

COMMENTS ON CPRS DRAFT ON ELECTRIFICATION OF BRITISH RAIL

Generally I agree with the draft. There are, I think, one or two points where it might be strengthened.


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I think we can nail the fallacy about network benefits rather neatly. If what they say is true, then the greater the electrification, the higher the rate of return. And the marginal rate of return clearly exceeds the average as we go from Option 1 to Option 5. This must be so since the average return gets higher. Then it must be true that the optimal policy would clearly be one which is bigger, and very likely to be much bigger, than Option 5. Clearly the marginal rate of return lies above the average rate of return until the average rate starts declining. On the logic of their argument and the nature of their numbers it is likely that the average rate of return for a much larger electrification programme would be very considerably greater than 11%. We must ask British Rail and the Department of Transport that, if they believe their numbers, why they did not propose an even considerably larger programme of electrification than Option 5? They are denying us an enormous rate of return implied by their figuring.

Of course, one may take the view that there is no pot of gold at the end of the rainbow. But if that view is taken then the whole methodology and numerical results are immediately discredited. The only way they could justify their results and show that Option 5 is the best policy is to demonstrate that just beyond Option 5 there is an enormous jump, and I mean absolutely enormous jump, in the marginal rate of return on electrification. There would have to be a tremendous discontinuity. As I recollect from my reading of the electrification report, this is demonstrably not so.

I think this would enable you to say in your conclusions that there is very considerable doubt about the increase in the rate of return generated as we proceed from the small to the large options. This, I think, would strengthen the argument that we proceed bit by bit.

9 June 1981


ALAN WALTERS



10 DOWNING STREET

DR. RICKARDS

SOME FURTHER NOTES ON THE FIRST DRAFT OF CPRS REVIEW OF
BRITISH RAIL'S COMMERCIAL BUSINESS AND ELECTRIFICATION PROPOSALS

Among the options, you do not specify one which takes the form of increasing Inter-City passenger fares. If we accept the electrification report's assumption of an elasticity of minus .65 then it would be possible for the Inter-City services to be commercially viable simply by increasing the fares. They would carry fewer passengers but provided carrying fewer passengers did not increase total costs, net revenue must increase. (I find it difficult to believe that anyone could argue that carrying fewer passengers increases, rather than decreases, total costs.)

This is, on the British Rail/DoT electrification report, a perfectly feasible way of ensuring commercial viability. It can also be represented as a solution where "those who benefit pay". There is always the alternative option of a coach service at a small fraction of the fare of the Inter-City. Would it not be possible to put this suggestion in Option 1, then you could simply increase fares so that you meet the 25% target?

9 June 1981

ALAN WALTERS

cc Mr. Hoskyns
Mr. Wolfson
Mr. Duguid
Mr. Lankester ✓



Transport

10 DOWNING STREET

DR. RICKARDS
CPRS

Attached are a few comments
on your draft paper.

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ALAN WALTERS

cc Mr. Hoskyns
Mr. Wolfson
Mr. Duguid
Mr. Lankester /