

Department for Transport

South Western Franchise

Invitation to Tender

March 2006

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Important Notice

This document is issued by the Department of Transport (DfT) pursuant to its functions and duties under the Railways Act 1993, the Transport Act 2000 and the Railways Act 2005 (together the 'Railways Legislation'). The powers of DfT in relation to franchising and the re-letting of franchises can be found in the Railways Legislation, which can be accessed via <http://www.hmso.gov.uk/legis.htm>.

All references in this document to DfT include, where appropriate and unless the context otherwise requires, references to DfT's predecessors and successor(s).

All references in this document to Network Rail include, where appropriate and unless the context otherwise requires, references to Network Rail's successor(s).

This document is not a recommendation by DfT, or any other person, to enter into or agree to amend a Franchise Agreement or to acquire shares in the capital of any company which is to operate, or in any parent company of the company which is to operate, passenger rail services or railway assets under the South Western Franchise. In considering any investment in the shares of any company or in bidding for the award of the South Western Franchise, those who have been invited to submit bids (Bidders), potential contractors, funders and investors should make their own independent assessment and seek their own professional financial, taxation and legal advice and conduct their own investigations into the opportunity of being awarded the South Western Franchise and of the legal, financial, taxation and other consequences of entering into the South Western Franchise Agreement (the Franchise Agreement).

The information contained in this document (Disclosed Information) has been prepared to assist interested parties in considering whether or not to make a bid proposal (a bid) in relation to the provision of the passenger rail services and other services comprising the South Western Franchise and, if so, how to make it. It does not purport to be all-inclusive or to contain all of the information that a Bidder may require. Contracts may also change as a result of the process of migrating the two existing Franchises that will create the South Western Franchise. The descriptions of existing and proposed contractual arrangements are of a general nature only. Where the document describes any contractual arrangements, which are not yet in force, those arrangements may change. Any reference to a contract or other document is qualified in full by reference to the entire terms of the contract or document referred to.

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The only information which will have any legal effect and/or upon which any person may rely will be such information (if any) as has been specifically and expressly represented and/or warranted in writing to the Bidders in the relevant Franchise Agreement or in any other relevant agreement entered into at the same time as the Franchise Agreement is entered into or becomes unconditional.

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DfT reserves the right at any time to issue further supplementary instructions and updates and amendments to the instructions and information contained in this document as it shall in its absolute discretion think fit.

Freshfields Bruckhaus Deringer, Ernst & Young, and Halcrow are acting for DfT, in each case in relation to the award of the South Western Franchise, and will not regard any other person as their client or be responsible to anyone other than DfT for providing the protections afforded to their clients nor for advising any other person on the contents of this document or any matter referred to in it.

DfT will not be responsible for the costs or expenses of any Bidder in relation to any matter referred to in this document howsoever incurred, including the evaluation of the South Western Franchise opportunity, the award, or any bid for the award of the South Western Franchise, or negotiation of the Franchise Agreement.

Unless the context otherwise requires, capitalised terms used in this document shall have the same meaning given to them as in the Franchise Agreement.

This ITT document should be read in conjunction with the Franchise Agreement.

March 2006

SECTION 1: INTRODUCTION AND CONTEXT

1.1 Purpose of this Invitation to Tender

This Invitation to Tender (ITT) sets out:

- the South Western Franchise proposition for which DfT is seeking bids;
- how the competitive process will work;
- how Bidders should complete their bids; and
- how the evaluation process will work.

Appendices and a number of documents are attached which set out the requirements for the completion of bids and additional relevant information.

DfT's aim is for the new South Western Franchisee (the Franchisee) to start operating train services and the stations on the network transferred to it from South West Trains Limited (SWT) and Island Line Limited (IL) with effect from Sunday 4 February 2007.

1.2 Scope of the South Western Franchise

The South Western Franchise consists of two existing passenger Franchises with the following broad characteristics:

- South West Trains: operating main-line services between London Waterloo and the South West of England; suburban and inter-urban services to the south-west of London; and local and longer-distance services outside the London area. Traffic generally is a mix of commuter, business and leisure travel. Trips to/from and through London Waterloo dominate, with Surrey suburban routes and services to Southampton and Portsmouth providing the largest revenue flows.
- Island Line, operating between Ryde and Shanklin on the Isle of Wight, with 13.6 route-kilometres, 8 stations, and links to the mainland via the Portsmouth ferries from Ryde.

A map of the South Western Franchise area and routes is included as Appendix 1 (Map of the South Western Franchise area and Routes).

1.3 DfT's Objectives for the South Western Franchise

(a) to meet affordability targets for the railway through:

- a reduction in the subsidy profile over the Franchise term;
- improvement of resource efficiency; and,
- the addition of economic benefits delivered by the Franchise

(b) to improve performance in terms of punctuality and reliability by:

- building upon the improvements delivered by the December 2004 timetable, ensuring they are sustainable and are optimised against capacity and journey time trade-offs

(c) to accommodate current and continued demand growth through:

- the identification of exogenous growth and strategies for management;
- initiatives to reduce crowding levels to improve journey quality; and,
- the generation of more off-peak journeys

(d) to reflect stakeholder requirements and aspirations including:

- a safe and secure environment at stations and on-board trains;
- alignment with Transport for London (TfL) responsibilities, especially in relation to fares and ticketing arrangements and through the emerging aspirations from their Rail Corridor Plan;
- alignment with Network Rail's emerging Route Utilisation Strategy;
- promote integrated transport solutions and social inclusion by, amongst other things, enhancing passenger facilities, provisions for cycle-rail integration and access to stations by all modes;
- maximising benefits to the Franchise from co-operation with stakeholders including ongoing parallel studies by stakeholders which may influence Franchise composition; and,
- consideration of other schemes, e.g. Airtrack, Waterloo International

(e) to optimise the use of the network, staff and rolling stock, including:

- review, and implement with Network Rail, the optimal trade-off between journey times, paths and performance;
- refine the December 2004 timetable in line with emerging market needs and to achieve the other Franchise objectives; and,
- create appropriate engineering access to improve the effectiveness and efficiency of maintenance activity and renewals.

Bidders are required to confirm that they will cooperate with key stakeholders over the life of the South Western Franchise to facilitate efficient development and implementation of Major Projects and any other industry change likely to impact on or affect the South Western Franchise. Bidders must separately identify any costs which they attribute to such cooperation.

1.4 Closing date for Bids

Bids must be submitted by 1200 hours BST on 30 June 2006.

SECTION 2: INFORMATION AND INSTRUCTIONS TO BIDDERS

2.1 Franchising Timetable and Process

The remaining stages of the process for appointing the Franchisee – Bid Preparation; Bid Evaluation and Negotiation; and Mobilisation – together with their indicative timings are set out below.

Table 2-1: Franchising timetable

Stage	Description	Party Responsible	Planned Date
Bid Preparation	Preparation of bids	Bidders	31 March – 30 June 2006
	Submission of bids	Bidders	30 June 2006
Bid Evaluation & Negotiation of Bids	Evaluation of bids, clarification, negotiation and agreement to terms of the Franchise Agreement and related documentation. Secretary of State consent to South Western Franchise award	DfT and Bidder(s)	July - October 2006
Mobilisation	Prepare for transfer of operations	Franchisee	October 2006 – January 2007

DfT reserves the right to alter the timetable or terminate this process at its sole discretion. Bidders will be informed of any such changes.

2.2 Changes in Circumstances

Bidders (including for this purpose each participant in any joint venture or consortium arrangement) are required to notify DfT of the occurrence of any of the events listed below (for the purposes of this Section 2.2, a ‘change in circumstances’) promptly, and in any case no later than 21 days after such change in circumstances, and in any event not later than 21 days before bid submission. A change in circumstance means the occurrence of any of the following:

- any change to their corporate structure or the structure of the bid vehicle from that set out in their application to qualify to receive this ITT. This includes the grant of any options to acquire shares, any agreement relating to the exercise of rights attaching to such shares, and any amendments to a shareholders’ agreement, articles of association or similar constitutional documents;
- any changes to the information provided to DfT as part of the pre-qualification process; or
- any other changes to their circumstances, or the basis of their bids, which may be expected to influence DfT’s decision on the suitability of the bid vehicle to be the Franchisee for the South Western Franchise.

Any such notification shall provide full details of the proposed change, including final form copies of the documentation required to put such change into effect.

DfT reserves the right to approve or reject such changes (including any changes to the basis on which the Bidder pre-qualified to receive this ITT), or to impose such conditions as it considers appropriate. DfT further reserves the right to exclude a Bidder from further participation in the competition where it rejects any such changes.

2.3 Competition Matters

Bidders were previously advised that, while they are free to submit a 'Notification' to the OFT at any stage after qualifying to receive the South Western ITT, they may wish to delay doing so until receipt of further advice from DfT. DfT has now taken guidance from the OFT and the Competition Commission following a review of the procedures used during the inquiry into the acquisition by FirstGroup plc of the Greater Western passenger rail franchise.

2.3.1 The OFT expects that notification to the OFT will be made following the announcement by DfT of the identity of the South Western Franchisee. The OFT expects the parameters of the Franchise to be reasonably clearly established in order to undertake competitive analysis, which is only the case after this date. This should also save substantial public and private costs. Notwithstanding this, the OFT strongly encourages any Bidder who believes that a successful bid would give rise to a substantial numbers of overlaps with its other transport interests to contact the OFT as soon as possible, on an informal basis, to discuss the OFT's requirements in the event of a successful bid.

2.3.2 Upon appointment, the Franchisee will meet with the OFT to discuss the information the OFT requires in relation to a Notification. The OFT will only commence its inquiry into the award of the South Western Franchise following the receipt of a satisfactory submission from the Franchisee. If there are significant overlaps, the OFT will want survey evidence to consider the substitutability of alternative modes of transport in the Franchise area. If necessary the OFT will be happy to discuss further how any such survey should be carried out and how evidence should be supplied.

2.3.3 Following submission of the Notification, the OFT, or after any reference, the Competition Commission, may require undertakings from the Franchisee (and/or any companies within the Franchisee's group) to prevent pre-emptive action which might prejudice any reference or impede any possible future remedies. Such undertakings would be likely to be in relation to the on-going behaviour of the Franchisee (and/or any companies within the Franchisee's group) such as prices and services levels on overlapping modes of transport within the physical area of the South Western Franchise.

2.4 Cost of Bidding and Model Audits

Each Bidder will be responsible for all costs, expenses and liabilities incurred by it in connection with the South Western Franchise replacement process, whether or not its bid and/or associated negotiations are ultimately successful or the process is subsequently varied in any way. Bidders will be responsible for all costs associated with the Modelling Best Practice Confirmation and, if required, Model Audit (each as defined in Section 5.9 (Model Sign-off – Terms of Reference)). Bidders shall bear the risk of errors within the Financial Model, the Record of Assumptions and any associated Operational Models and of any adverse impact this may have on the subsidy or premiums payable. Further information on the requirements in relation to the Financial Model is provided in Section 5 (Financial and Economic Elements).

2.5 Preparation of Bids

DfT expects to receive bids that contain minimal qualifications. Bidders should make full use of the query process described in Section 2.11 (Query Process) and all the information provided with this ITT, and thereafter, and in the Data Room (as defined in Section 2.10 (Data Room)).

2.6 Structure and Format of Bids

Bidders should note that DfT will evaluate the structural compliance of bids against the structure set out in Table 2-2 on the next page of this document and, following any appropriate clarification, may ask for re-submission or disqualify any bid that does not conform or is deficient in comparison with this structure.

The size of the bid is required to be limited to a maximum of 3,500 pages, printed one side only, with a minimum Font size of 12. This requirement covers items 1 to 5a of Table 2-2 (Structure and Format of Bids).

Bidders should note that Appendices will be used as supporting evidence but will not be marked as part of the bid by DfT.

Table 2-2: Structure and Format of Bids

Bidders are required to provide the following when submitting their bids:

Item	Contents
1	Executive Summary;
2	Base Case Specification a statement of achievement of and alignment with DfT's South Western Franchise objectives and the requirements of the Base Case as defined in Section 3 (Base Case Specification, Inputs and Assumptions) comprising:
2a	- the proposed means of delivery in the same format as described in Section 4 (Operational Integrity/ Deliverability) and associated diagrammatic appendices; and
2b	- the proposed financial and economic effect in the format described in Section 5 (Financial and Economic Matters), that fully complies with the Financial Model template contained in Attachment F;
3	Priced Options a proposal for each of the Priced Options described in Section 6 (Priced Options) comprising:
3a	- the means of delivery, if this requires adjustment to the delivery proposal supporting the Base Case submission. This should, to the extent it is relevant, be presented in the same format as described in Section 4; and
3b	- the proposed financial and economic effect in the format described in Section 5;
4	Indicative proposals Bidders are required to provide an indicative proposal for each of the services described in Section 6 (Indicative proposals).
4a	Each proposal should consist of not more than two pages, and include a summary evaluation of the service requirement; potential impact on the operation of the remainder of the Franchise, likely interfaces with other parties, and indicative costs.
5	Incremental Options Bidders may propose incremental changes in order to improve upon any element of the Base Case Specification. Such proposals must be set within the context of the Base Case submission, setting out clearly:
5a	- the means of delivery, if this requires adjustment to the delivery proposal supporting the Base Case submission. This should, to the extent it is relevant, be presented in the same format as described in Section 4; and
5b	- the proposed financial and economic effect in the format described in Section 5;
6	Franchise Agreement a 'Deltaview' mark-up of the Franchise Agreement as well as a clean copy of the same, including completion of those parts of the Franchise Agreement marked 'Bidders to Populate';
7	Non-Compliance Statements completion of Non-Compliance Statements (see Section 2.7 (Non-Compliance Statements)) in respect of:
7a	- Franchise Agreement non-compliances;
7b	- changes in circumstances and competition matters; and
8	Validity confirmation from each that their bid will be held valid for 275 days from the bid return date as specified in Section 2.17.

2.7 Non-Compliance Statements

2.7.1 Franchise Agreement Non-Compliances

Bidders are required, when submitting their bids, to list in the format set out in the following table, all requirements of this ITT with which they are not able to confirm compliance in full. Full details of the reasons for the non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Bidders are also required when submitting their bids to list in the format set out in the following table, all clauses, sections and schedules of the Franchise Agreement and associated contractual documents with which they are not able to confirm compliance in full. Full details of the reasons for non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Table 2-3: Format of Non-Compliance Statement

Document	ITT Sections/Terms and Conditions which have NOT been complied with	Details
<i>ITT</i>	<i>Section XX</i>	
<i>Franchise Agreement</i>	<i>Clause XX, para y</i>	
<i>Etc.</i>		

2.7.2 Changes in Circumstances and Competition Matters

Similarly, Bidders are required to include in their bids in the format set out in the following table, details of any change in circumstances or competition matters that affect their bidding position.

