



OFFICE OF RAIL REGULATION

# Overview of charges

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Variable usage charge workshop, 29<sup>th</sup> January 2014

# Overview

- Role of charges and the charging framework
- Network Rail's income
- PR13 decisions



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# Role of charges and the charging framework

# Role of charges

- ▶ Track access charges provide:
  - ▶ A mechanism for Network Rail to **recover the efficient costs** it incurs in providing infrastructure used by train operators
  - ▶ A means to **allocate costs** to, and be recovered from, those that cause those costs to be incurred
  - ▶ **Price signals** to train operators, their suppliers, and funders to incentivise the efficient use and development of vehicles and the infrastructure
  - ▶ **Incentives to Network Rail** to outperform its regulatory determination (efficiency targets in the revenue requirement)



# Economics of why we regulate Network Rail

- Network Rail does not behave as companies in more competitive markets would. This is due to:
  - **Market Power** – Being in a monopoly position, Network Rail is incentivised to have higher prices and lower outputs, than if it were in a competitive industry;
  - **Externalities** – the rail network is complex and individual companies' use of it is likely to impose costs or benefits on other users and wider society
- Regulatory intervention is often considered to be required to address these market failures

# Division of responsibilities

- ▶ We set the framework for track access charges. In PR13 (which covers April 2014 to March 2019) our key changes are:
  - ▶ Ensuring that Network Rail bears more of the risk of traction electricity transmission losses, which it can manage
  - ▶ Establishing a new “freight specific charge” so that a greater proportion of the costs that freight generates are recovered from haulage of commodities that can bear such an increase – ESI coal, spent nuclear fuel, and iron ore
- ▶ Network Rail is responsible for calculating its track access charges. For PR13 this involved:
  - ▶ A major programme of work with extensive
  - ▶ consultation and industry engagement
  - ▶ Recalibration of charges
  - ▶ New research into track damage (variable usage charge)
    - implies substantially higher charges for some bulk freight, which Network Rail proposed deferring implementing beyond CP5



# Track access charges (1)

- ▶ We have 2 types of track access charges:
  - ▶ Those that will cover **costs directly incurred**
  - ▶ **Mark-ups** that will cover some of the fixed costs

# Track access charges (2)

In PR13, a number of track access charges were set to reflect **costs directly incurred**, which we take to mean short run marginal costs:

Charge	Payable by:	Recovers:
<b>Variable Usage Charge</b>	All operators	Maintenance and renewal costs that vary with traffic
<b>Electrification Asset Usage Charge</b>	All operators of electric vehicles	Maintenance and renewal costs of electrification assets that vary with traffic
<b>Capacity Charge</b>	All operators	Expected increase in performance regime (delay and cancellation) costs incurred by Network Rail as a result of increased traffic on the network
<b>Coal Spillage Charge</b>	All freight operators for coal services	The additional costs incurred through spillage of coal on infrastructure
<b>Traction Electricity Charge</b>	All operators who run electrically powered services	Charges for supplying and consuming electricity for traction



# Track access charges (3)

Track access charges that are set to recover some fixed costs in the form of **mark-up**:

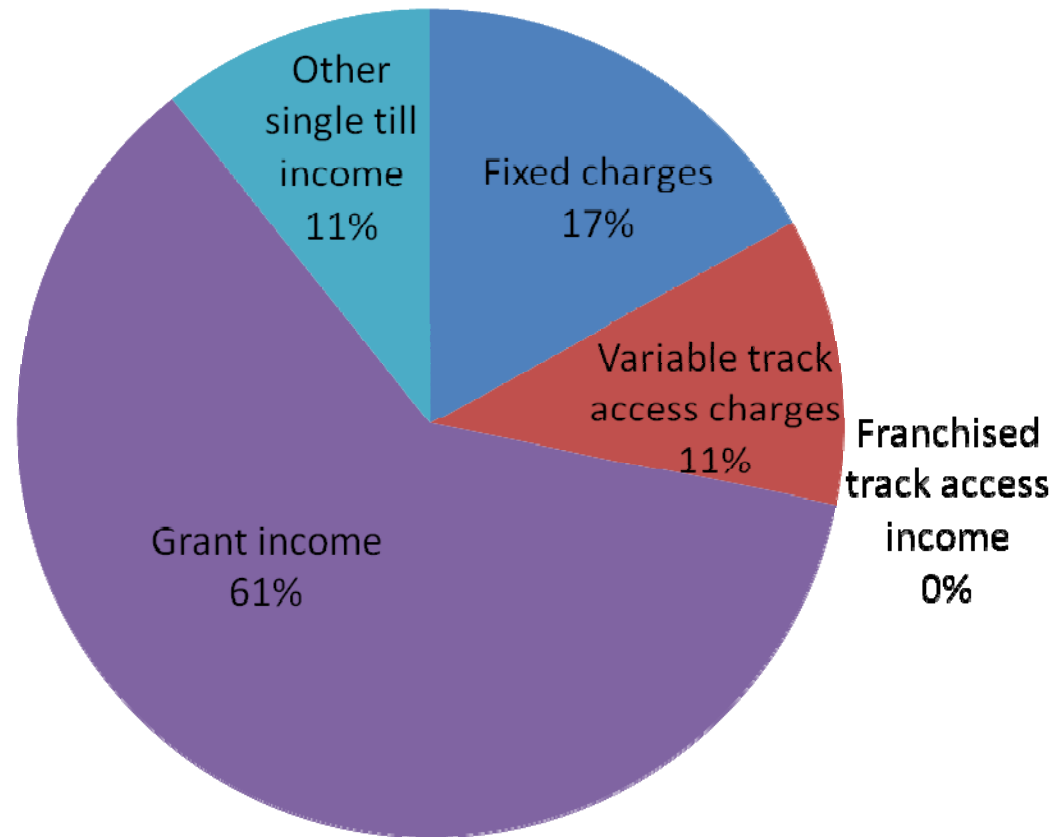
Charge	Payable by:	Recovers:
<b>Freight Only Line Charge</b>	Freight train operators who transport electricity supply industry coal and spent nuclear fuel	Fixed costs associated with freight only lines
<b>Freight Specific Charge</b>	Freight train operators who transport electricity supply industry coal, spent nuclear fuel and iron ore. <b><i>This is a new charge for CP5.</i></b>	Freight avoidable costs not recovered by other charges
<b>Fixed Track Access Charge</b>	Franchised passenger operators only	Remaining income required to meet Network Rails' total revenue requirement



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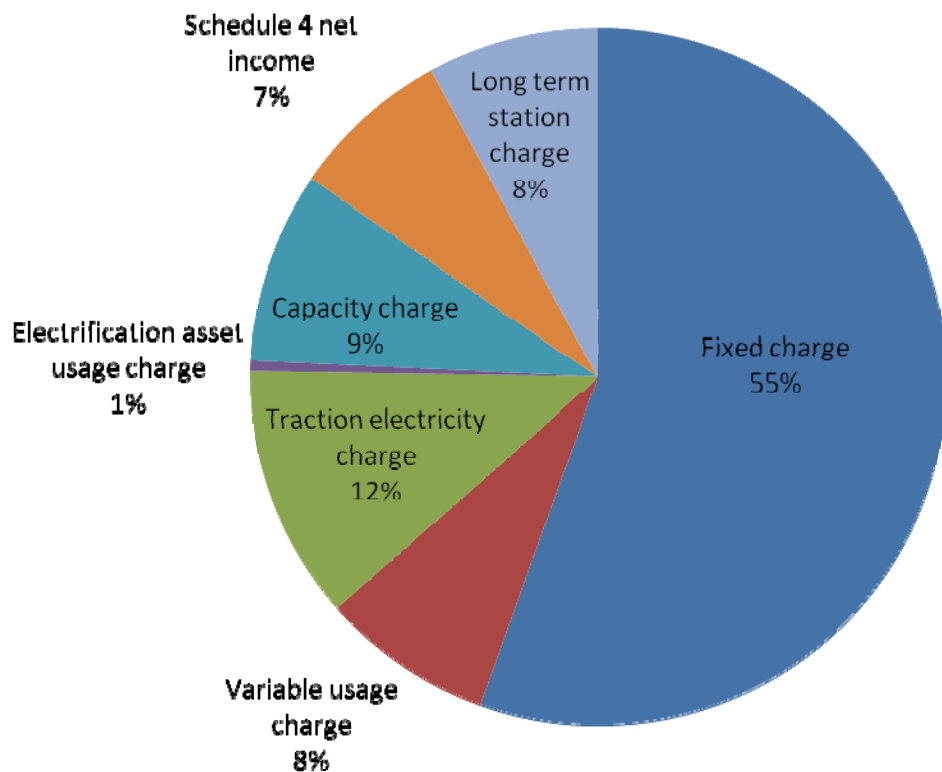
# Network Rail Income

