

# ORR workshop on access charges framework

Engagement with charter operators

1 October 2024

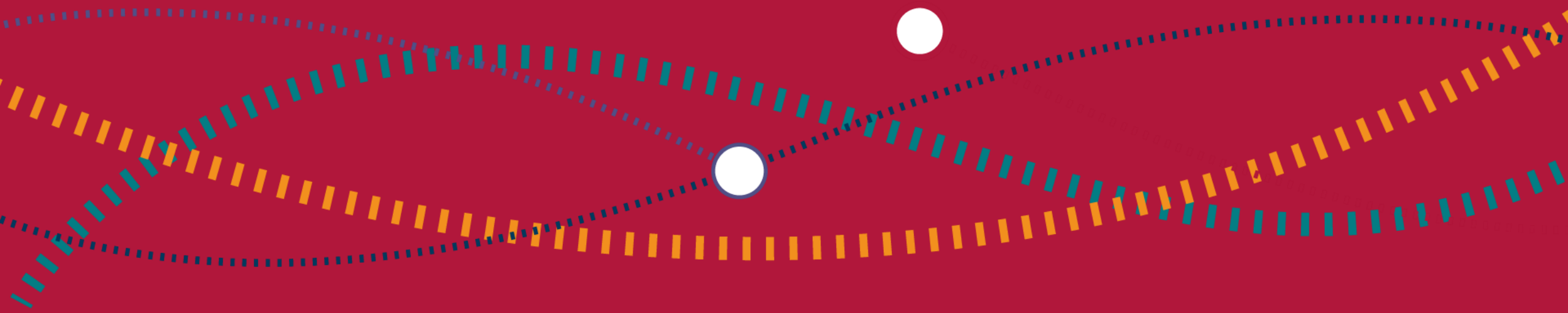


# Welcome

## Agenda

No.	Item	Presenter	Time
1	Introductions & context of the review	ORR	10:00–10:10
2	Scope of the review	ORR	10:10–10:20
3	Variable Usage Charge	ORR	10:20–10:45
4	Charter slot charge	ORR	10:45–11:10
5	Wrap-up	ORR	11:10–11:20
6	Next Steps	ORR	11:20–11:30
7	Questions	ORR	11:30–11:45

# Context of the review



# Background to this workshop

- Setting access charges is central to the periodic review.
- During PR23, questions were raised around the purpose, complexity, transparency and incentive properties of access charges.
- Simplification is expected to be a key theme of PR28.
- Some methodological issues with the setting of charges were identified including the complexity of the analysis that informs the calculation of charges, lack of clarity around the cost-base and the treatment of efficiency.

**In our PR23 final determination, we committed to start working with stakeholders early in CP7 to better understand these issues to support developing solutions.**

**This workshop is aimed at gathering preliminary views to inform our planned consultation in early 2025 on potential options for changes to the access charges framework, ahead of the launch of PR28 in 2026.**

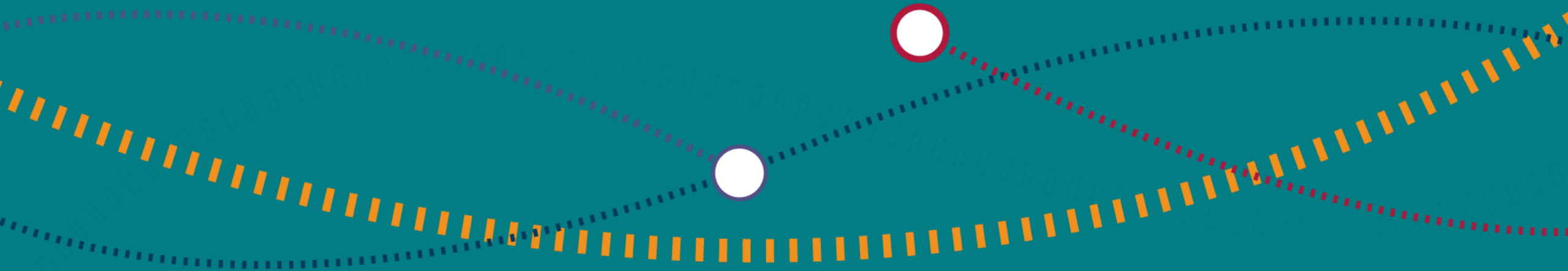
# Wider context

- If enacted, the Passenger Railway Services (Public Ownership) Bill will allow for passenger service operations to be transferred into public ownership when current national rail contracts end.
- Rail reform will bring track and train services together under Great British Railways.
- Commercial relationships between funders, Network Rail/Great British Railways/Train operating Companies will change. This may create opportunities to simplify the charging framework.