Table 2-4: Format of Statement of Changes in Circumstances and Competition Matters

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to the instructions contained in Section 2.2 (Changes in Circumstances)
Competition Matters	Bidders should include full details of any matter under consideration, or which may reasonably be expected to be the subject of consideration, by OFT and/or the Competition Commission or the European Commission as referenced in Section 2.3 (Competition Matters)

2.8 Non-Compliance

If any bid is found not to comply with DfT's requirements (including whether or not such non-compliance is specified in any Non-Compliance Statement), and lacks, in the opinion of DfT, any information necessary to enable evaluation, or is found to contain inconsistent information, DfT may:

- evaluate the bid as submitted;
- seek additional information or clarification from the Bidder; or
- reject the bid.

2.9 Incremental Options

DfT welcomes proposals that enable the delivery of a more efficient service, representing better value for money for passengers and taxpayers (Incremental Options). Such Incremental Options must be presented, fully specified and priced incrementally from the Base Case, and should be self-contained, i.e. not dependent on any other Incremental Option which may be included in the submission.

DfT requires the Incremental Option to be expressed as a clearly defined commitment, with clear timed plans for implementation that describe the circumstances and conditions under which the Incremental Option can be delivered, the benefits which will be achieved, and (if appropriate) how Bidders will engage with stakeholders in implementing proposals. Bidders will be expected to identify clearly the risks, constraints or other factors which may affect deliverability of any Incremental Option and any ways in which these might be mitigated or overcome.

2.10 Data Room

DfT has established a 'virtual data room' (the Data Room), operated by Freshfields Bruckhaus Deringer (Freshfields), containing, in electronic form, documents and information relating to the South Western Franchise. It will remain available throughout the Bid Preparation Phase and until the South Western Franchise award.

Bidders will be required to comply at all times with the Data Room rules issued by Freshfields.

Bidders will be provided with regular updates of the index to the documents and information available in the Data Room.

2.11 Query Process

Questions and requests for clarification or additional information should be submitted by e-mail to:

swfranchise@dft.gsi.gov.uk

All queries and requests for information must be submitted by Bidders in the Microsoft Excel format prescribed by DfT.

Any question or request for clarification or additional information must meet the requirements stated below. Failure to satisfy DfT of the value of the information sought may result in the request not being accorded priority attention and/or it being viewed as an unreasonable request for information.

2.12 Formulation of Questions

Before accepting any question, DfT will require the Bidder presenting the question to:

- confirm that the Bidder has checked both the Data Room and the Long Form Report for the information requested prior to issuing the request.
- demonstrate how the question will help the Bidder to formulate their bid (i.e. which plan it is required for).

- clarify whether or not the information is available on standard industry systems or would be readily available within a Train Operating company (TOC) owned by the Bidder. (This only applies to current TOC operators).
- In all cases, the Bidder must ensure clarity as to the expected source, scope and format of the material required (e.g. passenger count details by period, by service group for the last year).

DfT reserves the right to transmit to other Bidders (without reference to the identity of the author of the query) the question asked by and the answer provided to any Bidder. Queries from Bidders will be responded to expeditiously having regard to the nature, extent and availability of the information requested. DfT will endeavour to respond to all queries before bids need to be submitted, but Bidders should note that DfT cannot guarantee this, especially if queries are received later than ten days before the required submission date, or if it has not been possible to collate the necessary data for a response.

A Bidder may request that DfT treat a query and its response as confidential. Any such requests must be made at the time of submission of the query. DfT will advise the Bidder if it considers that the query cannot be treated as confidential, at which time the Bidder may either withdraw the query or accept that the response may (at DfT's discretion) be transmitted to the other Bidders.

2.13 Industry Consultation and Disclosure of Information in Bids

Bidders should be aware that, following the submission of bids, DfT will need to consult HM Treasury, the Health and Safety Executive, the Office of Rail Regulation (ORR), Network Rail, and TfL. DfT will also consult such other persons as it considers necessary or appropriate including, but not limited to, its advisers, bodies representing passenger interests (such as Passenger Focus), the Disabled Persons Transport Advisory Committee, affected Local Authorities and Regional Development Agencies or Regional Planning Bodies (collectively referred to as Consultees and each separately referred to as a Consultee).

Accordingly, the submission of bids will constitute permission by the Bidders for DfT to disclose to any Consultee all or any of the information contained in, or supplied in connection with, such bids, excluding any commercially sensitive material as appropriate and which is clearly marked by Bidders as such.

In addition, Bidders are reminded that in order to develop and agree Track Access Agreements and Station Access Agreements, Network Rail will need to consult, amongst others, passenger and freight train operating companies and that this process may involve discussion of relevant aspects of the bids. Bidders are required to cooperate with these consultations. DfT may ask Network Rail to comment on such elements of the bids and to address their comments to both the relevant Bidder and DfT.

In developing their bids, Bidders can expect to be contacted by, and are encouraged to consult with stakeholders relevant to the South Western Franchise following the start of the Bid Preparation Phase. A list of DfT's relevant statutory consultees is available in the Data Room. It is each Bidder's responsibility to decide on the scope and extent of Stakeholder Consultation but they should note that DfT may seek views from stakeholders on the state of progress of consultation. Bidders should note that Network Rail will formally advise DfT of the level of contact and engagement that it has had with each Bidder.

2.14 Freedom of Information Act 2000

The Freedom of Information Act 2000 (FOIA) came into force on 1 January 2005 and provides a general right of access to all information held by public authorities. DfT is a public authority. The general right of access to information is then limited by a number of exemptions. On a request for information, DfT must release that information unless one of the exemptions applies.

With the introduction of the FOIA DfT has taken the opportunity to review its policies in terms of disclosure of information. As before, Bidders will be offered a de-briefing on their submission. This will now include the Bidder's results for Section 4 (Operational Integrity/Deliverability) and their overall result and ranking vis-à-vis other Bidders. DfT will not disclose the breakdown of scores, or the scores or rankings of other Bidders.

In submitting their bids in response to this ITT, Bidders are invited to identify which parts, if any, of their bid are provided to DfT in confidence or which they believe are commercially sensitive. Bidders should provide reasons why such information should not be disclosed following a request for information under the FOIA. Bidders should be aware of the Lord Chancellor's Code of Practice issued under section 45 of the FOIA (which can be accessed at <http://www.dca.gov.uk/foi/codesprac.htm>). This limits the circumstances under which a public authority should agree to hold information in confidence. It could be the case therefore, notwithstanding confirmation that parts of a bid have been provided in confidence or are commercially sensitive, that DfT will be obliged to disclose those parts.

Bidders' attention is also drawn to the provisions of the FLPA, which refer to disclosure of information by DfT under the provisions of section 145(2) of the Railways Act.

2.15 Restriction on Communications/Press Releases etc during Franchise Competition

The outcome of a rail franchise competition is of national significance and therefore generates a high level of public interest and media speculation. Bidders should not use media or communication channels in a way which might reflect adversely and unfairly on the industry, its participants or the integrity or outcome of the competition.

Therefore, during the Bid Preparation Phase and until the award of the South Western Franchise, DfT requests that Bidders confine any communications about the competition to communication that is necessary in order to develop their proposals. Until the award of the South Western Franchise, Bidders are asked to refrain from comment to national, local and industry media, Passenger Focus, Members of Parliament and stakeholders about matters connected with the South Western Franchise competition. If there are compelling reasons to make a public statement or comment then, so far as practicable, DfT expects Bidders to discuss the content of such statements or comments with DfT in advance.

2.16 Presentation and Submission of Bids

2.16.1 Timetable submissions

All timetable submissions must be provided in working timetable (WTT) format, using station banks that include all compulsory timing points as listed in the Rules of the Plan (ROTP) and that show linecode and platform allocations at all locations where alternatives exist. Timetable submissions must be supplemented with rolling stock diagrams and a supporting commentary.

2.16.2 Bid delivery

Bidders are required to submit 11 numbered copies of their bid in the following formats:

- five hard copies, contained in ring binders with the documents detailed in Section 2.6 (Structure and Format of Bids) suitably segregated. Each ring binder must be labelled clearly with the copy number, the Bidder's name and an index of the contents of the binder;
- four electronic copies, in CD format. Each CD must be labelled clearly with the copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word/Excel 97 (or later) format. Documents should not be submitted in Acrobat, except where unavoidable;
- one electronic unpriced copy of the proposal in CD format as described above; and
- one copy of the complete proposal in HTML format (excluding Excel documents) to provide full electronic search functionality without changes to data or formatting.

In addition, separate hard copies should be provided of the main Financial Model output schedules, and Operating Manual and Record of Assumptions (five numbered copies). Electronic copies of the required Financial Models and Operational Models, the Operating Manual and Record of Assumptions, and the completed financial templates are required to be provided in CD format (three numbered copies - **additional to the CDs mentioned in the second and third bullet points above**) stored in Microsoft Excel 97 (or later) format.

Bidders are encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production which do not directly add value to the substance of the bid.

Bids are to be submitted to:

Nick Seaward
Department for Transport Rail Group
3/27 Great Minster House
76 Marsham Street
London SW1P 4DR

by 1200 hours BST on 30 June 2006.

No other documents or information shall be submitted with the bid. The bid must be submitted in boxes marked '**CONFIDENTIAL - South Western Franchise bid submission in response to ITT**'. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders should obtain a formal receipt from DfT at the time of the submission of their bid.

DfT requires that Bidders supply each complete set of documentation in a separate box and ensure that an index is provided for the electronic information. DfT also requires that, for electronic information, the file structure matches the sequence of the hard copy documentation.

Bids received after DfT's stated date for submissions or which are not duly completed and signed may be disregarded by DfT. Nevertheless, DfT expressly reserves the right, in its absolute discretion, to treat any bid as valid and to proceed with the inclusion of any bid notwithstanding any procedural defect in relation to the submission of the bid.

All bids are required to be in English and amounts denominated in pounds sterling.

2.17 Validity of Bids

Bidders shall confirm the validity of their bids including the terms, bid price, and any subsequent changes agreed for a period of 275 days from the date of bid submission.

2.18 Evaluation of Bids

Bids must be complete and submitted in accordance with the instructions to Bidders set out in this document. Bids must be compliant with the requirements of the Franchise Agreement.

The evaluation of bids shall be conducted in accordance with “A Guide to the Railway Franchise Procurement Process”. This document will be placed in the Data Room.

DfT will evaluate bids and rank them for the purposes of selecting the Franchisee on the basis of the results of each Bidder’s Base Case submission only.

The Priced Options and Incremental Options will be evaluated. The results of the evaluation of these proposals will serve to inform DfT on the procurement options to be pursued with the preferred Bidder, and only after DfT has made its preferred Bidder decision.

SECTION 3: THE BASE CASE SPECIFICATION, INPUTS AND ASSUMPTIONS

This Section sets out the Base Case Specification. Submissions from Bidders should include commitments to meeting this Base Case Specification and explain how they will meet DfT's objectives and specific requirements as set out in Section 1.3.

Bidders should explain how they will deliver this commitment to meeting the specification and achieving the objectives in the structure. The process for doing this is set out in Section 4 (Operational Integrity/Deliverability).

3.1 Franchise Duration

Bidders should note that Appendix 8 of the Franchise Agreement (Figures for Calculation of Annual Franchise Payments) requires them to price for a Franchise Term of ten full years, as well as the possible seven Reporting Period extension that DfT may unilaterally require.

3.2 Fares and Ticketing

3.2.1 Fares

The existing South Western Trains Commuter Fares basket and Protected Fares basket will be rolled forward into the new franchise.

However, the Department expect to introduce a new requirement into all franchise agreements later this year to the effect that, from January 2007 in respect of non-seasons and from January 2010 in respect of seasons, fares for rail-only journeys between stations within the London travel cards must be set on a zonal basis with consistent fares agreed between those train operators who set fares within London.

On Community Rail Lines, however, greater freedom is permitted to develop seasonal pricing variations (with discounts for local residents) more closely aligned to local bus fares and new products including, bus / rail tickets and those that can be retailed locally in the community.

The fares documents, setting out the full list of Fares that relate to the South Western Franchise will be placed in the Data Room.

3.2.2 Ticketing Technology

Bidders must include a change in ticketing technology for the new South Western Franchise both within the Greater London Authority (GLA) area and outside the GLA area. This supports the decision to develop and introduce smart ticketing for all surface transport modes, and to initiate the process within the South Western Franchise.

* Where text has been omitted from this document, this is because DfT Rail Procurement has concluded that an exemption from the obligation to disclose information under the Freedom of Information Act 2000 applies (and, where applicable, the public interest would not be served by disclosing the information).

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This will also require negotiations with other train operators through the Association of Train Operating Companies (ATOC) and the Rail Settlement Plan.

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Network Rail will make available to DfT appropriate information and working assumptions that will be placed in the Data Room to assist Bidders in preparing responses.

* Where text has been omitted from this document, this is because DfT Rail Procurement has concluded that an exemption from the obligation to disclose information under the Freedom of Information Act 2000 applies (and, where applicable, the public interest would not be served by disclosing the information).

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3.3 Customer Services

3.3.1 Customer Services Provision

South West Trains and Island Line supply their own customer services and have their own customer service centre. The exceptions to this list for South West Trains are:

- On-board catering; and,
- Car Park protection.

SWT has entered into contracts with third parties for the provision of these services. Copies of the contracts have been placed in the Data Room for information (with commercially sensitive information redacted).

3.3.2 National Passenger Survey

Bidders should note that it is DfT's intention that a National Passenger Survey of the South Western Franchise will be conducted twice each year.

3.4 Demand Management and Crowding

3.4.1 Demand

Bidders are required to form their own view about demand for the passenger services and, where this leads to overcrowding, put proposals to DfT to remedy this.

Demand growth driven by the expanding London and south-of-England economy and the impact upon levels of overcrowding is the most significant opportunity – and challenge - posed by the Franchise. There is limited scope for additional train paths into Waterloo in the morning peak, which limits opportunities to run extra trains.

The Base Case Specification presents the opportunity for Bidders to meet this challenge in the short term through the use of longer trains on a number of routes, and a review of the deployment of the rolling stock to better meet the demand. In particular, Bidders will be encouraged to consider options for making better use of the shoulder-peaks.

In addition, Bidders would be expected to consider (but not exclusively) a package of measures that might include a combination of one or all of the following:

- revised rolling stock configuration and deployment;
- further train lengthening;
- introduction of new ticketing systems and station gating to enable new, innovative and more flexible ticketing arrangements; and,
- additional services (subject to the appropriate infrastructure works).

