Annex 2

PR23: Impact assessments on changes to the charging framework

October 2022

The following impact assessments support our policy conclusions on the PR23 charging framework, as set out in this document.

Impact assessment on removing the FTAC wash-up

Policy area	FTAC wash-up mechanism
Background	The Fixed Track Access Charge (FTAC) is an annual charge set as part of a periodic review before the start of each control period. In PR18, we decided to introduce a volume incentive mechanism known as the "FTAC wash-up", which adjusts an operator's annual FTAC in proportion to variations in timetabled train miles. However, the introduction of this mechanism in CP6 was initially delayed due to the May 2018 timetable problems. In 2020, following the COVID-19 pandemic, we decided not to implement this mechanism in CP6. We said that we would review the value of this mechanism as part of PR23.
Proposed change to charging framework being considered	We have considered removing the FTAC wash-up mechanism for CP7, such that the FTAC continues to be set as a lump-sum charge based on forecast traffic levels at the start of CP7. As explained above, this mechanism was not introduced for the start of CP6 and has since been suspended for the whole of CP6. This means that removing the FTAC wash-up would be tantamount to *maintaining* the existing approach to setting the FTAC. However, as this remains in Schedule 7 of operators' track access contracts (with the difference between baseline and timetabled traffic effectively set to zero), removing this mechanism (and amending track access contracts accordingly) would constitute a change to the existing charging framework.
Impacts on affected parties (relative to making no change)	
(1) Network Rail	**Efficient network use:** A key objective of this mechanism was to create a stronger financial incentive on Network Rail to add capacity to the network during CP6, to meet growing demand for passenger services (particularly in light of the removal of the capacity charge as part of PR18). During PR18, Network Rail agreed that linking its recovery of fixed costs to traffic levels would improve its financial incentives to add traffic to the network. However, since the COVID-19 pandemic, passenger demand on the network has been significantly reduced. Although passenger numbers have since been rising, overall passenger numbers remain below levels

	at the beginning of CP6. Accordingly, the need to incentivise Network Rail to accommodate new services has therefore been reduced (relative to when we introduced the FTAC wash-up mechanism as part of PR18). Furthermore, while removing this wash-up mechanism removes a *financial* incentive for Network Rail to accommodate additional services, we consider that our regulation of Network Rail's System Operator (SO) function will help to ensure that Network Rail makes efficient use of capacity on the network. We have consulted on our approach to regulating the SO during CP7 and the range of measures that could be used to monitor its performance, and we will continue working during the rest of PR23 to develop appropriate measures. We consider this will mitigate any impact on Network Rail's incentives of not reintroducing the FTAC wash-up mechanism for CP7. In the longer-term, industry reform may further diminish the need for a separate financial incentive to grow passenger volumes. Under a reformed industry structure, Great British Railways (GBR) is expected to let and manage the passenger rail contracts currently awarded by the UK Government. Decisions by GBR on the specification of these services may be expected to take account of the cost and revenue impacts of more intensive network use, including the benefit of higher revenues from accommodating more passenger services on the network. A mechanism such as the FTAC wash-up is therefore less likely to contribute to better network use under this future industry structure. **Ensuring cost recovery:** Removing the FTAC wash-up mechanism would provide Network Rail with slightly greater certainty over recovery of its fixed costs, as its FTAC income would be fixed at the start of CP7. However, the original FTAC wash-up mechanism was designed to mitigate the risk of a shortfall in recovering costs, for instance by setting a floor of 5% across the control period for the percentage decrease in timetabled traffic that is reflected in the adjustment to FTAC. As such, this is only a minor benefit of removing the FTAC wash-up mechanism.
(2) Passenger operators currently paying FTAC	**Efficient network use:** In PR18, we considered the FTAC wash-up mechanism would provide passenger operators which pay FTAC with an incentive to consider the long-run fixed costs caused by adding new services to the network. However, the move to concession-style agreements has blunted the incentives on these operators to respond to the FTAC wash-up mechanism. This is one of the reasons that we suspended this mechanism for the rest of CP6. We expect this to continue to be the case in CP7, given that concession-style agreements are likely to continue to be the dominant model of contracting passenger services over this period. This means that the structure of the FTAC is unlikely to materially affect incentives for these passenger operators, and therefore removing the wash-up mechanism is unlikely to materially influence decisions taken by these operators.

