

Advenza Freight

APPLICATION TO THE OFFICE OF RAIL REGULATION FOR A FREIGHT TRACK ACCESS CONTRACT UNDER SECTION 17 OF THE RAILWAYS ACT 1993

EXECUTIVE SUMMARY

Advenza Freight Limited was incorporated in 2000 with the prime objective of running freight trains within the United Kingdom.

The Company was created as a result of five years' research into a possible market of an industry that its principals had gained considerable experience, namely the distribution of general goods. They confirmed an industry beleaguered by:

- Increasing costs and reducing margins
- Severe and growing driver and warehouseman shortage (forecast to be 19% of the requirement by 2004)
- Increasing road congestion and the delays caused thereby
- Looming legislation with the EU Working Time Directive, limiting drivers' and others' hours to a maximum 48 hours working week (average over a period), where the industry relies on individual's willingness to work frequently to 60 hours or even more. The effect of this is either:
 - Reduce the out and back distance a lorry can travel in a working day
 - Double up (or more) the number of drivers on each journey
- Even more restrictive legislation in terms of the Drivers' Hours regulations
- Customers turning to 'doing their own thing' through the mechanism of factory gate pricing, reducing the distribution industry's capacity for innovation and proactivity.

- Very real competition from overseas operators operating in the UK but from lower cost bases in their own countries.

Whilst the legislative aspects are to be welcomed in human terms, UK commerce relies primarily on an efficient road freight industry to move around 80% of the country's productive output and inbound raw materials.

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It is well accepted that the current government's target to increase rail freight by 80% will not be met by a natural increase in traditional rail freight natures (bulk, intermodal). It is, however, accepted that the very market that Advenza Freight is addressing is the one that will provide this increase, namely the movement of general goods traffic, a fact borne out from the freight market studies commissioned by the SRA and others.

The social and economic arguments for the move of freight to rail are well exercised and appear in most political manifestos, but the above points demonstrate all too clearly it is no exaggeration to suggest that such a transfer is no longer an "option".

As well as researching the market thoroughly and concluding that rail has a major and effective part to play in providing a complementary service to the general goods movement market, the Company has also devised comprehensive cost and risk models that suggest that it can enter the rail freight market:

- without government support grant
- without any change to the railway infrastructure
- without to demanding restrictive timings or routes
- without significant capital investment commonly associated with brand new flows
- able to dovetail into existing schedules to suit the infrastructure provider – Network Rail – and other operators.

Advenza Freight determined early on that it would need to operate its own services to provide

- the initial service times, prices and facilities that the road freight market would require
- subsequent growth towards a comprehensive national network.

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A comprehensive financial model showed that we would be able to commence operations without the need for burdensome borrowing, grants or guarantees.

Advenza Freight does not inherit unnecessary overheads (the benefit of being a start-up company), can exploit state-of-the-art but proven technology and ensure that our prices whilst competitive ensured long term profitability The company is capitalised from its shareholders and from tight cash flow control.

In 2002, Advenza Freight Limited was awarded its Railway Safety Case, following extensive preparation and closely working with the Health and Safety Executive, Railway Safety, Railtrack (as they then were), and potential suppliers. By writing its own Safety Case, based on the real experience of railway operations by some of its principals, Advenza Freight was able to gain valuable experience that enabled it to determine the best structure and organisation for its operation.

Advenza Freight has had lengthy discussions with its various suppliers, each of whom have been supportive of its potential for success and growth. By the end of May 2003, Advenza Freight had outline agreements with suppliers for

- Wagons
- Swap bodies
- Locomotives

It was relying on Network Rail to provide any suitable train path that would enable Advenza Freight to commence operations. Advenza Freight suggested a route from Hams Hall, near Coleshill, Birmingham (operated by ABP Connect), to Glasgow (operated by Deanside Transit)

being major industrial conurbations with significant goods movement in both directions. To enable Advenza Freight to join the railway network, it was recognised that Firm Contractual Rights would not be obtainable for some time, and that only Spot Bid rights were eligible. The potential market would be limited to where neither the duration of the journey or the actual arrival and departure times mattered (i.e. perishable goods would not be carried), but the *reliability* of the advertised arrival time would be important. Thus Level 1 rights, where the arrival time is predictable, is important.

Advenza Freight's entrance to the rail market is only possible if optimum use can be made of all its assets. Thus, within the demands of maintenance schedules to maintain reliability, it is important for its assets to be in revenue generating movement for as much of the day as possible. One set of rolling stock with maintenance carried out at weekends would achieve this objective. To offer a daily service in each direction and with the time required for transshipment at the depots at each end, management of the loads, the speeds and journey times suggested that the Hams Hall to Glasgow service was achievable comfortably in a 24 hour cycle. This also included up to three hours delay in any cycle before the next cycle would be affected.

That Network Rail cannot provide a suitable route and guaranteed timings that Advenza Freight can advertise to its customers for the duration of the 15 month contract means that Advenza Freight is unable to commence operations. Similarly, commencing operations by the end of September would enable capture of the important pre-Christmas traffic on this route. Losing this time window reduces Advenza Freight's capacity to ensure a rapid payback of investment made to date and to be made in approaching First Day of Traffic.

Advenza Freight Limited thus appeals to the Regulator for a decision which would enable Network Rail to provide a guaranteed train path to Advenza Freight for the 15 months of the Track Access Agreement ending in December 2004.

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Chairman and Managing Director
Advenza Freight Limited
15 June 2003