Bidders are required to be explicit about the financial and economic impacts of overcrowding and/or unsatisfied demand. Bidders should not assume that Government financial resources will be available to support any Bidders' proposed capital investments to address such constraints.

3.4.2 Crowding

There will be no peak-hour crowding regime for the South Western Franchise along the lines of the former 'Passengers In Excess of Capacity' (PIXC) regime. However, taking into account DfT's guideline that no passenger should stand for more than 20 minutes, the Franchisee will be expected to formulate its Train Plan to achieve this aim within value-for-money constraints. Bidders should also formulate plans to minimise seasonal crowding.

Overcrowding and capacity constraints on the South Western network can be controlled through demand management techniques, and providing the rolling stock capacity is increased at the shoulder peak periods. Incentives to travel in the shoulder peaks can be provided with more shoulder-peak seating capacity, and the ticketing technology can be used to flex prices throughout the day, including within the peak, to encourage a change to current travel behaviour. Changes in working patterns through home working and flexible working times will also facilitate a change in travel patterns.

3.4.2 Load Management Data

DfT requires continual monitoring of train loadings across all days of week and times of day. This would supplement the annual so called Green Book counts that occur in the Autumn of every year and allow a better understanding of demand patterns by service to be developed and allow resources to be better tailored to meet demand. Bidders should identify a strategy for such monitoring and how such information would be used.

Bidders are required to fit load weighing equipment to the rolling stock fleet used in the Franchise to provide the data required to optimise capacity provision and manage demand.

3.5 Base Case Specification

The Base Case Specification comprises the delivery of passenger services in accordance with the Franchise Agreement including the Condition Precedent Agreement, the Service Level Commitments (SLC1 and SLC2) and the associated contract documents. The service specification within the Base Case Specification incorporates the following:

3.5.1 Service Level Commitment 1 (SLC1)

From the start of the South Western Franchise the level of service DfT requires to be operated on the South Western network is specified in SLC1. The current timetable being operated by SWT reflects the contents of SLC1. SLC1 will run until December 2007 when SLC2 will be introduced.

From December 2006 Greater Western propose to run a new timetable and these new services interface with the South Western Franchise operations at a number of locations. Bidders should take account of the new timetable that will operate once the current timetable discussions with First are concluded.

3.5.2 Service Level Commitment 2 (SLC2)

DfT has reviewed a number of issues raised by the introduction of the December 2004 timetable. Whilst noting that the increase in journey times has been of concern to a number of passengers it was felt that the improvement in operational and financial performance is such that no changes in the area east of Basingstoke and north of Guildford were required. However should a Bidder decide that changes can be made in this area without significantly reducing performance then DfT will give this full and proper consideration as an alternative timetable bid, and subject to Network Rail's assessment of the proposals.

Service patterns beyond Basingstoke and Guildford will change to reflect the service specification developed by DfT. This will commence in December 2007. The train services specified to operate from this time are described in SLC2. It should be assumed that the Greater Western December 2006 timetable is in place, and that there will be some changes to Southern services in the area. DfT has made a number of assumptions on the service changes of other TOCs in deriving the specification. The table below gives a summary of these changes for all operators.

Table 3-1: Summary of Service Changes for Base Case Specification

NRTT Table Number	Route	Summary of changes
122	Reading – Basingstoke	SW: services between Brighton and Basingstoke/Reading via Fareham will be withdrawn. This will initially remove congestion from the Reading West area and provide additional capacity for freight. There will be no South Western services between Reading and Basingstoke.
123	Cardiff and Bristol Temple Meads to Weymouth, Westbury Southampton and Portsmouth Harbour	SW: a new service will run from Salisbury via Southampton and Eastleigh to Romsey – this will provide a direct link from Salisbury to Southampton Airport. Totton will now be served by the Poole train. SW: services between Bristol Temple Meads and Waterloo via Salisbury, and those between Bristol Temple Meads and Salisbury are to be withdrawn for the Base Case Specification. GW: services changed in line with expected Franchise timetable. Two hourly to Weymouth and two hourly to Westbury with Cardiff – Portsmouth Harbour service retimed and calling additionally at Bradford-on-Avon. Bidders should assume that the Cardiff – Portsmouth service is the only one that runs south-east beyond Westbury.
132	Cardiff – Gloucester, Bristol and Bath	SW: services between Bristol Temple Meads and Waterloo via Salisbury, and those between Bristol Temple Meads and Salisbury are to be withdrawn for the Base Case Specification.
135	London and Birmingham – Devon and Cornwall	SW: the current services from Waterloo to Plymouth and Paignton will terminate at Exeter.
148	Reading – Guildford, Redhill and Gatwick	GW: services to change in line with expected Franchise timetable that will be available in the Data Room. SW: no changes.
149	Waterloo - Reading	GW: services to change in line with expected Franchise timetable that will be available in the Data Room. SW: no changes.
156	Waterloo – Woking, Guildford and Portsmouth Harbour	All operators: Minor retiming between Havant and Portsmouth Harbour.
157	Havant - Portsmouth Harbour	All operators: minor retiming between Havant and Portsmouth Harbour.
158	Waterloo - Weymouth	In the peak hours the service is largely unchanged. The following off-peak changes apply: Wareham – Brockenhurst: these shuttle services are to be withdrawn, and intermediate stations will be subsumed and served through a combination of the newly-extended xx.35 Waterloo – Weymouth and xx.39 Waterloo – Poole services. xx.05 Waterloo – Weymouth: to offer a faster journey time

NRTT Table Number	Route	Summary of changes
		<p>Hamworthy, Wareham and Dorchester South will be the only stations served between Poole and Weymouth.</p> <p>xx.35 Waterloo – Poole: this service has been extended to Weymouth calling all stations.</p> <p>xx.39 Waterloo – Southampton: service extended to Poole and calls additionally at Shawford, Swaythling, St Denys, Millbrook, Redbridge, Totton, Ashurst and all stations between Brockenhurst and Poole.</p> <p>SW: services between Brighton and Basingstoke/Reading via Fareham will be withdrawn. There will be no South Western services between Reading and Basingstoke.</p> <p>SW: a new service will run from Salisbury via Southampton and Eastleigh to Romsey – this will provide a direct link from Salisbury to Southampton Airport. Totton will now be served by the Poole train.</p>
160	Waterloo-Exeter	<p>Waterloo – Salisbury/Bristol/Exeter/Paignton/Plymouth</p> <p>SW: services between Bristol Temple Meads and Waterloo via Salisbury, and those between Bristol Temple Meads and Salisbury are to be withdrawn for the Base Case Specification.</p> <p>SWT: the current services from Waterloo to Plymouth and Paignton will terminate at Exeter. On Saturdays the Brighton services will be withdrawn and replaced by the 1120 Waterloo now extended to Exeter St David's and the 1110 Exeter St David's will now be a through service to London Waterloo using the path of the 1320 Salisbury – Waterloo.</p>
165	Southampton – Fareham and Portsmouth Harbour	<p>SW: services between Brighton and Basingstoke/Reading via Fareham will be withdrawn. There will be no South Western services between Reading and Basingstoke.</p> <p>SW: the Saturday service between Brighton and Exeter will be withdrawn (see Table 160).</p> <p>GW: Minor changes to times between Havant and Portsmouth Harbour.</p> <p>GW: Cardiff – Brighton and Cardiff - Southampton: Bidders should assume that the Cardiff-Brighton and Cardiff-Southampton services are withdrawn. Bidders should assume that the Cardiff – Portsmouth service is the only one that runs south-east beyond Westbury.</p> <p>Southern: Bidders should assume that the existing London Victoria – Southampton service continues to operate.</p> <p>Southern: Bidders should assume that a new service is created to run between Brighton and Southampton in the paths of the current SW Brighton-Reading/Basingstoke and GW Brighton -Cardiff services. It will call additionally at Cosham, Portchester, Fareham</p>

NRTT Table Number	Route	Summary of changes
		and Swanwick.
188	Brighton – Portsmouth Harbour and Southampton	Changes as per table 165, including minor retiming between Havant and Portsmouth Harbour.

3.5.3 Feasibility timetable

DfT has developed a Feasibility Timetable (FTT) which has been reviewed by Network Rail and which meets the requirements of SLC2. This will be placed in the Data Room. Bidders may, but are not obliged to, use this FTT as the basis of their proposal but may vary it within the constraints of the SLC2 requirements. Bidders should note that for the purposes of this exercise a number of assumptions have been made on the structure of services operated by Greater Western and Southern services.

3.5.4 Committed projects

The Base Case Timetable Specification that underpins SLC2 assumes that no enhancement projects are implemented during the Franchise Term. During the course of the Franchise, the Franchisee must cooperate and work with industry parties and others in the development and potential implementation of schemes.

3.6 Transport for London

3.6.1 Information Provision

TfL has requested the provision of specific information period by period from the Franchisee. The scope of this information requirement and reporting arrangements is set out in Section 9.2. Compliance with this requirement should be included within the Base Case submission but any directly associated costs should be separately identified.

3.6.2 New Year's Eve Services

Bidders should provide services equivalent to those supported by TfL in 2005 for New Year's Eve as part of the Base Case Specification.

Details of these services are contained within SLC2. Bidders should note that these services have been operated as "free to use" services in previous years.

3.7 Community Rail Strategy

The Secretary of State for Transport launched the 'Community Rail Strategy' in November 2004. This sets out ways to increase revenue, reduce costs and increase community involvement in local rail services. Bidders for the South Western Franchise are expected to participate in the implementation of this strategy as appropriate.

DfT is keen to see improvements in the financial performance and usefulness of local and rural railway lines through the application of the Community Rail Development Strategy. The Strategy (published in November 2004 and available on the DfT website) sets out pragmatic and practical steps that can be taken to increase revenue, reduce costs and increase community involvement in local and rural railways.

There are two such routes within the South Western area:

3.7.1 Lymington Line

The Lymington Line is to be proposed for designation as a Community Rail Line, subject to the setting up of a Community Rail Partnership for the line. A number of the elements of the Community Rail Strategy are already being implemented on the Lymington Line including the use of lower cost, but appropriate Mk 1 trains, and the marketing of the line as a tourist attraction in itself (the only line where you can ride these "heritage" trains).

3.7.2 Island Line

The Island Line has been designated as a Community Rail Line (March 2006). A Community Rail Partnership officer is already in place.

The intention would be to encourage Network Rail, stakeholders and the franchisee to work towards securing a long-term package to safeguard the Island Line. This would include a more robust financial position and a better infrastructure upon which to develop the business.

3.7.3 Other Elements

Elements of the Community Rail Development Strategy can be implemented on non-designated lines. For example, station adoption of smaller stations by individuals or groups could improve their maintenance and attractiveness. Also, building improved links with the local authority could help with signage to stations or integration of the railway into local planning processes.

3.8 Rolling Stock

3.8.1 Existing Fleet

Details of the numbers and classes of rolling stock currently utilised by the incumbent TOCs have been placed in the Data Room.

SWT currently operates a fleet of 335 units of nine different rolling stock types. The new Class 444 and 450 Desiro stock have replaced old slam-door units –

Where text has been omitted from this document, this is because DfT Rail Procurement has concluded that an exemption from the obligation to disclose information under the Freedom of Information Act 2000 applies (and, where applicable, the public interest would not be served by disclosing the information).

Details of the current SWT fleet are shown in the table below.

Table 3-2: South West Trains Passenger Rolling Stock, February 2006

Unit Class	Built	Vehicle length & number per unit	Number of units	Number of Vehicles
Diesel Multiple Units				
158	1989-92	2 x 23m	2	4
159	1992	3 x 23m	22	66
170	2000	2 x 20m	9	18
DMU Total			33	88
Electric Multiple Units				
421	1970-72 (a)	3 x 19m	2	6
442	1988	5 x 23m	24	120
444	2002-2005	5 x 23.5m	45	225
450	2002-2005	4 x 20m	110	440
455	1983-85 (b)	4 x 20m	91	364
458	1999 (c)	4 x 20m	30	120
EMU Total			302	1275
Grand Total			335	1363

Notes:

- The Class 421 units were refurbished in 2005, and operate on the Lymington branch.
- The Class 455 units are currently being refurbished.
- A new build of 17 class 450 units was announced on 23 February 2006, and these should be delivered to the Franchise during 2006/07.

Note that SWT also currently operate three class 73 locomotives but these are not used in regular front line passenger service.

The current Island Line fleet comprises nine units (18 vehicles) of former London Transport Executive “38” stock withdrawn from the Northern Line in the late 1980s, and transferred to the Island Line in 1990.

The DMU fleet, the Class 442 and Class 458 units operated by SWT all have leases that expire on 3rd February 2007. The Class 455 and Desiro (Class 444 and Class 450) units are covered by section 54 agreements which mean that the successful Bidder must take these as part of the Franchise. The Class 421 units are actually owned by the Franchise and are listed as an asset.

3.8.2 Changes to Fleet

DfT is prepared to consider the use of alternative classes of vehicles for the South Western Franchise and Bidders must develop their own fleet strategies in relation to total fleet size, disposition, allocation to routes, availability of spares and other considerations.

3.8.3 Changes to Rolling Stock Leasing Arrangements

Following the White Paper published last year, DfT has been looking at the structure of the rolling stock leasing industry and considering whether and how overall industry costs may be reduced and better value for money obtained.

At the date of issue of this ITT this programme of work has not yet been completed and it is not yet clear whether it will affect the pricing and/or the terms governing rolling stock leases.

Bidders should note the above and, in preparation for their Franchise bid submission, tender and negotiate for their rolling stock requirements in the normal way.

Bidders, however, should also confirm that they will cooperate with DfT in ensuring that:

- the benefit from DfT's work is passed through the Franchise agreement and fully reflected in the subsidy receivable or premium payable to DfT;
- if DfT's work reaches a conclusion prior to the selection of the Franchisee they will facilitate any changes to their Franchise bid submission arising from the outcome of the discussions between the rolling stock leasing companies and DfT;
- if DfT's work reaches a conclusion after signature of the Franchise agreement they will enact any changes to the Franchise agreement in accordance with its terms; and,
- they will provide transparency of costs affected by this work to enable its true value to be available to DfT.

3.8.4 Electronic Advertising Media

Bidders wishing to propose the use of electronic advertising media, for example video or audio broadcast systems, on trains or at stations should make their intentions clear. The impact on the passenger environment of any proposed use of electronic advertising media and the net financial benefit should be separately identified within the Financial Model.

Implementation of any electronic advertising media proposals must be supported by passenger surveys and objective evidence that passengers are receptive to the installation of such systems and the content of the transmitted messages.

Consent by DfT will be granted only if suitable proposals are made regarding the passenger environment.