	Financial impacts: We would not expect particular passenger operators to pay more or less by way of FTAC, as a result of this change, as this depends on whether future service levels in CP7 deviate from forecast traffic baselines (and the extent to which they deviate from these baselines). All other things being equal, this proposal would provide operators with slightly greater certainty over their CP7 FTAC payments.
(3) Other impacts	The FTAC wash-up mechanism is more complex to implement than a fixed charge, given the need to agree timetabled traffic baselines. This process involved significant work at the beginning of CP6 (before we decided to suspend the mechanism for the current control period). Repeating the process for CP7 would likely involve additional time and resource for industry, particularly given the continued uncertainty around likely passenger demand levels as the industry recovers from the COVID-19 crisis (which would complicate the process of setting baselines in advance of CP7). Removing the FTAC wash-up would therefore alleviate the associated administrative burden for industry. Given that the mechanism has not yet been fully operationalised, it would also avoid the need for any transitional costs that may still need to be incurred (e.g. by Network Rail to amend its billing systems) to do so.
Recommendation	Remove the 'wash-up' component of the FTAC calculation, such that the FTAC continues to be set as a lump-sum charge at the start of CP7. We consider that this will simplify the current charging framework and reduce the administrative burden of calculating and levying the FTAC, without materially affecting parties' incentives in respect of network use. It is also likely to be more consistent with the future industry structure that is envisaged under the UK Government's rail reform programme.
Next steps	Amend the formula for the calculation of the Fixed Track Access Charge in Schedule 7 of passenger operators' track access contracts.

PR23: Impact assessment on removing the PFM charging approach for EC4T

Policy area	PFM charging approach for EC4T
Background	The traction electricity (electric current for traction, or EC4T) charge is paid by all operators who use electricity to power trains. Partial Fleet Metering (PFM) is an approach used to calculate the EC4T charge. It was introduced into the Traction Electricity Rules (TERs) in PR13 and can be used by operators whose fleet is partially metered. Under this charging approach, the consumption from an operator's metered trains is extrapolated to estimate their consumption for the unmetered trains. In this way, it allows for observed metered consumption to be used to calculate EC4T charges for unmetered trains.
Proposed change to charging framework being considered	Although the PFM charging approach was introduced in PR13, no operator has opted-in to PFM since then. We have therefore considered removing the PFM charging approach for CP7. This would require a change to the TERs.
Impacts on affected parties (relative to making no change)	
(1) Network Rail	We do not expect this proposal would have major impacts on Network Rail. As noted above, no operator has taken up the PFM charging option since its introduction in PR13. We understand that Network Rail's OTM billing system does not currently charge on the basis of PFM, so there would be no further changes required if this charging option is removed. We also note that Network Rail has expressed support for this proposal in its responses to our PR23 charges review consultations.
(2) Operators of electrified services	**Cost-reflective charging:** In principle, PFM can provide a more accurate estimate of operators' EC4T consumption than using modelled consumption. However, as noted above, no operator has taken up the PFM charging option since its introduction in PR13. Furthermore, all respondents to our July 2021 consultation who commented on this issue supported the removal of PFM, and no operator has expressed any interest in adopting PFM in future. We therefore consider that removing PFM is unlikely to have an impact on the overall cost reflectivity of the

	EC4T charge in CP7, relative to the status quo, as we do not envisage any take-up of PFM during the next control period. **Incentives to adopt on-train metering (OTM):** One of the aims of PFM was to reduce the costs associated with OTM, as PFM has lower costs of meter installation and maintenance than full metering. The PFM approach was designed so as not to undermine incentives to meter all services (e.g. through the degree of exposure to the volume wash-up). We have considered the potential impact of this proposal on operators' incentives to meter their services. We are not aware of any evidence suggesting that the availability of PFM has had any influence on train operators' incentives to take up OTM. This is reflected in the fact that no operator has so far taken it up (and the prospect of future take-up appears to be low). As such, we do not consider that removing PFM is likely to discourage the use of full OTM.
(3) Other impacts	**Complexity / administrative burden**: We consider that removing PFM would simplify the EC4T charging framework and the TERs. We understand that a lack of take-up of PFM may be partly to do with the fact that PFM is a complex charging approach, which involves calculating a specific consumption rate both for year 1 of PFM, and for year 2 (and subsequent years). Furthermore, removing this charge is likely to make the TERs more user-friendly, and also make it easier for industry to understand the overall EC4T charging framework (as it will reduce the available charging approaches to two options). This impact may be reinforced by our intention to also remove the facility to obtain new modelled consumption rates, which means that new services will have a clear choice to either opt into metered consumption, or else use an existing default (or possibly generic) modelled consumption rate.
Recommendation	Remove the PFM charging approach from the TERs. This means that EC4T charges in CP7 would be calculated using either metered or modelled consumption rates. We consider that removing this charge will simplify the current EC4T charging framework and the TERs, and, given the low prospect of take-up of PFM, is unlikely to have any other impacts on how this charge is administered. We also do not consider it will affect operators' incentive to increase use of OTM.
Next steps	During the rest of PR23, we will continue to monitor whether there is any take-up of PFM, and whether there has been any change in the prospect of its potential use in the future.