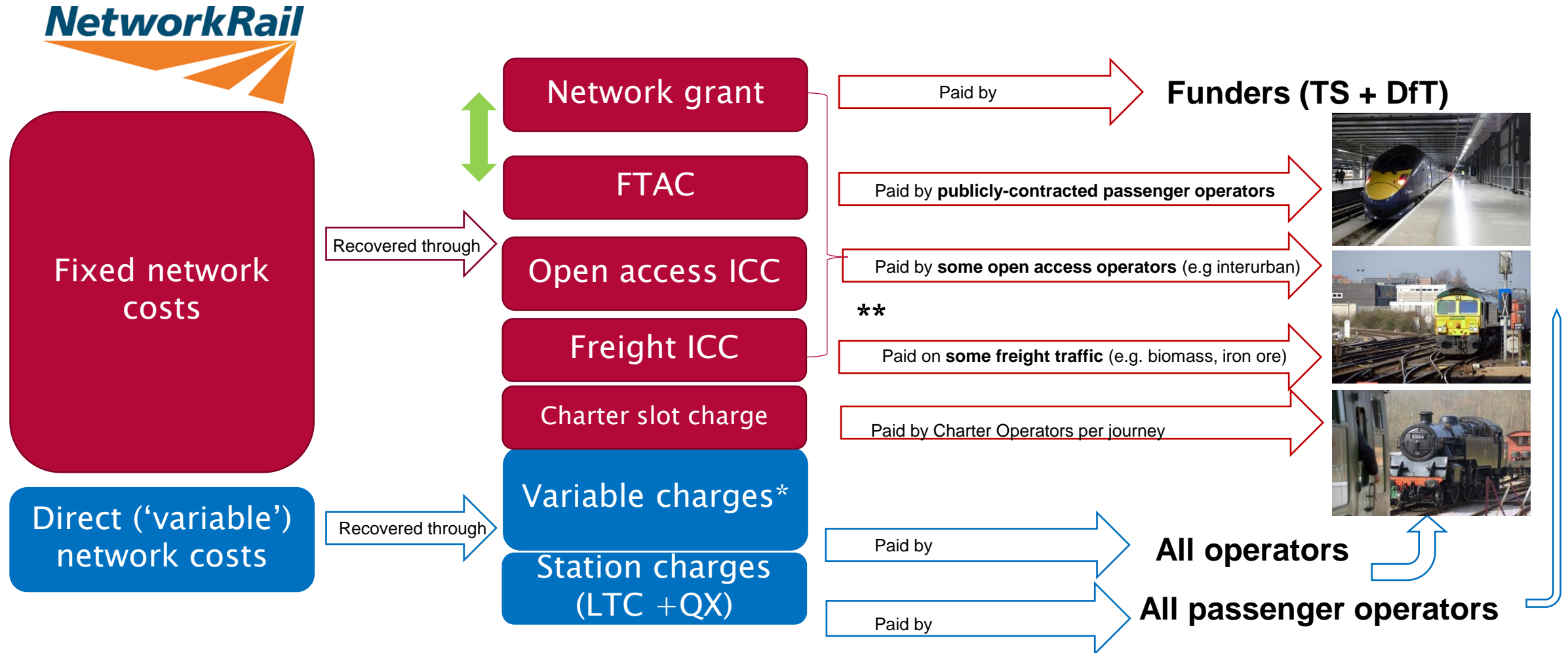
## Assumptions

- There is a periodic review which concludes in advance of the five-year period starting April 2029 (CP8).
- There will be train operators outside of GBR – most obviously freight, open-access and charter but also those with separate public funders.
- New legal framework ensures that the infrastructure arm of GBR charges operators for use of its network, according to the charging framework set by ORR.