3.8.5 Regenerative Braking

Bidders are asked to consider, with Network Rail, the implications of introducing regenerative braking on electrically operated services within the Franchise to reduce energy consumption and reduce costs.

3.9 Performance Assumptions

3.9.1 Network Rail

Bidders are referred to DfT's projections for Delay Minutes attributable to Network Rail in their calculations for payments under Schedule 8 of the Track Access Agreement and in forecasts of any

associated revenue effect. These figures will be placed in the Data Room and are derived from Network Rail's National Business Plan.

In their calculations for payments under Schedule 8 of the Track Access Agreement and in forecasts of any associated revenue effect, Bidders should use their own projections for Delay Minutes attributable to Network Rail and where these depart from DfT's projections they should provide satisfactory evidence of the reasons behind this. Bidders should use their own methodology for the calculation of Average Minutes Lateness. The Franchisee will be responsible for the cost and revenue implications of any mismatch between their Network Rail performance projections and actual Network Rail performance.

3.9.2 TOC-on-Self

Bidders should provide their submissions based on the delivery of the Delay Minute targets appended to the Franchise Agreement sent out with this ITT. Bidders are expected to provide evidence as to how these targets will be delivered in their Performance Plan.

In developing the target the following methodology has been applied. Service Delivery data is sourced from Network Rail's IPPR data and only includes TOC on Self Minutes. The figures in the tables are an MAA value. As IPPR data sets all delay minutes in dispute to the TOC a provision has been made to estimate the final outcome (following all dispute resolution), this is based on a methodology Network Rail and DfT use for their standard reporting. The starting Target is based on current performance levels. There is an improvement of 0.5% per annum (linear) for the first 7 years of the Franchise and then no improvement in the benchmarks. The Improvement Plan, Breach and Default have been set to be 7.5%, 15% and 20% less challenging respectively than the Target figure after 7 years, and this absolute difference applied throughout the 7 years. All benchmarks have been rounded to the nearest 250 delay minutes.

3.9.3 Cancellations

Bidders should provide their submissions based on the delivery of the Cancellations targets appended to the Franchise Agreement sent out with this ITT. Bidders are expected to provide evidence as to how these targets will be delivered in their Performance Plan.

The Cancellations data has been calculated as per the definition in the Franchise Agreement with 1 total cancellation counting as 1 Cancellation and 1 part cancellation counting as 0.5 of a Cancellation. All Service Recover and Force Majeure cancellations have been taken out of the calculation of the benchmarks. The source of the cancellations data is based on the data supplied by the TOC under their current Franchise Agreement. These include all cancellations; therefore the PEARS deemed minutes has been used to identify the split in cancellations between the TOC and other parties (NR and TOC on TOC). The starting target is based on current performance levels. The benchmarks are set to give a 20% linear improvement over the first seven years of the Franchise. The Improvement Plan, Breach and Default have been set to be 7.5%, 15% and 20% less challenging respectively than the Target figure after 7 years, and this absolute difference applied throughout the 7 years. All the benchmarks have been rounded to 2 decimal places.

3.9.4 Capacity Benchmarks

The Franchisee is expected to report all-day capacity data. However benchmarks have been set using peak-only data. Therefore for the first 13 periods from the Franchise commencement date, the Franchisee will provide all-day capacity data but will be measured on peak-only for

performance measurement. The all-day data will then be used for a re-benchmarking of capacity 13 periods after the Franchise commencement date. Benchmarks are contained in the Data Room.

3.10 Security

3.10.1 Secure Station Accreditation

Bidders will be required to cost and programme the achievement of Secure Station Accreditation (SSA) for those stations that experience the significant majority of footfall within the Franchise's stations, incorporating an appreciation of the stations' experience of crime.

The Base Case Specification requires Bidders to deliver SSA for those stations with 80% of the Franchise footfall. Bidders will be required to assess with the British Transport Police (BTP) the security/crime risk at all stations in the Franchise and ensure that their proposals for covering 80% of footfall include all the identified high risk locations.

A priced option for attaining SSA status for 95% of station footfall within the Franchise and meeting those sites identified as high risk locations will be requested.

3.10.2 Operational Practices

Bidders will also be asked to assess the impact on passenger safety of changes to operational practices within the Franchise such as introduction of manned gate-lines at more stations and on-train staff being saloon-based to give an enhanced presence to passengers, checking tickets and providing service information.

3.11 Station Facilities

3.11.1 Cycling

The Government has adopted the Cycling Policy document produced in 2004 by the Strategic Rail Authority (SRA). This encourages all TOCs to carry folding bikes at all times, to carry non folding bikes wherever possible, whilst recognising that in peak periods there may be circumstances where it is in the best interests of the majority of passengers not to do so, and to supply cycle parking at most rail stations. The policy recommends that TOCs provide sufficient cycle parking at stations so that 95% of all rail journeys start from a station with adequate cycle parking by 2009.

Bidders must submit proposals for improving facilities at stations for cyclists to encourage greater cycle use by passengers. In addition, Bidders should consider the needs of peak period travellers with cycles recognising the competing pressures of other passengers on crowded trains.

3.11.2 Car Parking

The South Western Consultation document issued in November 2005, the recent Network Rail South West Main Line Route Utilisation Strategy and TfL's Rail Corridor Plan all identify opportunities for increasing the number of car parking spaces in the Franchise area. The limited availability of parking spaces at certain locations is recognised as a constraint to further growth on the railways.

Bidders are required to present proposals for increasing the number of car parking spaces in the Franchise area as part of the wider issue of access to stations, mindful of planning issues and the need to consider other modes and environmental issues.

3.11.3 Accessibility

Bidders should demonstrate their approach to improving the accessibility of the railway network, and in particular the access and egress arrangements at stations. In addition to the initiatives for cycling and car parking, Bidders should indicate their plans for wider transport integration and their approach to engaging with local authorities and other stakeholders to improve the journey opportunities and experience for passengers.

Appendix 2 sets out DfT's approach to encouraging third party investment in stations.

3.12 Reducing the Cost Base

Bidders are required as part of their base proposal to provide DfT with details as to how they would improve cost efficiency. Improvements should be sought in efficiency of staffing of stations and on board trains and elsewhere throughout the Franchise.

Bidders are to provide evidence to DfT as to how the efficiency would be achieved, over what time period the efficiencies would be introduced, identification of the risks associated with the introduction, and subsequent management of the efficiencies and the mitigation of the risks.

3.13 Track Access Agreements

The Track Access Agreement of SWT was due to expire at 0200 hrs on the 4th February 2007, but has been extended by a supplemental agreement to 0200 hrs on the 8th December 2007.

Island Line infrastructure agreements continue until 2019.

Bidders should assume that these Track Access Agreements will be in force at the point of commencement of the South Western Franchise and that they will be transferred to the incoming Franchisee. DfT is working with the incumbent TOCs, Network Rail and ORR to ensure that the planning for the December 2007 Timetable change will enable the services set out in SLC2 to operate from that date.

The role of the Franchisee with regards to the Track Access Agreements will be:

- to accept their terms; and
- to discharge the obligations of each and manage each for the benefit of the Franchise.

3.14 Depots

The South Western Franchise will inherit an extensive range of fleet maintenance, servicing and stabling locations from the incumbent TOCs.

The operation of the new Franchise is in a well-defined geographical area. For the majority of the lines within the Franchise area, SWT is the major operator. The depots are all well sited and in most

cases SWT is the sole user. With the exception of Northam these depots are leased from Network Rail.

Northam is operated by Siemens and the existing depot leases and access agreements for the use of depots where the incumbent TOC is not the Facility Owner will be transferred whole as part of the statutory Transfer Scheme.

The depot that the South Western Franchise will share is Fratton where the new Greater Western franchise will use the depot. The only facility that belongs to another franchise that will be used by the new South Western Franchise is Exeter New Yard. This will be operated by the new Greater Western Franchise, and provides fuelling for the SW DMU fleet under contract.

SWT Depot Leases	3 rd August 2007;
SWT Depot Access Agreements	3 rd February;
Island Line Depot Lease	2019.

3.15 Stations

There are currently 8 stations operated by Island Line, which serve 5 towns on the Isle of Wight.

There are 178 stations within the South West Trains area of which 177 are managed by SWT. London Waterloo is managed by Network Rail. SWT serves a further 40 stations operated by other TOCs.

Existing Station Leases and Access Agreements for the use of stations where the Incumbent TOCs are not the Facility Owner will be transferred whole as part of the statutory Transfer Scheme. Expiry Dates for these are as follows:

SWT Station Leases	3 rd August 2007;
SWT Station Access Agreements	3 rd February;
Island Line Station Leases	2019.

3.16 Railways for All

The Railways for All Strategy was launched in March 2006. This can be downloaded from www.dft.gov.uk/access.

This Strategy describes what the rail industry will be doing to improve disabled access. A key part of this is the £370m Access for All funding to deliver access improvements over the next 10 years. This is split into two parts:

- Around £35m per year is targeted at improving access to and within stations and to all platforms which would improve the accessible route and make the stations step-free. These improvements will be targeted at the busiest non-step free stations and be delivered by Network Rail.
- Up to £7m per year is available as Small Schemes funding to spend on specific projects and be delivered by a range of bodies including TOCs, local authorities and other parties.

The stations included in the Strategy over the next 3 years by Network Rail can be downloaded from www.dft.gov.uk/access. This includes stations in the South West Trains area, most notably Clapham Junction where initial discussions have already begun.

This station list will be extended over the course of the 10 years and may include other South West Train stations, although this is not guaranteed.

Bidders are requested to consider the additional impact of assisting and facilitating completion of access improvements at a limited number of stations in the South West Trains area over the course of the Franchise period.

The Small Schemes funding is an annual process starting in April 2006 delivered on a national scale. The new TOC may submit bids in line with the process outlined on DfT website. However, these bids would be evaluated alongside all bids and do not form any part of this Franchise.

3.17 Disability Discrimination Act

Bidders' attention is drawn to the current requirements in Part 3 and Part 5 of the Disability Discrimination Act 1995 (as amended). Attention is drawn to the Disability (Transport Vehicles) Regulations 2005 which come into effect on 4 December 2006. Those regulations will lift the exemption in Part 3 of the Disability Discrimination Act 1995 for transport vehicles.

Attention is also drawn to the proposed changes to the Rail Vehicle Accessibility Regulations 1998 flowing from the Disability Discrimination Act 2005 which it is proposed to introduce from December 2006. Notably these would set an end date no later than 1 January 2020 for vehicles to comply with the Rail Vehicle Accessibility Regulations 1998 and enable the regulations to be applied to existing rolling stock at refurbishment.

The DDA places a duty on service providers to facilitate reasonable access to their services.

Bidders are requested to explain how, in providing their service, they will meet the requirements of the Disability Discrimination Acts and whether the service provided will exceed that currently available. Where that is the case, Bidders are expected to identify and price this separately. Examples could include, provision of additional platform staff, improvements in processes or procedures or the provision of additional station works.

3.18 Efficient Engineering Access Assumptions

The principles and cyclical programme developed for engineering access will be incorporated into both the Track Access Agreement (TAA) and Rules of the Route (ROTR) for the South Western Franchise.

On weekday nights, (Monday, Tuesday, Wednesday, Thursday and Friday nights), maintenance on specific routes will be undertaken on a cyclical basis, with disruption confined to one part of a route only. Within the access arrangements, routes will be grouped wherever possible to ensure that diversionary routes are available to mitigate the effects of service disruption. The consequences of engineering access shall take precedent over the obligations to operate passenger services as defined in the SLC and Schedule 1.1 of the Franchise Agreement, thus permitting the Franchisee to amend train services in the early morning and late evening as appropriate.

3.19 Mobilisation and Migration

3.19.1 Mobilisation

Bidders must demonstrate their capability, in the event they were to be selected as Franchisee, to carry out an effective mobilisation within the necessary timescales and proceed to commencement of operations.

The Franchisee must mobilise with the intention of fulfilling the following aims:

- to ensure the integrity and continuity of existing services;
- to work with other operators, Network Rail, ORR and other stakeholders to ensure a successful handover from the incumbent TOC by the agreed transfer date. This will include, amongst other things:
 - staff transfers; and
 - transfer of supporting assets and finalisation of commercial arrangements.

The Franchisee must undertake migration within the South Western Franchise with the intention of fulfilling the following aim:

- to complete integration activities and establish a single operating entity within 12 months of the Franchise commencement date and, at the same time, implement significant changes to the timetable.

For clarity, *mobilisation* activities are interpreted in this document as being those leading up to the commencement of operations. *Migration* activities are those relating to the transfer and integration of the existing operations, supporting assets, systems and commercial arrangements to create the new South Western Franchise.

DfT expects a working group to be established including, the Franchisee, the incumbent TOCs and DfT representatives to oversee and monitor progress during the period between selection of the Franchisee and commencement of operations. The main purpose of this group will be to ensure the full and active participation of all parties in a fair, reasonable and timely manner.

3.19.2 Transfer of essential property, rights and liabilities to the Franchisee

It is proposed to transfer all property, rights and liabilities that are likely to be required to operate the South Western Franchise to the Franchisee via the Start Date Transfer Scheme. It is open to Bidders to also propose alternative means of transfer in their bid, setting out the advantages and disadvantages of the proposed alternative as compared to a Transfer Scheme.

3.19.3 Rolling Stock

The Franchisee will need to agree with DfT, rolling stock leasing companies and vehicle maintainers as appropriate, the transfer of existing (or commencement of new) leases and associated contracts for the rolling stock that will enable it to deliver its obligations under the Franchise Agreement. This requirement will be a condition precedent to the start of the South Western Franchise.

3.19.4 Employees

3.19.4.1 Transfer of Undertakings (Protection of Employment)

Bidders should assume that the transfer of the Incumbent TOCs' businesses and the entry into the Franchise Agreement will constitute the transfer of an undertaking for the purposes of the Transfer of Undertakings (Protection of Employment) Regulations 1981 as amended 2006 (TUPE).

3.19.4.2 Pay and Pensions

Bidders are required to confirm acceptance of the terms and conditions relating to pensions contained in Schedule 16 (Pensions) of the Franchise Agreement. This confirmation should be included in responses to Section 4 (Operational Integrity/Deliverability).

Bidders should not assume that DfT will provide any indemnity regarding any payments that may be required under the Railways Pensions (Protection and Designation of Schemes) Order 1994 (SI 1433) or otherwise.

The Franchisee will take over employer responsibility for the South West Trains Limited and Island Line Limited Sections of the Railways Pension Scheme.

Subject to meeting their obligations under the Railway Pension Scheme, at the end of the Franchise Term the Franchisee shall have no responsibility for any deficit in the scheme (other than contributions due and payable before the end of the Franchise Term by the Franchisee) and have no right to benefit from any surplus which may exist in the relevant section.

