of CP6 (2023/24) to support preparation of its CP6 Freight & National Passenger Operators (FNPO) Route Strategic Plan (RSP). We are consulting on MDS Transmodal's Final Report "Rail Freight Forecasts: Scenarios for 2023/24" and the assumptions used in order to obtain views on the report and forecasts. This has been developed in conjunction with our Freight Operating Companies, RFG and DfT. We currently plan to update our CP6 forecasts in spring 2018.

CP6 FREIGHT FORECAST STUDY - OVERVIEW

MDS Transmodal has based its analysis on four scenarios for 2023/24 growth compared to the 2016/17 base, to reflect the inherent uncertainty in forecasting rail freight traffic and the dependency on factors outside of the control of the freight operating companies or Network Rail.

The scenarios are:

A2: factors which favour rail relative to road, with low market growth;

B2: factors which favour rail relative to road, with high market growth;

C2: factors which disfavour rail relative to road, with low market growth;

D2: factors which disfavour rail relative to road, with high market growth.

The approach used by MDS Transmodal is generally the same as it used in its previous work to produce the forecasts that were used by Network Rail in our 2013 Freight Market Study. There is one major exception being that MDS Transmodal has now applied capacity constraints to modelled traffic growth in the new forecasts whereas the 2013 modelling was based on unconstrained growth. This has given two additional scenarios:

A3: factors which favour rail relative to road, with low and constrained market growth. As per scenario A2 but with network constraints;

B3: factors which favour rail relative to road, with high and constrained market growth. As per scenario B2 but with network constraints.

The table below summarises the results for freight lifted in 2023/24 for the four unconstrained (A2 – D2) and two constrained scenarios (A3 and B3).

	Base (2016/17)	A2	A3	B2	B3	C2	D2
Total Great Britain rail freight lifted (million tonnes)	85.8	104.6	101.5	128.2	119.7	78.4	97.1
Change on Base	--	22%	18%	49%	40%	(9%)	13%

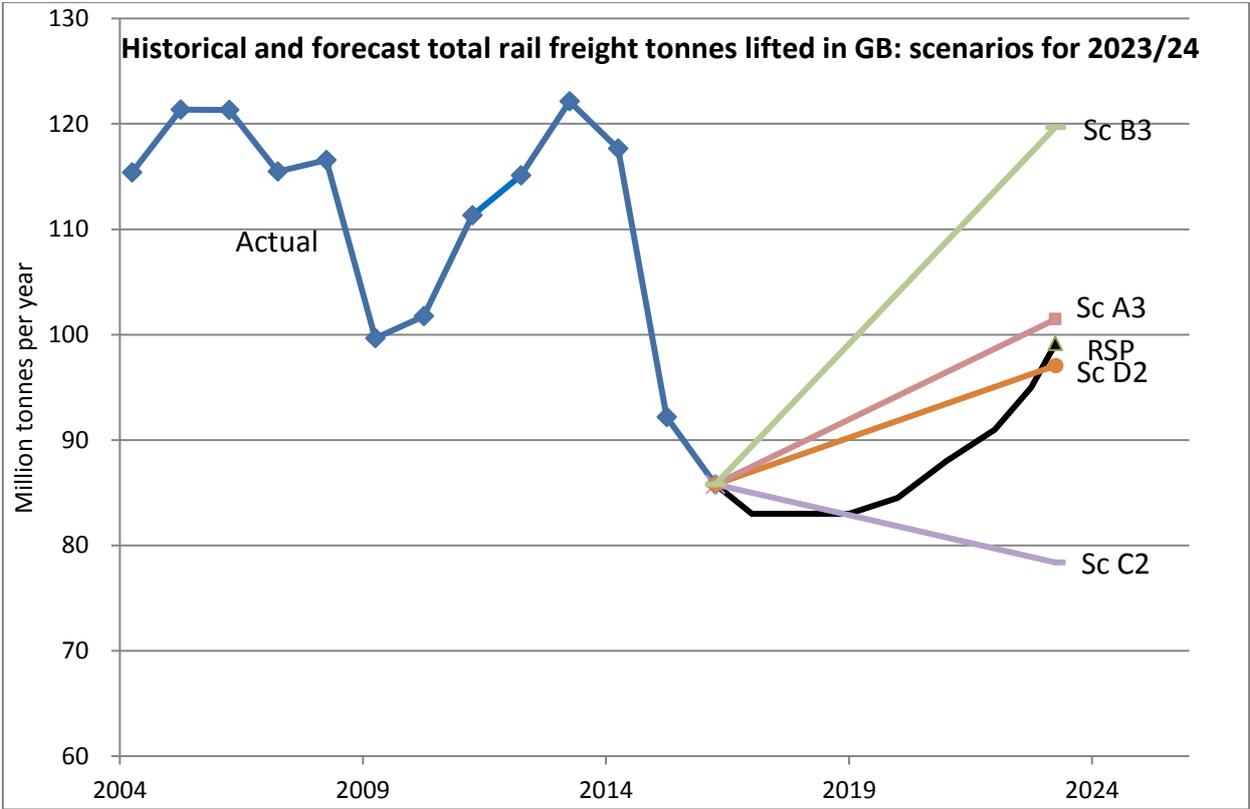
NETWORK RAIL'S CP6 RSP PLANNING ASSUMPTION