# Objectives and scope of the review



# Network Rail's charging framework



\* These are calculated on a cost-reflective basis

\*\* Mark-ups – these are charges levied according to what the market can bear

# Current CP7 charges framework

Charges paid by operators	Recovers	CP7 total revenue forecast (£m, 2023–24 prices)	Proportion of CP7 total revenue forecast (2023–24 prices)
Fixed Track Access Charge (FTAC)	Income required to meet Network Rail’s revenue requirement (net of other charges, grant payments and commercial income)	6,606	14%
Infrastructure cost charge (ICC) for freight	A proportion of Network Rail’s fixed costs, based on an assessment of what contribution to fixed network costs each freight market segment can bear—ESI coal; iron ore; spent nuclear fuel; and ESI biomass.	26	0%
Infrastructure cost charge (ICC) for Open Access Operators	A proportion of Network Rail’s freight fixed costs, based on an assessment of what contribution to fixed network costs each open access market segment can bear (interurban and major airports)	25	0%
Variable Usage Charge (VUC)	Maintenance and renewal costs that vary with small changes in traffic	2,069	4%
Traction Electricity Charge (EC4T)	Cost of supplying electricity to power electric trains	4,964	10%
Electrification Asset Usage Charge (EAUC)	Maintenance and renewal costs of electrification assets that vary with traffic	140	0%
Station LTC	Maintenance, renewal and repair costs for stations owned by Network Rail	1,726	4%
QX charge (managed stations)	Day-to-day running and operation costs of stations.	568	1%
Other (including, but not limited to the Charter Slot Charter)		3,347	7%



# Charging framework objectives

A charging framework should help achieve the following:

- (1) Incentivise **performance and efficient** use of the network – variable charges should reflect the efficient costs that are directly incurred.
- (2) Support **asset and financial sustainability** – this is achieved not only by variable charges recovering directly and efficiently incurred costs, but also by ensuring that market segments that can bear a mark-up contribute to efficiently incurred fixed costs.
- (3) **Practicability and simplification** – not unduly complicated and should minimise the risk of unintended consequences.
- (4) **Transparency and predictability** – readily explainable.

We anticipate that rail reform will present an opportunity to consider simplification to the charging regime. We will ensure that the benefits of complying with and implementing any adjustments to access charges are proportionate to their costs.

# Scope of the review (1)

To meet these objectives, we are considering focusing on the following areas ahead of PR28

## VUC (4% of Network Rail's CP7 income)

- Capping policy for freight and charter
- Reducing complexity of the calculation of the charge
- Incentive properties of the VUC

## VUC price list simplification

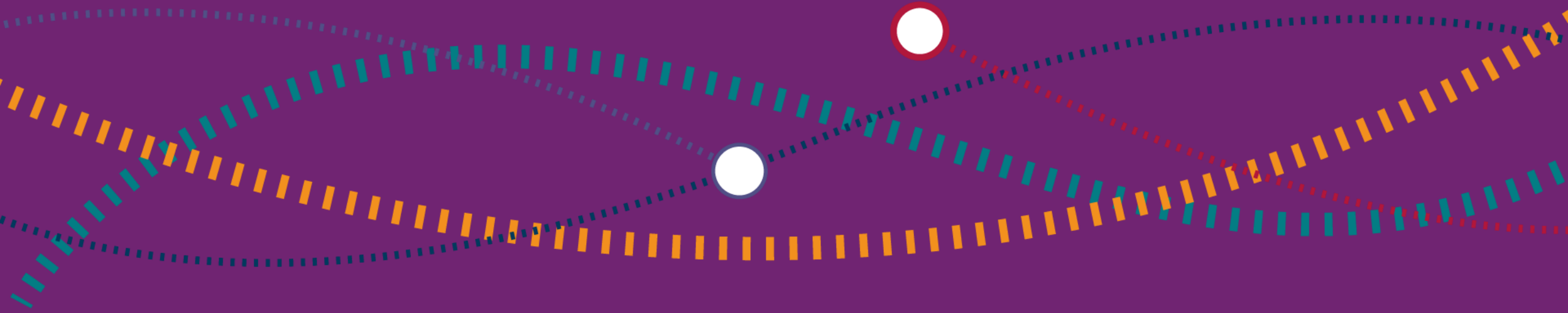
- Both calculation and presentation

## Scope of the review (2)

- We anticipate there may be opportunities to simplify the charging framework given the expected rail reforms.
- We currently are **not considering changes** to the charging frameworks for **EC4T** and **EAUC** as no specific issues requiring framework changes were raised around these charges during PR23.