The Franchisee will have responsibility for The Southern Railway (South Eastern & Chatham Section) Enginemen & Motormen's Pension Fund Society, established on 1 June 1917. The Society was closed to new entrants in 1955 and all of the members of the Society had retired on pension on or before 27 April 2002.

Bidders are required to set out their approach to managing the existing pension schemes within the context of a unified South West Train/Island Line Franchise, and any implications that arise from this. All assumptions should be clearly stated.

3.19.5 Operational and regulatory requirements

3.19.5.1 Railway Safety Case

Existing rail safety regulations are expected to change in April 2006 as a result of the European Railway Safety Directive (2004/49/EC) and following the introduction of the Railways & Other Guided Transport Systems (Safety) Regulations (provisional name) (the Regulations). These will replace the existing safety cases with safety certificates for rail undertakings (i.e. TOCs). Furthermore, it is proposed as part of the transition arrangements that valid Safety Cases held as at October 2006 will be deemed to be 'Certificates' under the Regulations. It follows that the Safety Cases presently held by the Incumbent TOCs will become deemed Safety Certificates under the Regulations until the transitional period ends or the existing safety case expires.

The Franchisee will be required to obtain a comprehensive Safety Certificate for the South Western Franchise as a condition precedent to the commencement of the South Western Franchise. The Franchisee shall be responsible for maintaining the Safety Certificate for the term of the South

Western Franchise. HMRI has provisionally advised that provided the Franchisee maintains the same operational structure, safety management arrangements and services on day one of the new South Western Franchise, it will be able to 'adopt' either the deemed Safety Case or Safety Certificates depending when the current safety case for the incumbent TOC requires renewing. This will be subject to approval from HMRI of any 'unavoidable' minor changes to reflect change of ownership. DfT is currently agreeing with HMRI what other undertakings will be required of the Franchisee and this will be advised to Bidders.

On the basis that the South Western Franchise commences after the Regulations come into force (April 2006), but before April 2008, the Franchisee would, under current proposals, be required to obtain a 'personal' Safety Certificate within six months of the transfer to it of the deemed Safety Certificate from the Incumbent TOCs. As HMRI recommends allowing a minimum of 115 working days for the approval of a new Safety Certificate, this means that the Franchisee will need to submit its application to HMRI at the time it takes over operations from the Incumbent TOCs.

Bidders are expected to engage with the HMRI during the Bid Preparation Phase. Further information on the content and administration of railway Safety Cases can be found at the following website: <http://www.hse.gov.uk/railways/safetycases.htm>

3.19.5.2 Licensing

The Franchisee will be obliged to apply for, and secure, licences to operate railway assets (including railway passenger services) within the United Kingdom. This process can take a minimum of 16 weeks typically, allowing for consultation and due process.

As a condition precedent for the start of the South Western Franchise, ORR requires a railway Safety Case, or a Safety Certificate under the Regulations, to be in place prior to the final issue of such Licences.

Further information on the issue and administration of licences can be found at the following website: <http://www.rail-reg.gov.uk/>

3.19.5.3 Railway Safety Group

The Franchisee will be expected to become a member of the 'Railway Safety Group' and, as such, DfT will expect it to engage proactively as a member of that Group. In particular, this requires the Franchisee to engage in:

- the consultation process for new standards (both railway group standards and any ATOC 'Codes of Practice');
- the process of generating the 'Railway Safety Group Safety Plan' (RSGSP); and
- the delivery of an appropriate contribution to that RSGSP. TOCs are required to produce an Annual Safety Plan that should be available on request to DfT and ORR when HSE safety functions are transferred.

The Franchisee will also be expected to participate in industry groups and committees addressing the domestic, European and research safety agenda of the Railway Safety Group. DfT has an expectation of full engagement in safety at both Franchisee and parent company level.

3.19.6 Access

3.19.6.1 Station and Depot Access Agreements

Existing access rights will be transferred under a statutory Transfer Scheme. Arrangements for gaining access to stations and depots operated by other TOCs are covered by access contracts between the Facility Owner and any beneficiaries wishing to use the facility. Access contracts are regulated under the Act and are subject to approval or direction by ORR, which has produced a number of template access contracts for use by TOCs.

Bidders should be aware that ORR is implementing the station access regime from July 2006. Whilst the basic principles of the stations access regime will remain the same, the detailed arrangements between Network Rail, Facility Owners and other users (beneficiaries) of stations will alter. This will vary the types of lease that are available, and the responsibilities within those leases. Bidders will be expected to consider these arrangements, and ways in which these can be exploited to develop opportunities. Bidders should contact ORR for further information.

3.19.6.2 Track Access Agreements

The current Track Access Agreements held by the incumbent TOCs are detailed in Section 3.13. Details of the existing Track Access Agreements can be found in the Data Room and on the ORR website.

3.20 Projects affecting the South Western Franchise

There are a number of projects that might affect the South Western Franchise area during the course of the Franchise period. Network Rail has recently published the South West Main Line Route Utilisation Strategy (March 2006), and this contains details of a number of infrastructure projects that might impact to varying extents during the life of the new Franchise. In particular, Network Rail has highlighted the need to develop the station at Waterloo.

Other projects that might impact on the South Western Franchise include:

3.20.1 Waterloo International

The Eurostar operation will vacate Waterloo International in Autumn 2007 and concentrate operations at St Pancras. The station has been protected for domestic railway use, but the station needs to be adapted for such a purpose. * Where text has been omitted from this document, this is because DfT Rail Procurement has concluded that an exemption from the obligation to disclose information under the Freedom of Information Act 2000 applies (and, where applicable, the public interest would not be served by disclosing the information).

Bidders should assume that Waterloo International is not available for South Western operations in the Base Case Specification.

* Where text has been omitted from this document, this is because DfT Rail Procurement has concluded that an exemption from the obligation to disclose information under the Freedom of Information Act 2000 applies (and, where applicable, the public interest would not be served by disclosing the information).

3.20.2 Salisbury – Exeter infrastructure improvements

During the life of the Franchise, infrastructure improvements are likely to be made on this line. This supports stakeholder aspirations and the recommendations from the Network Rail South West Main Line Route Utilisation Strategy (March 2006). There are three distinct packages:-

- An additional station at Cranbrook (Broadclyst)
- A loop from Axminster to Chard Junction
- A loop from just east of the new Cranbrook station to Honiton

Depending on which schemes are considered, the outputs might enable an hourly Exeter – Waterloo service and/or an hourly Exeter – Axminster train.

It seems likely that Cranbrook station may open before the new loops and this will have an effect on the existing timetable. Bidders should take account of this development in considering the Base Case Specification, and assume it will be operational from December 2008.

Bidders will be asked to consider the business case for running additional services should the infrastructure be provided for these schemes as a priced option.

3.20.3 Portsmouth area infrastructure renewal scheme

Signalling and track assets will be renewed in 2007 with a number of line speed, infrastructure and signalling improvements.

3.20.4 Basingstoke area infrastructure renewal scheme

Track and signalling assets will be renewed in 2008 with a number of line speed, infrastructure and signalling improvements. All 4 platforms at Basingstoke will become reversible and 4 aspect signalling will be installed from Eastleigh to Woking.

3.20.5 Farnham area infrastructure renewal scheme

Signalling and track assets will be renewed in 2007/8 to replace dated signalling equipment.

3.20.6 Introduction of the Global System for Mobile Communications - Railways (GSM-R)

Network Rail has initiated a Network Change to renew all of the United Kingdom's (UK) radio systems with GSM-R. This is to reflect the fact that the frequencies at which the current radio systems operate will no longer be available from 2012.

A pilot study is scheduled to take place in Strathclyde later in 2006, and a wider national roll-out is expected to occur thereafter, subject to a successful trial.

Bidders will be asked to cost the introduction of GSM-R as a priced option.

3.20.7 Airtrack

Airtrack is designed to provide improved access to Heathrow Airport from the south. Its objectives include the satisfaction of planning policies, a 40% public transport share target for Heathrow and the opportunity to make better use of rail capacity.

The South Western Franchise will need to consider the impacts of this scheme given that its introduction would affect capacity and overcrowding on other services along its route, and provide new direct travel opportunities in the Berkshire-Surrey-Hampshire-SW London area.

Previous studies concerning Airtrack will be available in the Data Room. The scope of the project has still to be finalised, and therefore Bidders will be asked to provide an indicative proposal only for the operation of the scheme. The option would assume that the infrastructure required to operate the services is provided by a third party.

3.20.8 Swanage Railway

The Purbeck Rail Partnership (lead Authority – Dorset County Council) has an aspiration to see the reinstatement of passenger rail services between Swanage and Wareham. This will require infrastructure works at Worgret Junction to facilitate. A Rail Passenger Partnership (RPP) submission to SRA indicated a positive business case for the service. Dorset County Council has purchased 3 x Class 117 heritage diesel units to operate the service, which are currently stored at Winfrith awaiting refurbishment.

DfT would expect Bidders to engage with the Purbeck Rail Partnership on this proposed scheme.

3.20.9 Other Projects affecting South Western Franchise

All other projects that may arise during the Franchise Term will be treated within the context of normal industry mechanisms and do not need to be priced or considered within Base Case submissions. The Franchisee will have a general obligation in the Franchise Agreement to cooperate with DfT, Network Rail and other stakeholders with respect to the development and implementation of possible future projects.

3.20.10 General Financial Assumptions

All assumptions and bid input requirements of a financial nature are contained in Section 5 (Financial and Economic).

3.21 London 2012 Olympic and Paralympic Games

The London Organising Committee of the Olympic Games Limited (“**LOCOG**”) is responsible for staging the 2012 Olympic and Paralympic Games (the “**Games**”). LOCOG is also working with the Olympic Delivery Authority, the public body set up by the London Olympic Games and Paralympic Games Act 2006, to deliver the infrastructure required for the Games.

During the bid stage, the 2012 bid company, London 2012 Limited (LOCOG’s predecessor), was required by the International Olympic Committee to secure binding option agreements (the “**Option Agreements**”) in relation to media space at locations and on public transport within London and any other city hosting Games events as listed below (together, the “**Locations**”) for the period from

one month prior to one month after the Games (the “**Games Period**”). London 2012 assigned the rights under the Option Agreements to LOCOG with effect from 1 August 2005.

During the bid stage, SRA also agreed in a letter dated 21 September 2004 deposited in the Data Room (the “**SRA Letter**”) that, when it let out any Franchises which may serve any of the Locations, it would ensure that the Franchisee would offer to LOCOG binding option rights (substantially in the form set out in the option agreement appended to the SRA Letter) over advertising, promotional and other media space for the Games Period:

- (i) inside and on the outside of trains serving the Locations and including for the avoidance of doubt any service which commences, terminates or passes through the Olympic Park; and
- (ii) in or around train stations in the Locations (the “**Contracted Space**”).

As a condition precedent to the entry into the South Western Franchise Agreement, the Franchisee must therefore:

- (a) grant to LOCOG an option over the Contracted Space by entering into an agreement substantially on the same terms as the option agreement set out in the SRA Letter;
- (b) agree with LOCOG that in the event that the Franchisee enters or has entered into a contract with an advertising sales agency (a “**Contractor**”), such that the Contractor is entitled to grant rights to others to use any of the Contracted Space for the display of advertisement, promotional or other media copy, then the Franchisee will procure that the Contractor grants to LOCOG an option by entering into an option agreement on substantially the same terms appended to the SRA Letter (only to the extent the Contractor has not already entered into one of the Option Agreements with London 2012 (as assigned to LOCOG) on the same or similar terms).

For the avoidance of doubt, the Franchisee will not be entitled to represent for the purposes of publicity, advertising or marketing that any product or service provided by the Franchisee for the Games has been endorsed or approved by LOCOG, the ODA or any other official Olympic body, without the prior written consent of LOCOG.

Table 3-3: Locations

	Area	Local Authority
1.	Birmingham	Birmingham City Council
2.	Broxbourne	Hertfordshire County Council Borough of Broxbourne
3.	Cardiff	Cardiff City Council
4.	Eton/Dorney	Buckinghamshire County Council South Buckinghamshire District Council
5.	Glasgow	Glasgow City Council
6.	London	The 32 Boroughs and the Corporation of London
7.	Manchester	Manchester City Council Trafford Metropolitan Borough Council
8.	Newcastle	Newcastle City Council
9.	Weald Country Park	Essex County Council
10.	Weymouth and	Dorset County Council

	Portland Harbour	West Dorset District Council Weymouth and Portland Borough Council
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SECTION 4 : THE BID: OPERATIONAL INTEGRITY / DELIVERABILITY

DfT requires Bidders to show how they will deliver the Franchisee's obligations contained in the Franchise Agreement and how this will meet the objectives of the South Western Franchise. In line with paragraph 20 of the DfT document "A Guide to the Rail Franchise Procurement Process", DfT requires Bidders to produce three principal delivery plans, setting out how they intend to improve the reliability, reduce the cost and increase the revenue of the service. In terms of relative weighting, these three principal delivery plans are all considered equal.

Different Bidders will have different views on how best to improve the financial and operational performance of the Franchise. However, DfT needs to be satisfied that Bidders have thought through all the implications of their plans. For example, if a Bidder proposed an initiative on the rolling stock side which was expected to increase revenue, DfT would also need to see what impact this had on cost and reliability, on access for disabled passengers, etc. DfT therefore requires that Bidders use the 22 operational criteria which are set out in Table 4-1 of this document to demonstrate how they will meet the requirements of the three principal delivery plans. Bidders are required to set out their "blueprint" for the delivery of each one of the 22 criteria, supported by appropriate and relevant evidence. For each of the 22 criteria, Table 4-1 provides guidance on the various components which make up the requirement. This list is not exhaustive but DfT will expect Bidders to at least consider these elements when developing their proposals. For the avoidance of doubt, this section of the Invitation to Tender requires a specific response to each of the 22 criteria, and only these will be assessed.

DfT has not attributed any weighting or level of relative importance to the 22 operational criteria. The relative importance of each criterion in the context of the overall bid should be indicated **by the Bidder** on a scale of high, medium and low. This rating is to be stated at the beginning of each response, and is to be reflected in the depth of the response and the nature and scope of the supporting evidence.

Within each response, Bidders must clearly define their expected results and their approach to implementation to support those results. In addition, Bidders must explain how each response will contribute to the achievement of one or more of the three principal delivery plans mentioned above, and must summarise this in the matrix format set out in Table 4-3. Significant importance will be attributed to this explanation, as well as to the strength and quality of supporting evidence provided, and to the resulting quality of delivery of the Franchise Agreement itself. DfT will assess each response according to the Office of Government Commerce (OGC) and European Foundation for Quality Management (EFQM) guidelines.

