



PRELIMINARY CONCLUSIONS ON THE CAPACITY CHARGE

26 SEPTEMBER 2012

Network Rail consulted on the capacity charge in the summer of 2012. The consultation closed on 6 September 2012. We are very grateful to stakeholders for taking the time to respond to the consultation.

The consultation raised a number of important issues, and we will respond to all issues raised in due course. However, we are keen that technical work on the recalibration of the capacity charge can get underway quickly, so that we can provide sufficient time for the analytical work and ensure that stakeholders have sufficient opportunity to feed in to this work.

In order to facilitate the start of technical work and provide certainty to bidding organisations, we are concluding on a number of items now. This note sets out these conclusions. We note that, the areas where early conclusion is appropriate have generally drawn widespread industry support.

We have concluded that:

- The capacity charge will not be disaggregated across time beyond the arrangements that are currently in place (with the exception of the next bullet point in relation to the weekend discount).
We received 10 responses to our consultation which addressed this point explicitly. Opinions were mixed, with some stakeholders preferring more disaggregation than others. Further disaggregation would require significant, costly changes to the industry billing infrastructure. Past experience of seeking to bill across time has demonstrated that such a process could involve considerable risk, and we do not consider that the benefits associated with introducing more granularity across time justify those risks. Moreover, since billing would have to take place on the basis of departure or arrival times, we are concerned that this could result in perverse incentives at boundaries between time bands.
- The weekend discount will remain, although the level of the discount and whether it should vary across the weekend (e.g. be different on Saturday and Sunday) will be reviewed as part of the technical work undertaken by consultants.
Of the 10 responses received to this question, 8 were in agreement with Network Rail that the weekend discount should remain. The majority of respondents shared Network Rail's view that the discount should be reviewed as part of PR13. Centro and PTEG did not agree with the use of a network-wide discount, requesting further disaggregation based on time and location. We have taken note of this, and we will ask consultants to consider whether having different discounts on Saturday and Sunday (rather than a generic discount across the weekend) would be appropriate.
- The capacity charge will be set at the level of service code rather than service group in CP5 for passenger operators, which represents much more granularity than the arrangements currently in place.
6 respondents addressed this question, with 5 in agreement with Network Rail's proposal to vary the capacity charge by service code rather than service group. We believe that moving to a system whereby charges are set at service code rather than service group will result in significantly more granularity and flexibility. At the same time, it will not require costly changes to billing infrastructure and does not entail significant implementation risk.

- Freight operators should continue to pay a single capacity charge tariff.
We received 11 responses to this issue, with 6 parties in agreement. Some stakeholders suggested that freight operators should be charged different rates depending on the location of movements, in a similar way to passenger operators. At the same time, the freight community broadly supported Network Rail's proposals to levy a single tariff on freight operators. Given billing and administrative constraints, any system whereby freight operators were not exposed to the same tariff would introduce considerable transactions costs to both operators and Network Rail, and could be considered discriminatory.
As noted in our consultation, we consider that freight operators should be given a discount relative to passenger operators reflecting the 'contractual flex' in Schedule 5. We believe that the level of the discount should be similar to the current level, but will ask consultants bidding for the recalibration work to recommend a specific level of discount.
- The *de minimis* arrangements will remain similar to those currently in place, and cover situations where services have little impact on network performance.
No parties disagreed with the proposal to maintain a de minimis threshold.
- The Capacity Utilisation Index should remain the basis for the capacity charge, if possible.
We received 8 responses concerning this matter, which were all in agreement with the use of the CUI. Many parties would like to see a better metric developed for future use, but accept the use of CUI for the current calibration. Provided that bidding consultants are able to develop detailed CUI data for the recalibration work, the CUI should be used as the basis for the charge.

Several items have not been concluded on to date, and will require further consideration. These include, *inter alia*, the following issues:

- Some freight operators consider that the capacity charge over-recovers costs from freight operators;
- How and whether large timetable changes and the introduction of new services that happen within the control period should be accommodated in the capacity charge;
- Whether and how bespoke charge arrangements could be put in place in exceptional circumstances; and
- How to manage the changes in the capacity charge between CP4 and CP5.

We consider that it is not necessary to conclude on these items in advance of the commencement of the technical work. We will consider these issues in detail and will respond in full in due course.