We need to adopt a single traffic forecast for our CP6 plan – in order to calculate baseline income levels, funding requirements and also to inform asset management plans and costs at more granular levels across our Route businesses.

Our current view is that whilst there remain a number of key uncertainties we anticipate a broadly benign rail freight environment for CP6. In particular, both the UK and the Scottish governments have clearly expressed their support for rail freight, its benefits and continued growth. Moreover, our CP6 plan includes proposals for stable and sustainable track access charges and other initiatives to support rail freight growth. DfT have indicated funding to support freight enhancements in CP6, albeit any investment would most likely only support growth in the latter part of CP6 and into CP7.

However, given some of the current uncertainties around the UK's economic growth prospects, and that ORR, DfT and Transport Scotland have not yet confirmed the position on freight track access charges or other elements of possible support we are not able to finalise our CP6 forecast.

At this stage of planning for CP6, as shown in the graph below, we are assuming the average of the two pro-rail constrained scenarios (A3 and B3) and the two pro-road scenarios (C2 and D2). This is equal to 15.6% total growth in freight tonnes lifted between 2016/17 and 2023/24. Total freight lifted is projected to be 99.1 million tonnes in 2023/24 as shown in graph below:



The growth has been phased with a small reduction in traffic in 2017/18 and 2018/19, this due to a final fall in coal volumes to nil. Most of the growth is expected towards the end of CP6, reflecting the impact of freight enhancements delivered during the control period.

Clearly, as the MDS Transmodal report indicates there is a wide range of growth possibility around this value and when we update our forecasts in spring 2018 we expect to be able to produce a forecast with more confidence.

The current MDS Transmodal study has been undertaken for CP6 only. We are not forecasting anything explicit beyond CP6 at this stage. We note that the 2013 Freight Market Study unconstrained forecasts projected significant ongoing growth out to 2043. We plan to update the longer term forecasts in due course.

RESPONDING TO THIS CONSULTATION

As part of this consultation, comments are invited on the following specific questions. These are:

1. Do the four unconstrained scenarios (A2, B2, C2 and D2) fairly represent the range of potential outcomes in 2023/24, if capacity constraints are disregarded? Related to this, are the specific assumptions used for each scenario appropriate?
2. Are the two pro-rail capacity-constrained scenarios (A3 and B3) reasonable as pro-rail scenarios? Related to this, are the capacity constraints appropriate and how can they be developed in future? The report acknowledges that a relatively simple approach to modelling these constraints has been used and that the approach could be refined in future.
3. Is the use of the average of the A3, B3, C2 and D2 scenarios appropriate for CP6 planning purposes, as a central case?
4. Should the average of the A3, B3, C2 and D2 scenarios be the basis for our RSP forecast, recognising the need for Network Rail to have a robust forecast for CP6? If “No” please give suggest your proposed alternative.
5. In addition, we welcome any other views you have on the study?

Responses to this consultation should be emailed to fnpo@networkrail.co.uk by **28th February 2018**. Respondents should indicate clearly if they wish all or part of their response to remain confidential.

I would like to thank you in advance for taking the time to read and respond to the consultation. Your views are extremely valuable to us and will help us to shape the freight agenda for the future.

Yours sincerely,

Paul McMahon
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