The winning bid will be the one which offers DfT the best proposition on price and reliability, which we are confident is supported by robust delivery plans.

Bidders' attention is drawn to the guidance on risk assessment which is set out in paragraphs 21 and 22 of "A Guide to the Rail Franchise Procurement Process".

Table 4-1: Operational Criteria for South Western Franchise

These are not to be considered as being in any priority sequence as DfT has not attributed any weighting or relative importance to these criteria. Components are not an exhaustive list.

Title	Components
Rolling Stock	Rolling stock approach & policy overview Fleet composition for Franchise term Environmental issues Fleet deployment (with respect to service groups & demand forecasts) Fleet utilisation Fleet improvement programmes Management and quality principles Train plan and timetables
Train Crews	Locations Routes covered Rostering approach & systems Indicative staff diagrams Spare cover / Utilisation levels Driving standards management Compliance with NR standards Route learning philosophy
Depot and Maintenance	Depot & Maintenance approach & policy overview Depot arrangements Stabling arrangements Environmental issues Outsource service and maintenance arrangements Fleet preventative maintenance arrangements Reactive maintenance (depot and line of route) Performance improvement (reliability, availability) Train cleaning procedures Supply chain and spares management Quality systems Staff utilisation
Security	Stations On-train Depots & sidings Car parks Monitoring of security Assessment of current arrangements Improvement commitment Liaison with law enforcement agencies Co-ordination with Network Rail Maintenance of current systems Use of private security contractors Security of staff Security of customers Trespass and vandalism Terrorism Assessment of potential new risks and mitigation Staff training

	Accreditation Use of private security contractors
Performance Improvement	Data collection & analysis Use of benchmarks Cross references to other plans Network Rail interface PIP development process Information sharing Performance improvement commitment
Service Recovery	Severe weather Leaf fall season Network restrictions Other service and station disruption risks Rescue capability
Service Control	Train Reporting Control centre arrangements Systems Network Rail interface
Ticket Sales	Ticket vending machines Migration from APTIS On train sales On line sales Other sales outlets Monitoring and assessment of service levels Improvement plans New sales channels Collaboration with other parties Availability of fares information
Fares and Revenue Protection	Concessionary fares Off peak fares Fares structure Premium & Standard fares Customer fares information Fares basket management Revenue protection - Analysis of current state Revenue protection - Action plan Staff resources and training
Demand Management	Data capture Data analysis Peak Hours - On Train Peak Hours - On Station Seasonality Fares - based solutions Train Planning/ Rolling Stock Initiatives Management of crowding Timetable development Other Initiatives and Mitigations
Customer Information	Station information On-train information Literature Process of reviewing and revising customer targets Communicating targets to customers

	<p>Other information sources</p> <p>Maintenance of current systems</p> <p>Proposals for future improvements</p> <p>Signage and advertising</p> <p>Data integrity and accuracy</p> <p>Disruption information</p> <p>Information for customers with disabilities</p>
Station Cleaning & Maintenance	<p>Station Presentation Standards</p> <p>Checking & monitoring</p> <p>Management of cleaning at non SFO stations</p> <p>Maintenance process</p> <p>Timescales for repairs</p> <p>Liaison arrangements with station owners</p>
Other Revenues	<p>Car parking provision and policy</p> <p>Measurement of demand</p> <p>Car park pricing</p> <p>Maintenance standards of current facilities</p> <p>Upgrade of existing car parks</p> <p>Development of new facilities</p> <p>Co-operation with other parking providers</p> <p>Property portfolio incomes</p> <p>Retail space income</p> <p>On train catering</p> <p>Commercial advertising</p> <p>Inter-TOC trading</p>
Train Presentation	<p>Train Presentation Standards</p> <p>Timescales for repairs</p> <p>Checking and monitoring</p>
Station Management and Staff	<p>Location & Opening times</p> <p>Management Structure</p> <p>Rostering approach & systems</p> <p>Staffing Plans</p> <p>Duties & responsibilities</p> <p>Spare cover/utilisation levels</p> <p>Outsourcing of staff</p> <p>Continues improvement</p> <p>Dealing with emergencies & contingencies</p> <p>Monitoring & assessment of service levels</p>
Human Resources	<p>Objectives</p> <p>Job descriptions</p> <p>Organisation charts</p> <p>Management accountability & Delegated authorities</p> <p>Safety responsibility statements</p> <p>Internal communication</p> <p>Performance management & Review process</p>

	Recruitment & Selection Career planning & Succession Training, development Relations with trade unions Pensions
Station Enhancement	Improvements Timescales and Upgrades Provisions for cycles Access to Rail Network Station facilities
Marketing	Marketing Initiative Effect on revenue
Business Organisation & Quality Plan	Corporate structure Business planning Approach to quality management Business vision
Stakeholder Management	Interaction with Stakeholders
Customer services/charter	Organisation structure Complaints handling policy and process Passenger Charter information provision Compensation & Refunds policy and process
Mobilisation	Management arrangements Mobilisation programme Skills and resources Liaison with industry stakeholders Safety Case Licences

Table 4-2: Criterion to be considered in respect of the above criteria but not scored separately

Title	Components
DDA Compliance	Stations compliance Trains compliance Procedures for assisting impaired passengers Ticket facilities Staff training Consultation

Table 4-3: Contribution of Operating Criteria to achievement of the Principal Delivery Plans

Operating Criteria	Principal delivery plans		
	Performance	Revenue	Cost
Rolling Stock			
Train Crews			
Depot and Maintenance			
Security			
Performance Improvement			
Service Recovery			
Service Control			
Ticket Sales			
Fares and Revenue Protection			
Demand Management			
Customer Information			
Station Cleaning and Maintenance			
Other Revenues			
Train Presentation			
Station Management and Staff			
Human Resources			
Station Enhancement			
Marketing			
Business Organisation/Quality Plan			
Stakeholder Management			
Customer Services / Charter			
Mobilisation			

SECTION 5 : THE BID: FINANCIAL AND ECONOMIC ELEMENTS

5.1 Introduction

DfT requires Bidders to provide information that will enable it to evaluate bids from a financial and economic perspective. This Section details how Bidders should achieve this and how the information should be presented for evaluation.

5.2 Financial Model and Operational Models

Each Bidder is required to submit and include as part of their bid, a Financial Model and all Operational Models that support that Financial Model (together, the Models), along with all relevant financial information. This must demonstrate the financial consequences of its business and operational plans over the Franchise Term from Sunday 4 February 2007 (start of period 4 of rail year 2006/07) to Saturday 4 February 2017 (end of period 11 of rail year 2016/17).

The objective of the Financial Model is to calculate the financial outputs specified in Appendix 8 (Figures for Calculation of Annual Franchise Payments) to the Franchise Agreement. The Financial Model must be capable of repeating this calculation, using whatever Revised Inputs are agreed or determined to be relevant, if and whenever a Change occurs during the Franchise Term. It is essential, that the Financial Model, and in turn the Operational Models that inform the Financial Model, have this functionality.

More specifically, the Financial Model should be capable of calculating each of the following specific outputs in the circumstances described above:

- Target Revenue (as set out in Appendix 2 (Target Revenue expressed in real terms) to the Franchise Agreement); and
- Franchise Payments (comprising the fixed and variable cost and revenue elements and the profit margin set out in Appendix 8 to the Franchise Agreement).

These outputs should change automatically following the running of any sensitivity or variation. However, the Financial Model should have a functionality to freeze the Target Revenue as set out in Appendix 2 to the Franchise Agreement so as to allow simulation of Revenue Share / Revenue Support Adjustments triggered by revenue sensitivities.

The output schedules of the Models should be in the format of the Templates provided in Attachment F (the Templates). The Models should be presented in Microsoft Excel format, with workings and formulae intact (i.e. non input cells should not be 'hard-coded' with values), and be capable of running on a post - 1997 Microsoft Windows operating system. Six copies of the Models should be submitted in hard copy with the inputs and the financial statements and other outputs formatted as per the instructions in Sections 5.6 and 5.7 below. These printouts should also include the Financial Statements for all Priced Options (and Incremental Options if submitted).

5.2.1 Financial Model and Operational Model Principles

The Models submitted by the Bidders must be in line with best practice in accordance to the principles of Separation, Consistency, Integrity and Linearity described in section 5.9.

No rows, columns, cells or worksheets of the Models should be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is permissible, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible.

Where possible, Bidders are requested to avoid the use of macros in order to aid model transparency. The use of macros should be limited to areas where they add to the user friendliness of the Models (e.g. print macro) or aid the achievement of other requirements of the Models (e.g. avoid circularity or to transfer data between Models). Where macros are required, their function should be clearly explained.

Although best practice would dictate that a consistent formula is used in each column, there are a number of circumstances where a model can be made more transparent by changing the formulae across an array. Provided it is made clear (even when printed out and the formulae can not be seen) that the calculation method is different, two cases have been identified when the formulae can differ:

- to allow a different approach to the treatment of forecasts before the South Western Franchise commences (i.e. 2004/05 to 4 February 2007 inclusive) compared to the Franchise Term; and
- to allow units, indices and other useful modelling 'flags' to be included in the columns before the first forecast year (2005/06).

It is not acceptable to break the best practice conventions to allow for other factors, such as, but not limited to, part years (e.g. due to the South Western Franchise not commencing on the first day of the RSP year or a change to the Timetable), or demand build-up.

5.2.2 Models to be Submitted

The Models should preferably be self-contained within their own respective spreadsheets. Where there are cross-links between the Models these should be stored together electronically with a clear explanation of the links. All appropriate Operational Models that support the calculations within the Financial Model are required to be submitted. This will include but not be limited to workings and calculations linking the Financial Model inputs and outputs.

The Operational Models should include but not be limited to:

- a demand/revenue model. The demand/passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Templates. Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The demand/revenue model also needs to clearly show the demand forecasting input assumptions, demand forecasting elasticities and impact on demand and revenue from each of the following items. This should include, but not be limited to, such factors as:
 - macro-economic factors, including competition with cars (disaggregated into individual factors where appropriate);
 - timetable changes;
 - real fare increases;
 - performance improvements;
 - marketing;

- revenue protection initiatives;
 - station retailing initiatives;
 - crowding; and
 - other investments or initiatives;
- a cost model that includes the following as part of one Operational Model:
 - a staff forecasting model showing the split by staff categories (e.g. drivers, station maintenance crew) and how these form the basis of the forecast of wage, pension and other staff remuneration costs in the Financial Model;
 - a rolling stock model showing the split by rolling stock classes and showing separately fixed, mileage or reliability performance based components of the lease charges. The split of capital and non-capital rentals should also be shown; and
 - a regulated facilities model showing the split between fixed access charges and variable access charges, track related, station and depot related, access and leases charges;
- a performance model, showing forecast average Minutes Delay, attribution of average Minutes Delay between the Franchisee and Network Rail, the impact on the Public Performance Measure and the basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the Franchisee and Network Rail should be shown separately. All assumptions relating to the performance model and any performance improvement schemes and associated calculations should be clearly explained;
- where required, a capital funding model, showing the detailed total investment plan for all funding of infrastructure, other works and schemes that support the Bidder's proposals and that reflects the precise details of their own funding arrangements.

Clear instructions on how to operate the Models, including any model assumptions should also be provided, in the form of an Operating Manual and Record of Assumptions (see Section 5.8).

5.2.3 Sensitivities

The Models must be flexible and capable of supporting sensitivity analyses, a Priced Option switch (and, if submitted, an Incremental Option switch). Bidders must take this into account in determining the most appropriate structure for the Models.

The Models should, as a minimum, be capable of supporting a sensitivity analysis ('stress tests') either in percentage terms or on a compounding basis, and on absolute terms of the following:

- total revenue;
- total operating costs;
- profit margin;
- taxation rates;
- interest rates;
- RPI, and
- AEI.

For 'total revenues' and 'total operating costs', the Models should include functionality to allow DfT to both change the variable by an absolute value and to be able to also change the growth profile of the value over the Franchise Term. For the first type of test, the Models should show as a percentage how much higher the revenue is compared to the revenue generated by the Base Case Specification. These tests are important as they allow DfT to gauge the robustness of the Models to changes in key assumptions.

To illustrate the robustness of the Models, the Operating Manual and Record of Assumptions must include a table demonstrating the sensitivity of the Models to the variables noted above. The table is to be split into two sections. The first would show the change to the variable required to trigger a breach (through a change to the growth profiles for revenues and costs, and changes to the absolute values for the other variables) and the second would show the period in which the breach occurs.

The functionality to reproduce these results should be contained within the Models with appropriate documentation to facilitate verification by DfT.

The Models should incorporate the Revenue Share/Revenue Support mechanism set out in Schedule 8.1 (Franchise Payments) to the Franchise Agreement and the dividend lock up mechanism set out in Schedule 12 (Financial Obligations and Covenants) to the Franchise Agreement. Where applicable, these mechanisms should be automatically activated when running the above sensitivities to the Financial Model and reflected in the financial statements. To this end the Financial Model should have a functionality to freeze the Target Revenue as set out in Appendix 2 to the Franchise Agreement so as to allow simulation of Revenue Share / Revenue Support Adjustments triggered by revenue sensitivities.

5.3 Generic Bidding Assumptions

Bidders are to use the following assumptions in preparing their bids:

financial forecasts are to include calculations of the tax liabilities of the subject company in accordance with GAAP and any applicable tax law. Complete integrated tax computations should be included in the Financial Model to the extent that any group, consortium or other form of relief or sale of losses is clearly stated within such model;

the units to be used in bid submission are clearly set out in the Templates provided;

the default prices stated in the Models should be nominal but when real prices are required these should be deflated to average 2006/07 prices;

the tables listed below should be completed in average 2006/07 prices:

- Target Revenue table set out in Appendix 2 (Target Revenue (expressed in real terms)) to the Franchise Agreement; and
- Franchise Payment table set out in Appendix 8 (Figures for Calculation of Franchise Payments) to the Franchise Agreement.

Bidders should assume a Retail Prices Index of 2.7 per cent per annum and an Average Earnings Index of 3.4 per cent per annum for 2007/08 and thereafter (Bidders should adopt their own inflation and AEI assumptions for 2005/06 and 2006/07);

the base date for each cost input must be 30 September. Bidders must assume that inflation occurs at the mid-point of every year (i.e. 30 September);

the real discount rate to be applied is 3.5 per cent;

net present values of the revenues, costs and Franchise premiums will be discounted back to 2006/07;

Bidders should assume that the South Western Franchise will commence on 4 February 2007;
Bidders should assume mid-year cashflows;
the South Western Franchise financial year commences on 1 April of each year;
Revenue Support levels and thresholds are as per the Franchise Agreement (Bidders are free to propose their own levels and thresholds for Revenue Share);
there will be no changes to the Track Access Agreement and charging methodologies as a result of any reviews conducted by ORR during the Franchise Term (Bidders should use CP3 rates as specified by ORR until the end of CP3 and assume that they are held constant in real terms thereafter); and
the methodology for calculating Franchise subsidy and premiums should be applied consistently on an annual basis.