# Network Rail's income for GB in 2012-13: £6.5bn

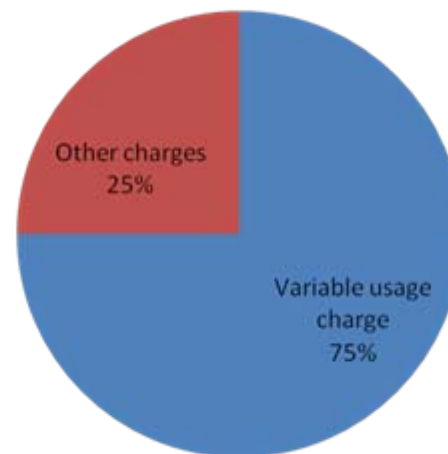


(2012-13 prices)

# Track access charges and station long term charge (2012-13)



£68m income from freight charges (GB total)



(2012-13 prices)

£1.8bn income from passenger charges (GB total),  
£732m of which were from variable track access charges



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# CP5 decisions

# Our decisions on charges for CP5 (1)

- We concluded on accepting new research and evidence on how **variable usage costs** vary by vehicle and that this should be implemented in full from the start of CP5. This resulted in a decrease in the average VUC for passenger operators.
- We recognise that changes to charges can significantly affect passenger and freight operators and their customers. In reaching our decisions we have had extensive discussions with stakeholders, have considered these impacts and have taken pragmatic steps to mitigate them

## Our decisions on charges for CP5 (2)

- Network Rail undertook a major recalibration of the **capacity charge** in PR13. We are implementing the newly recalibrated capacity charge during CP5 and mitigating, where necessary, the impacts of its large increases. Franchised passenger operators will pay the newly calibrated capacity charges in full.
- Currently, around 25% of **EC4T** is billed on the basis of metered consumption, and we expect this to rise to around 50% by April 2015. In PR13, we are further supporting increases in electricity efficiency and reductions in CO2 emissions by refining the EC4T charging framework, which we worked with the industry to establish during CP4, in order to support expansion of on-train metering

# Comparison of charges in CP4 and CP5 for franchised passenger services

Type of charge	Payable in CP5 by	CP4 charge	CP5 charge
<b>Variable charges (pence per vehicle mile, 2012-13 prices)</b>			
VUC (estimated weighted average)	All services	9.60	9.20
Capacity charge (estimated weighted average)	All services	10.23	22.08
EAUC – DC (third rail)	Electrically powered services	0.47	0.72
EAUC – AC (overhead line)	Electrically powered services	1.24	1.62
<b>Charges that do not vary with traffic (£m per year, 2012-13 prices)</b>			
FTAC (total, Great Britain)	All franchised passenger services	913 (for 2011-12)	406 (for 2014-15) to 855 (for 2018-19)
Station LTC – managed stations	Station	22 (for 2013-14)	31.8
Station LTC – franchised stations	Station facility owner GB	134 (for 2013-14)	119.4





# Train operator payments to Network Rail for franchised passenger services by charge (with constant traffic)

Charge (£m a year, 2012-13 prices, 2013-14 traffic)	CP3	CP4	CP5	Change CP4 to CP5
VUC	327	164	157	-4%
Capacity charge	8	174	382	119%
EAUC	43	10	13	35%
EC4T (consistent electricity prices)	221	221	221	0%
<b>Total, variable charges</b>	<b>600</b>	<b>569</b>	<b>774</b>	<b>36%</b>