**Do you agree with the objectives and our proposed scope?**

# Variable usage charge (VUC)



# Potential changes of approach for VUCs

## Capping policy for freight (and charter) & improving robustness and transparency of cost modelling

### 1. Review freight (and charter) capping and phasing-in policy

- In PR23, we maintained the capping trajectory set in PR18 for VUC rates paid by freight and charter in CP7, rather than increasing to higher new cost-reflective rates.
- In our final determination, we said VUC rates will increase to become fully cost-reflective by the end of CP8 (i.e. the remaining caps will be unwound over CP8).

### 2. Review cost base and robustness of modelling

- Improve the engineering modelling/methodology, including the track damage formulae.
- Assess validity of inputs and assumptions used.
- Review expected costs incurred that are used to set charges (long term costs vs control period).

# Charter specific VUC

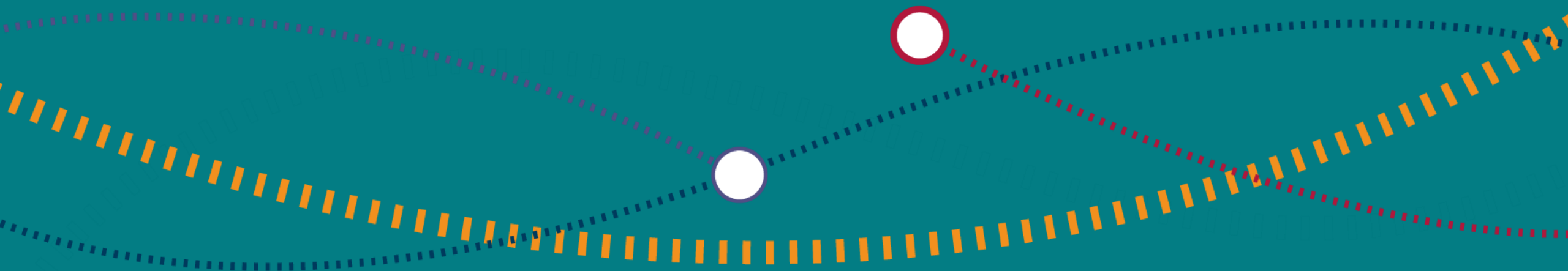
We propose no changes to the way charter specific VUCs are calculated on a per train basis.

- Unlike other passenger operators, charter operators' VUC rates are levied “per train” rather than “per vehicle”.
- Network Rail assume a typical charter train and the formation of the rolling stock it consists of:
  - One locomotive, plus 11 Mark 1 coaches.
  - The steam locomotive rate should reflect a weighted average of the published rates for a Class 98/5 and Class 98/8 steam locomotive with a 2:1 weighting in favour of the Class 98/8 based on frequency of use.
  - The non-steam locomotive rate should reflect the weighted average of the published rates for a Class 47 and Class 67 locomotive, with a 2:1 weighting in favour of the Class 67 based on frequency of use.

# Discussion questions

- a) Do you agree with the above assumptions regarding the vehicles and the weights used to calculate the VUC for charter? If not, what are your suggestions?
- b) We are minded to move to cost reflective rates for charter over CP8. What are your views about this?
- c) Apart from the areas we have identified above to improve the simplicity and transparency of the VUC, are there other areas you think we should work on as well?
- d) Does the VUC influence your choice of operations or rolling stock?

# Charter slot charge





# Charter slot charges

The purpose of the charter slot charge is to recover Network Rail's costs for activities undertaken specifically for charter services for which it is not otherwise funded. This includes gauging activities, maintenance and operational costs, such as paying for additional operational staff to operate ground frames for charter trains to access branch lines.

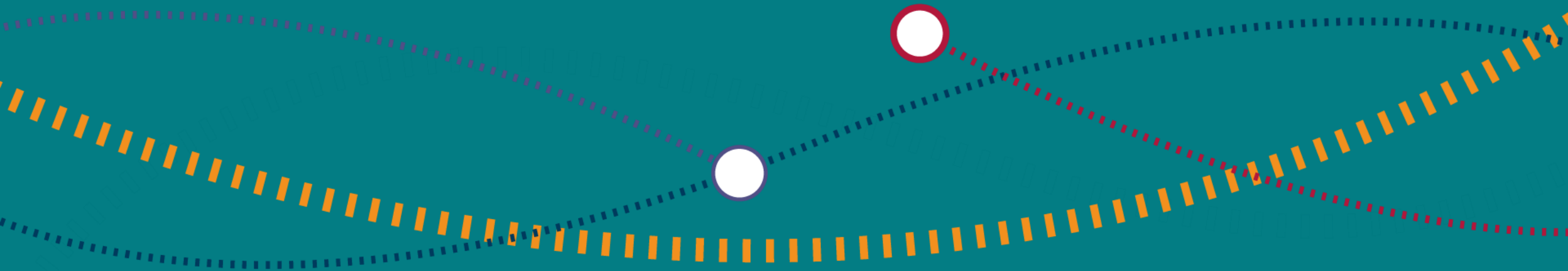
In CP7 charges were set per bid for three types of service:

- Loaded Train or Empty Coaching Stock (ECS) Train hauled by Diesel or Electrical Equipment consisting of an Electrical or Diesel Multiple Unit.
- Train hauled through or in part by Steam Driven Equipment.
- Repeat business slot charge.

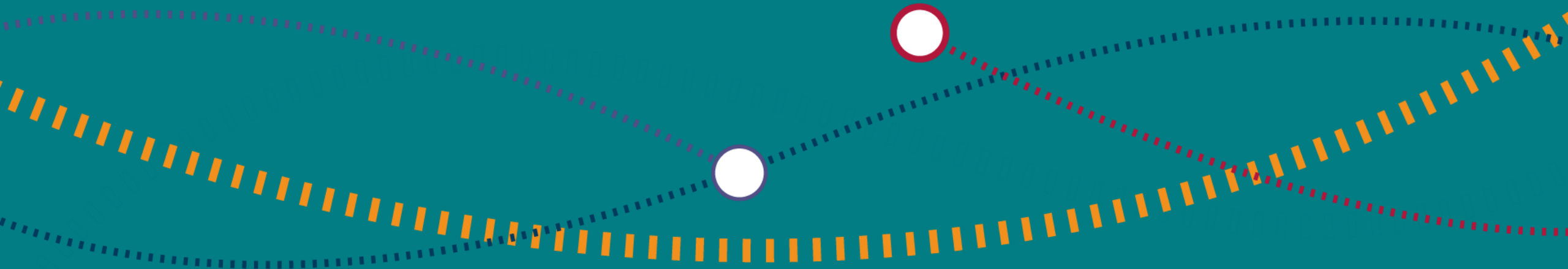
# Discussion questions

- a) Do you support the retention of the charter slot charge in its current form?
- b) Do you have any suggestions for further ways in which the overall pricing structure could be simplified?

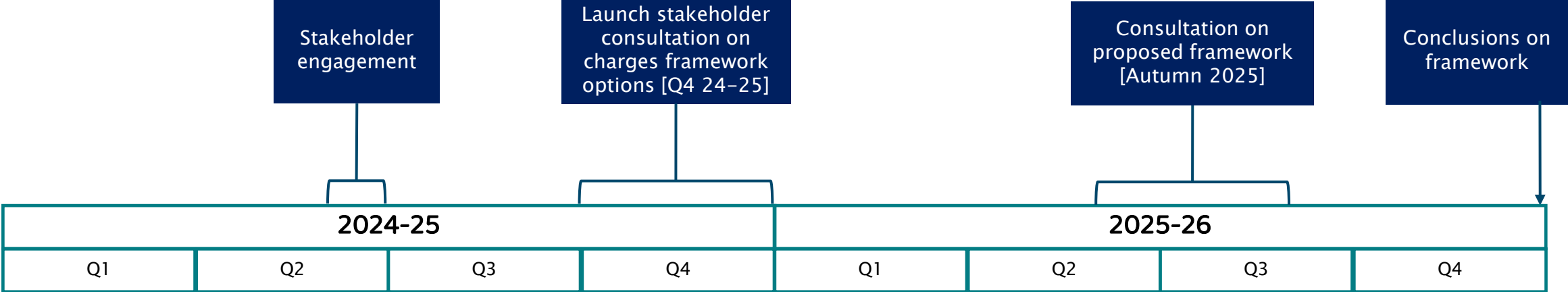
# Wrap-up



# Next steps



# Timeline for review of access charges framework



# Post workshop engagement

- A summary of the key findings/emerging themes from the workshop will be sent out to all invitees.
- There will also be an opportunity after the workshop to provide a written response to help inform the review. Stakeholders who wish to do so can send their responses to the following email:  
[prm@orr.gov.uk](mailto:prm@orr.gov.uk)
- We will be updating our webpage dedicated to the access charges framework review with relevant materials as this review progresses.

# Questions