5.4 Financial Model and Operational Models Structure

The Models should be structured to allow the user to choose a scenario from the Base Case Specification, Priced Options (and Incremental Options if submitted) by use of a 'switch' applied to the Base Case Specification. Separate stand-alone models will not be accepted.

The switch should enable the user to select the required scenario without the need for additional modelling or worksheet adjustments. This switch will be the tool to select the inputs of the required case and 'run' them through the calculations and subsequently present the results in the financial outputs of the Financial Model. The Operating Manual and Record of Assumptions should clearly explain the method by which the switch selects the case of the different scenarios.

The Financial Model must also have a further "index switch" that allows the user to apply/remove the effect of RPI so as to view the financial outputs in both nominal and real terms.

Where relevant, DfT has anticipated that certain rows in the Financial Model are necessary for Bidders to provide their own cost or revenue titles (these are generally labelled as 'Spare'), but for evaluation and logistical reasons, it is also critical to minimise any significant deviation from the Template structure. Deleting or inserting rows or columns to the Templates is not permitted and will be deemed to be non compliant.

In relation to the Models' periodicity, annual periods should be used, DfT's financial year ending 31 March.

Any changes to the Financial Model after bid submission will need to be clearly logged and traceable, including an audit trail in the Financial Model itself.

5.5 Priced Options and Incremental Options

DfT requires a consistent level of detail/information for each proposed Priced Option and for each Incremental Option, if submitted, to enable it to make an informed decision. Therefore financial outputs for each option should be automatically produced by use of a 'switch' which will update the financial outputs automatically incorporating the additional requirements and implications of each Priced Option. Separate stand alone models will not be accepted.

Priced Options and Incremental Options should be indexed in accordance with the mechanism set out in Schedule 8.2 (Annual Franchise Payments) of the Franchise Agreement.

5.6 Financial Templates

DfT requires that the output from the Models follows the Templates in Attachment F. DfT realises that Bidders may wish to expand the level of detail provided within the Models beyond these minimum requirements and expects that this is done in such a way as to remain consistent with the format of the Templates. The level of detail provided should be sufficient to give full transparency of all components of cost and revenues.

The outputs in the Templates should be linked to the calculation cells/input cells where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model. Bidders can either add worksheets to the Templates or copy the Templates into their own models. It is imperative that Bidders ensure the ranges defined are also transferred.

The format of the profit and loss account, cash flow statement and balance sheet are required to be set out in the manner stipulated by the Templates.

DfT reserves the right during the evaluation process to clarify and request further levels of detail from Bidders where it feels it is necessary for the completion of that process. Any derogation from the requirements of the Templates as set out in this ITT must be agreed with DfT in advance of the return of any bid. Please note derogation is not the norm.

Bidders should note that any types of revenues or costs that it wishes to include under a catch all heading of 'Other' should not exceed £500,000 (nominal prices) in any year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they should each be separately identified in a separate spare row and not listed under the heading 'Other'.

The Templates shall be populated in full, with outputs from the Models specified in years that are consistent with the rail financial year. To this end relevant worksheets in the Templates are structured with columns that are headed with periods that represent the rail industry year to 31 March of each year.

The South Western Franchise runs part year from 4 February 2006 to 31 March 2007 and part year from 1 April 2016 to 4 February 2017. In order to accommodate the difference between the rail year and the part years identified above, the relevant worksheets in the Templates provide two extra columns where Bidders should derive the part year elements from the full year columns.

The following table sets out the worksheets contained in the 'Template' and a brief summary of each worksheet's content and status.

Table 5-1: Worksheets contained in Template

Sheet	Content	Status
Front	Contents, legend	Bidder free to use/update/delete
Vb	Used for Comparator Model	Bidder must not alter
Map	Aid navigation	Bidder free to use/update/delete
Version	Aid version control	Bidder free to use/update/delete
Control	Suggested scenario control sheet	Bidder free to use/update/delete
Inputs>>		
Financing Inputs	Template for forecasts of selected option(s)	Bidder free to use/update/delete
Calc Sheets>>		
Financing Calcs	Blank sheet for financial calcs	Bidder free to use/update/delete
Templates>>		
Ass 1off	Template for forecasts of selected option(s)	Bidder must not alter (with exception of cell G21)
Ass Yr-Yr	Template for forecasts of selected option(s)	Populate but do not alter structure
CAPRI Pax Revenue	Template for forecasts of selected option	Populate but do not alter structure
Other Revenue	Template for forecasts of selected option	Populate but do not alter structure
Staff Costs	Template for forecasts of selected option	Populate but do not alter structure
Other Operating Costs	Template for forecasts of selected option	Populate but do not alter structure
Rolling Stock Company (ROSCO) Costs	Template for forecasts of selected option	Populate but do not alter structure
NR Costs	Template for forecasts of selected option	Populate but do not alter structure
Performance Regimes	Template for forecasts of selected option	Populate but do not alter structure
TOC Capex	Template for forecasts of selected option	Populate but do not alter structure
Outputs>>		
Detailed P&L	Template for forecasts of selected option	Populate but do not alter structure
P&L	Template for forecasts of selected option	Contain formulae, do not alter structure
CF	Template for forecasts of selected option	Populate but do not alter structure
BS	Template for forecasts of selected option	Populate but do not alter structure
Eff	Calculates the total impact of all selected options	Contain formulae, do not alter structure
Franchise Agreement Numbers	Templates tables for insertion in the Franchise agreement	Populate but do not alter structure

The Templates do not make any provisions for NPV analysis. Bidders should set up their own calculation sheets for NPV calculations in their Financial Model.

5.7 Operating Manual and **Record of Assumptions**

The Operating Manual and Record of Assumptions is required to accompany the Models and shall contain all financial and operational assumptions used. The Operating Manual and Record of Assumptions shall explain and discuss the inputs of the Model and provide detailed instructions for operating the Models and also include the following:

- description of each Model, its structure and capability;
- explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate;
- description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- instructions on how to input data, select assumptions and calculate the financial outputs;
- instructions on how to run sensitivities;
- a table setting out the changes required in the variables in Section 5.2.3 to trigger a breach of the financial ratios and to trigger a lockup as per Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;
- a table setting out the percentage of total Franchise other revenues, other operating costs and ROSCO costs (PVs over the Franchise Term) that are earned from or paid to HQ, group or other affiliates;
- instructions on how to optimise and produce financial outputs, in the required format;
- an explanation setting out the basis upon which the Franchise Payments have been calculated; and
- where macros (or other visual basic functions) have had to be used, a description of any macros used in the operation of the Models, the reason for their use and how they impact on the results.

The Operating Manual and Record of Assumptions is required to contain all financial and operational assumptions used in the pricing of the bid including those assumptions used in the pricing of any Priced Options (and Incremental Options if submitted) and should be at a similar level of detail to that provided in the Models. It is required to be submitted in Microsoft Word format and is to be contained within one electronic file. Bidders can store their assumptions in Microsoft Excel files, but these should be transferred to a Microsoft Word file prior to submission.

The Operating Manual and Record of Assumptions should confirm and explain all of the linkages between the Models and should also set out clearly the basis on which the Franchise Payments have been calculated.

Bidders are to note that the Models and the Operating Manual and Record of Assumptions will become agreed form documents under the Franchise Agreement and will be Placed in Escrow pending their release to be used by parties should a Change occur during the Franchise Term.

5.8 **Financial Structure and Funding**

Each Bidder is required to:

- detail the total investment plan for all funding of infrastructure, other works and schemes that support its proposals;
- submit precise details of its own funding arrangements and detail the exact nature of relationships with any funding partner or underlying financial securities provided by third parties;

- provide details of the providers of the Performance Bond and Season Ticket Bond, including term sheets from the Bond Provider(s) in order to demonstrate that the requirements of the Franchise Agreement have been met;
- submit a statement from the relevant Bond Provider accepting the form of the Performance Bond as set out in the Franchise Agreement;
- submit a statement from the relevant Bond Provider accepting the form of the Season Ticket Bond as set out in the Franchise Agreement;
- demonstrate how the initial Performance Bond and Season Ticket Bond values, included in the bid, have been calculated;
- demonstrate how ongoing working capital requirements, as forecast in the Financial Model, will be funded;
- for each Franchise commitment made in the bid (or groups of commitments if appropriate), submit a funding plan with full details of each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding. For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- incorporate in its funding plans, an investment profile as detailed in the Templates providing for each proposal category (Base Case Specification and Priced Options (and Incremental Options if submitted)) and by investment category;
- submit a letter from its financial adviser(s) confirming that:
 - the funding plans for all aspects of the bid have been developed to a stage that will allow funding to be made available to the Franchisee on execution of the Franchise Agreement;
 - financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
 - the funding plans are accurately reflected in the Financial Model;
- confirm the interest rates and contractual terms of any inter-company debt funding, subordinated loans or other funding arrangements between or to be between the Franchisee and any affiliate or third party; and
- provide details and assumptions for interest earned on cash deposits.

5.9 Model sign-off - Terms of Reference

5.9.1 Modelling Best Practice Confirmation

Each Bidder must provide an independent Modelling Best Practice Confirmation report on all sections of the Models, co-addressed to DfT and that Bidder, as part of its bid submission. The Best Practice Confirmation is not considered to be an audit of the Models.

All costs associated with the preparation of the Modelling Best Practice Confirmation are for the Bidder's account only.

The Modelling Best Practice Confirmation must provide confirmation in adequate detail that the Models have or provide for:

Separation of inputs, calculations and outputs;

- Inputs: should include data and assumptions but no calculations;

- Calculations: should include individual calculations that support each line of all outputs and reports. There should be no duplication of calculations nor should input cells be hard-coded in the calculation sheets; and
- Outputs: should not include any hard-coded input cells or calculations except for sums and check totals.

Data inputs, calculations and output areas should be completely separate and clearly labelled. The Modelling Best Practice Confirmation must document the high level patterns of data flow within the Models and include a flow chart of the main data flows between worksheets and workbooks;

Consistency of formulae across rows and down columns and across worksheets. the Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:

- Columns: the same column should be used for the same period in each worksheet; and
- Rows: a row will contain only one formula, copied across all columns.

The Modelling Best Practice Confirmation must provide a review of the Models' structures by means of spreadsheet maps, which give a visual representation of the worksheet structure and layout, highlighting elements of the worksheet layout that warrant further investigation (however, as this is not as detailed as a Model Audit: each unique formula is not checked);

Integrity of financial statements (that there are no balancing figures). The Modelling Best Practice Confirmation must provide an assessment of the extent and effectiveness of internal and/or error checks contained within the Models and detail any internal control checks that indicate errors; and

Linearity of calculation flow (that there are no circular references);

Macros, where required, their function should be clearly explained.

5.9.2 Model Audit

Following bid submission and prior to contract award DfT will request one or more Bidders to obtain an independent audit of the Models (the Model Audit) on all sections of the Models. The Model Audit shall be prepared for the benefit of DfT and the Bidder and shall be co-addressed to them. All costs associated with the preparation of the Model Audit are for the Bidder's account only. Bidders must obtain DfT's acceptance (not to be unreasonably withheld) of their choice of independent model auditor and its agreement to the definition of the Financial Model for determining the scope of the audit. DfT will expect to receive the audit report within ten working days of it being requested of the Bidder.

DfT requires the Model Audit to confirm:

- whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Base Case assumptions and input data is concerned, including the conversion of real values to nominal values;

- whether the tax charge, liabilities and payments calculated by the Models, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation;
- whether the key accounting assumptions in the Models and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of GAAP and financial reporting standards;
- whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- whether the calculation of the financial ratios is in accordance with Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;
- whether the Models have been developed in a well structured manner to acceptable standards;
- whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Models;
- Priced Options (and Incremental Options if submitted): DfT will require an audit to be performed on any or all of these sections of the Financial Model; and
- robustness testing: DfT may provide the preferred Bidder with no more than five tests for the purposes of understanding robustness of the stress test. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test. A robustness test is defined as a change in one or more variables.

5.10 Other Information Required

Bidders should show separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee.

Trading with affiliated companies should be detailed where greater than £100,000 (nominal prices) per annum in the relevant plan(s) and Operating Manual and Record of Assumptions.

Bidders are expected to refer to the Franchise Agreement attached to this ITT at Attachment C. Bidders attention is drawn in particular to the Appendix (Incentivising Long Term Investment) to Schedule 9.3 (Runs of the Financial Model) of the Franchise Agreement for guidance on DfT's approach to incentivising long-term investment.

Bidders' notice is drawn to the affordability constraints that apply to the rail industry. Regardless of the value for money aspect of any given investment proposal, DfT will only consider such proposals if its budget allows. Bidders should bear in mind that financial support for such proposals from DfT is likely to be extremely limited.

SECTION 6: PRICED OPTIONS

6.1 Requirement to submit Priced Options

Bidders are required to submit bids for the Priced Options which are set out below, in addition to the Base Case. These Priced Options may be included in Appendix 4 of the Franchise Agreement. They will be assessed for both deliverability and financial and economic impact in line with the requirements laid out in Sections 4 (Operational Integrity/Deliverability) and 5 (Financial and Economic Elements). Bidders should ensure their bids in respect of the Priced Options identified in this Section 6 allow DfT to make appropriate evaluations. For example, a Priced Option that requires a different approach to the plan to deliver the Base Case, as set out in its response to the requirements of Section 4, should provide details and show how the Priced Option will be delivered, using the same structure as appropriate. Bidders should mark-up the Franchise Agreement as appropriate in relation to each Priced Option.

6.1.1 Waterloo International

The opportunities for making use of the platforms at Waterloo International vacated by the transfer of Eurostar operations during 2007 are being developed. The short-term use is limited by the track and station configuration.

Bidders are required to set out their proposals for making use of Waterloo International if it were made available for use by South Western services, and assuming that any small-scale infrastructure solutions would have been put in place as soon as practical and at no cost to the Bidders.

The work conducted by DfT in relation to Waterloo International will be placed in the Data Room.

6.1.2 Salisbury-Exeter Enhancements

Bidders are required to submit a price for running an enhanced service between Waterloo and Exeter such that:

- (i) an hourly Waterloo-Exeter, and/or
- (ii) an hourly shuttle between Exeter and Axminster can operate.