	Subject to that, we will confirm our decision to remove the PFM charging approach later in PR23. We would then amend the TERs (Section 14) to remove the PFM charging option for CP7.

PR23: Impact assessment on removing the Loss Incentive Mechanism from the EC4T volume reconciliation

Policy area	Loss Incentive Mechanism
Background	The loss incentive mechanism was introduced in PR13 with the purpose of financially incentivising Network Rail to reduce traction electricity transmission losses. At the end of each financial year, there is an EC4T volume reconciliation between Network Rail and operators using modelled EC4T consumption. The volume reconciliation process is also referred to as the volume 'wash-up' and consists of comparing the volume of electricity consumed with the total volume of electricity supplied into the system (for each billing area, known as an electricity supply tariff area (ESTA)). Where differences in total modelled EC4T consumption and total actual consumption are observed, a proportion of the difference will include transmission loss. The loss incentive mechanism allocates a proportion of this difference to Network Rail (in addition to its own share of consumption), and is intended to reflect the proportion of EC4T costs for which it has control through efficient management of transmission losses.
Proposed change to charging framework being considered	In PR18, we considered removing or reforming the loss incentive mechanism. We decided to retain the existing arrangements for the volume wash-up, including this mechanism, for CP6. We published an impact assessment setting out the basis for this decision. As part of PR23, we have reconsidered whether we should remove the loss incentive mechanism for CP7 (particularly in light of how it has affected the volume wash-up process during CP6 so far). This would require a change to the volume wash-up in the Traction Electricity Rules.

Impacts on affected parties (relative to making no change)	
(1) Network Rail	**Financial impacts:** This proposal would result in a change to the volume reconciliation formula such that Network Rail is not allocated an additional proportion of wash-up volumes to reflect transmission losses. The volume wash-up would instead be shared in proportion to modelled consumption. In practice, this would stop Network Rail from retaining an unearned amount of money that it currently retains from the volume wash-up due to this mechanism. This issue arises because of inaccuracies in estimating modelled consumption rates and metered operators' uplift due to the currently too high distribution system loss factors (DSLFs), which means that Network Rail ends up billing operators for more power than it purchased. Consequently, during the end of year volume wash-up, Network Rail must pay back to operators participating in the wash-up. In the process, Network Rail is allocated (and reimburses operators for) a *lower* volume of electricity than if the mechanism did not exist. These amounts have been larger in recent years – for instance, Network Rail retained £5m and £8m respectively in the last two years of CP5, and an average of £3.8m so far in CP6, compared with £2.7 million and £2 million in the first two years of CP5 (when we last assessed this). **Incentives to reduce transmission losses:** The loss incentive mechanism was designed under the assumption that wash-up payments would flow from operators to Network Rail, with higher transmission losses therefore resulting in lower wash-up payments to Network Rail. In practice (as explained above), the opposite is typically the case, with payments flowing from Network Rail to operators. This means that Network Rail gets to keep some of the difference between modelled and actual consumption (the amount of which increases in proportion with transmission losses), which is the opposite of the incentive that the mechanism was intended to create. As such, the mechanism is not achieving its intended purpose. We consider that until errors within modelled rates and DSLFs are fully eliminated, this outcome will continue to exist. We note that Network Rail recalibrated DSLFs as part of the PR18 recalibration process, to improve their accuracy, but this issue has so far persisted during CP6. Network Rail has recalibrated DSLFs again for CP7 and will include this in its recalibration consultation. However, as these estimates are derived from an engineering model, we do not expect them to be fully accurate. Moreover, Network Rail has argued that there are no major cost-effective interventions it can make to reduce transmission losses in the short-term. This is based on studies that Network Rail has undertaken to consider how to efficiently manage transmission losses, which indicate that significant reductions in transmission losses in the long-term would require large-scale changes in electricity supply assets. This implies that,