Bidders should assume that the additional infrastructure (one or two passing loops) will be funded by a third party. Separate discussions on the funding for this infrastructure are taking place with Network Rail and regional bodies.

Bidders should also note the plans for the introduction of a new station at Cranbrook to serve the new development that is planned.

6.1.3 Salisbury-Bristol

The Base Case Specification states that South Western services will not run between Salisbury and Bristol Temple Meads, either as a start/end day service or as part of a through train to London Waterloo.

Bidders are requested to submit a priced option bid that provides for two return direct London Waterloo – Bristol Temple Meads services per day via Salisbury. These trains do not need to occupy the current paths, and Bidders are free to propose their approach to providing this quantum.

6.1.4 Island Line

The Island Line has been designated as a Community Rail Line. DfT is keen to secure a long-term package to safeguard the future of the Island Line, including a more robust financial position and a better infrastructure upon which to develop the business.

The Base Case Specification requires Bidders to demonstrate how they would continue to run the operation in its current form, and mindful of the need to meet the Franchise objectives. Bidders would be expected to reflect the aspirations of stakeholders and seek suitable means of delivering an efficient operation that improves the affordability of the business.

Alternative strategies are encouraged to provide greater local management and to re-structure the current relationships between DfT, Network Rail, ROSCO, Franchisee and stakeholders.

Bidders are asked to provide a price for the financial impact of fully separating the Island Line from the South Western Franchise. It should be assumed that the future of the Island Line would then become the subject of a separate negotiation to safeguard its future. It should be assumed that the business would continue to deliver the benefits associated with Community Rail, but be operated by a third party.

Bidders should be aware of the comments raised by stakeholders during the consultation process, specifically the Isle of Wight Council. Network Rail are aware of the potential to operate the service as a discrete entity and have indicated that they would support such a move, but no further discussions have been progressed at this stage.

6.1.5 GSM-R

Bidders must include a price for the installation of GSM-R to the South Western rolling stock fleet. The detail documentation on GSM-R can be located at Section 17.4.1 of the data room

6.1.6 Secure Station Accreditation

The Base Case Specification requires Bidders to deliver Secure Station Accreditation for those stations with 80% of the Franchise footfall, ensuring that all high risk crime locations are covered.

The priced option requires Bidders to extend the coverage of SSA to 95% of station footfall within the Franchise area and to ensure that the sites meet those identified by BTP as high risk locations.

SECTION 7: INDICATIVE PROPOSALS

7.1 Requirement to provide Indicative Proposals

Bidders are required to provide an indicative proposal in respect of the following. The proposal should consist of a short evaluation of the requirement, identifying and assessing opportunities, constraints, potential benefits and estimated costs, presented in the form of a summary report of approximately two pages. Bidders are not expected to undertake substantial research, nor to allocate significant levels of resource to this work.

7.1.1 Airtrack

Bidders are asked to provide an indicative proposal for the operation of train services in support of the proposed Airtrack scheme designed to improve access to Heathrow Airport from the south. The scheme would comprise three sets of rail services operating to Terminal 5 at Heathrow, for which the station box to accommodate platforms has been provided. Services would operate at a 30-minute frequency as follows:

- London Waterloo with stops at Clapham Junction, Richmond, Twickenham, Feltham and Staines;
- Guildford with stops at Woking, Chertsey and Staines; and,
- Reading with stops at Wokingham, Bracknell and Staines.

Bidders are free to recommend an alternative service pattern that could deliver similar overall objectives, and be operationally acceptable.

Bidders should assume that the infrastructure is provided by a third party, and that no costs associated with construction or disruption will be incurred. The most recent study of Airtrack conducted by Arup is available in the Data Room. It should be assumed that the scheme would be operational in 2012.

An indicative business case for the operation of the train service is required to support the further development of the scheme. Bidders are asked to adhere to DfT's business case guidance. This indicative proposal setting out costs, benefits, risks and other relevant details including assumptions should be described within 2 pages of text within the overall bid.

SECTION 8: INCREMENTAL OPTIONS

8.1 Opportunity to present Incremental Options

DfT would welcome proposals which, through an innovative approach or otherwise, will enable the delivery of a more efficient service, representing better value for money for passengers and taxpayers. Therefore Bidders may present Incremental Options, whereby changes may be proposed to any element of the Base Case submission, in order to deliver an improved operational, financial or other result. Such proposals must be set within the context of the Base Case submission. Each proposal must be fully specified and priced, and should be self-contained, i.e. not dependent on any other Improvement Option which may be included in the submission.

8.2 Presentation of proposals

DfT requires clear plans that describe the circumstances and conditions under which each Incremental Options can be delivered, the benefits which will be achieved, and (if appropriate) how Bidders will engage with stakeholders in implementing proposals. Bidders will be expected to identify clearly the risks, constraints or other factors which may affect deliverability of any Improvement Option and any ways in which these might be overcome.

SECTION 9: FURTHER INFORMATION

9.1 Introduction

This Section references the more obvious projects that may impact on the South Western Franchise during the Franchise Term and is included to assist Bidders in gaining as complete a picture as possible of the environment within which the South Western Franchise will operate. They will be treated within the context of normal industry mechanisms and do not need to be priced or considered within Base Case submissions. DfT will not treat any of the information contained in this Section and used by Bidders in the construction of their bids as grounds to invoke the Change mechanism in Schedule 9 (Changes) of the National Rail Franchise Terms if any such information proves in time to be incorrect.

9.2 Transport for London

In the White Paper DfT undertook to consult on the possibility of allowing the Mayor to specify and pay for services in an area outside the GLA boundary.

“Because the London commuter rail network does not stop at the GLA boundary, we will look at whether it is feasible to give Transport for London the right to specify and pay for services in an area slightly bigger than Greater London which makes more sense in rail transport terms. However, we will need to ensure that the rights and interests of rail passengers outside of London are protected, and will want to consult fully within the Greater London Authority and neighbouring regional and local bodies before reaching a conclusion on this proposal” (para 5.7.6).

DfT published a Consultation paper on the Proposals for the Mayor of London’s Rail Powers beyond the London Boundary in March 2006. It contains views on the following items, and Bidders should make themselves aware of these proposals:

- the scope of the Mayor’s powers beyond the London boundary;
- the network over which these powers should extend; and,
- the governance structure – how the Mayor/TfL should be required to work with local transport authorities and regional bodies outside London in exercising these powers, and how disagreements will be resolved.

TfL developed a Rail Corridor Plan (January 2006) to support their consultation response to the South Western Franchise replacement proposals. A number of the proposals that TfL sought for inclusion in the Base Case Specification have been reflected. More details of the Rail Corridor Plan can be obtained from TfL.

One area that TfL has requested is that the new Franchisee provide TfL with data to support their potential role in specifying services in the future, not just within the GLA area but mindful of the consultation document referred to above.

The list of reporting requirements is set out below, and Bidders are required to consider these in light of the Information Provision section (3.6.1) and the identification of associated costs.

9.2.1 Monitoring and Reporting

TfL feels it appropriate that it be granted access to the financial and performance data which will be reported on a periodic basis to DfT under the terms of the Franchise Agreement for each London Regional Inner Suburban (LRIS) service group. TfL recognises that service groups will not in every case correspond directly to the LRIS boundary. From the point of Franchise commencement, information should be provided at existing service group level for all LRIS services. The TOC would be expected to identify the feasibility of further disaggregation of costs and revenues to meet TfL requirements within the bid. TfL would meet the TOC each period to review the results to date. Information provision to TfL will be subject to the same Franchise Agreement provisions as information provision to DfT.

As a minimum, TfL would like the following information to be provided period by period, with supporting commentary:

9.2.1.1 Financial

TfL recognises that some data will not be available at Franchise commencement in fully disaggregated form. Where possible, TfL's needs would be best served by disaggregation to service group level. Working assumptions will be necessary in other areas, such as the allocation of HQ and admin costs, Network Rail charges and ROSCO lease charges.

9.2.1.2 Costs

Actual cost incurred against budget by cost category.

9.2.1.3 Revenues

Total income per period including Travelcard/integrated ticketing apportioned revenue.

Actual ticket income against budget.

Disaggregated flow data

Commission payments to/from other TOCs at LRIS level

Other income by type (eg car park revenue)

9.2.1.4 Train Service Performance and Quality

PPM by LRIS Service Group, disaggregated by TOC on self, TOC on TOC, Network Rail

Fleet availability and reliability, by rolling stock type

Overcrowding Short formation data by LRIS service group PIXC results by LRIS service group

Passenger count data

Customer satisfaction TOC customer satisfaction survey results National passenger survey results

Ticketless travel survey results; Bidders to state methodology and frequency.

9.3 European Rail Traffic Management System

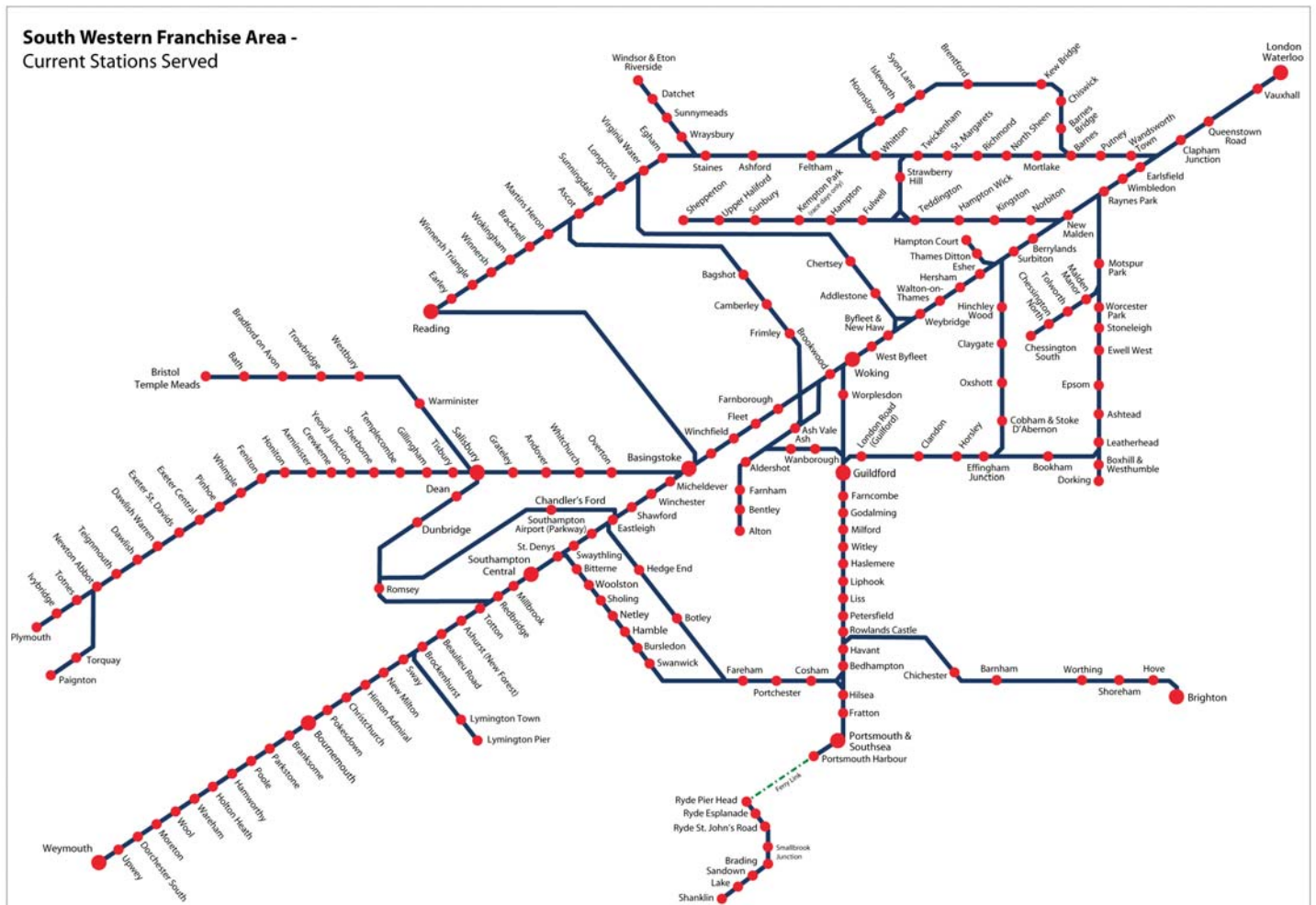
Network Rail is leading the cross-industry programme addressing the scale and pace of the introduction of the European Rail Traffic Management System (ERTMS) within the UK. The migration from existing conventional signalling to ERTMS is designed to optimize the benefits and to avoid undue disruption to the performance of the railway.

The Cambrian Line will be the first UK project and should be operational in 2008. It will provide essential experience of delivering and operating a cab signalling system compliant with European

standards and is intended to validate operating rules and migration aspects of the European Train control System (ETCS) subsystem.

Precise dates for the implementation of ETCS on the routes covered by this Franchise are not yet known and will depend upon the emerging national implementation programmes and the outcome of projects and activities in the UK and abroad. Co-ordination may be required between the Franchisee, ATOC, Network Rail and the rolling stock leasing companies to manage the successful transition within the context of the national rollout strategies. Bidders should understand that a decision to implement this cab signalling system would lead to additional training for drivers and potentially other staff and that co-operation may be required from the Franchisee during the feasibility and planning stages before formal issue of a Network Change Notice.

APPENDIX 1: MAP OF THE SOUTH WESTERN FRANCHISE AREA AND ROUTES



APPENDIX 2 – STATIONS

DfT and other stakeholders are anxious to improve the passenger journey experience particularly in relation to the station environment. The Franchise Agreement puts emphasis on maintaining an acceptable standard for passengers over the Franchise Term.

If station environments are to be improved it is therefore necessary to ensure that external funding is leveraged in. It is probable that this can only be achieved by enabling the station environment to be seen in a wider context than just the railway through the creation of an incentive based long-term interest in the development of stations and their environs. Clearly the basis of any such arrangements would need to satisfy value for money criteria and must encourage improvement in the level and quality of service provided to passengers and must not prejudice other wider network development opportunities.

Bidders in submitting their bids and their financial models should provide complete transparency in relation to all station related costs such that all the costs and benefits may be properly addressed when evaluating the opportunity further.

ATTACHMENTS

- A South Western Franchise Service Level Commitment 1**
- B South Western Franchise Service Level Commitment 2**
- C South Western Franchise Agreement**
- C National Rail Franchise Terms**
- D Conditions Precedent Agreement**
- E Service Quality Standards**
- F Financial Templates**
- G Stakeholder Consultation Document**