	even if this mechanism was redesigned to address the issues discussed above, it is not clear that the degree of financial exposure would have a material impact on Network Rail's incentives. We noted in PR18 that the effect of the incentive created by the loss incentive mechanism may take several years to materialise. However, we do not consider that there is any greater prospect of this mechanism incentivising efficient management of transmission losses now than when we last reviewed this. Overall, for these reasons, we do not consider this mechanism is providing strong incentives to reduce transmission losses and we do not consider that removing it would have a significant impact in this area.
(2) Operators of electrified services	**Financial impacts:** As discussed above, this mechanism would result in the volume wash-up being shared in proportion to modelled consumption. In principle, this means that modelled operators have a greater exposure to the volume wash-up. However, for the reasons, explained above, the mechanism has in practice had the unintended consequence of moving a small amount of money from operators to Network Rail. As such, removing the mechanism would therefore be expected to save operators some money, compared to existing arrangements. In doing so, it would mean that total EC4T charges are more reflective of the actual electricity costs that operators incur in using electrified parts of the network. **Incentives to adopt on train metering (OTM):** To the extent that this proposal improves current volume wash-up arrangements for operators, and reduces their payments, this could in theory have a slight disincentive to move from modelled EC4T consumption to OTM. However, we do not consider this is likely to be material in practice, as there would still be a benefit to being exempt from the year-end financial risk associated with the volume wash-up.
(3) Other impacts	**Administrative burden:** Removing the loss incentive mechanism should simplify the calculation of wash-up payments in the volume reconciliation process. This may be expected to save some industry resources on the part of Network Rail and operators, particularly as the wash-up can be a time-consuming and complex process.
Recommendation	Remove the loss incentive mechanism from the EC4T volume wash-up. We consider this will simplify the calculation of EC4T payments and remove the current issue whereby payments are inadvertently made to Network Rail, and will not have a material impact on Network Rail's incentives to minimise transmission losses.
Next steps	We will amend the volume reconciliation formula in the TERs (Section 18). In the longer term, we will continue to consider effective ways to reduce transmission losses on the network.

PR23: Impact assessment on amending station LTC categories

Policy area	Station LTC methodology
Background	The station long term charge (LTC) allows Network Rail to recover the cost of maintaining, repairing and renewing (MRR) operational property and station information and security systems (SISS) at stations. The methodology for calculating each station LTC varies, depending on whether the station is a 'managed' station (i.e. stations that Network Rail operates day-to-day) or a 'franchised' station (stations that Network Rail has leased to a train operator). The key difference in approach is that for managed stations the charge is calculated on a station-specific basis, while for franchised stations a route-level forecast is developed and then allocated to specific stations based on a set of station categories, which is itself based on passenger usage (this is known as a "category averaging" approach). There are currently 20 managed stations on the network. These are some of the largest and most complex stations on the network, though some franchised stations are larger than some existing managed stations in terms of passenger footfall.
Proposed change to charging framework being considered	We have considered amending the LTC calculation methodology for the largest / most complex franchised stations such that they are also based on station-specific expenditure forecasts i.e. they are calculated in a similar way to existing managed stations. This proposed change requires us to determine specifically which franchised stations should be classified as large / complex. We have considered the following definitions: • Option A: The six busiest stations in each of Network Rail's five regions, measured by passenger usage (i.e. 30 stations in total); • Option B: Option A, adjusted to take account of the different distributions of station sizes between regions, such that slightly more stations in the Southern region are included, and slightly fewer stations in the Scotland and Wales & Western regions. These options are set out in Table 4.1 of our April 2022 consultation. As Option B was our preferred definition in our April 2022 consultation, we have firstly considered the impacts of this proposal relative to the status quo. We have then considered the impacts of Option A relative to Option B.

Option B: Impacts on affected parties (relative to making no change)	
(1) Network Rail	**Ensuring efficient cost recovery**: This proposal should not affect Network Rail's ability to recover its total station expenditure. This is because Network Rail's overall expenditure forecasts are both set to recover its total station MRR costs, so it should not be affected by the precise number of station LTCs that are underpinned by either approach. **Complexity / administrative burden:** This proposal will require Network Rail to calculate station-specific expenditure forecasts for slightly more stations on the network. This is likely to carry an administrative cost. However, as the increase in the number of stations is relatively modest (i.e. 13 new stations that currently follow the category-averaging approach), we consider this will be moderate. Network Rail has said it is supportive of a modest increase in the derivation of station-specific LTCs from 20 to 30 (i.e. 10 additional stations).
(2) Passenger operators (and commissioning authorities)	**Financial impacts:** This proposal is likely to result in changes to LTCs at stations that are moving from a category-averaging to a station-specific approach, as the basis for their LTCs will change. As noted above, there are 13 such stations included in Option B[1]. This could result in higher LTCs for these stations, as they have been identified as the largest / most complex stations. Although the specific magnitude of any impact is uncertain at this stage, we have considered the likely magnitude. We note the following points in this regard: • Firstly, these stations are already being allocated a relatively high share of route-level MRR costs due to their relatively high station footfall. This means that the annual LTCs for eight of these 13 stations are within £215,000 of the lowest LTC for the existing set of managed stations (for which LTCs are currently set using station-specific forecasts). • For the other stations – Highbury & Islington (in the Eastern region); Vauxhall and Wimbledon (in the Southern region); and Glasgow Queen Street (low) and Glasgow Central (low) in the Scotland region – the existing LTC is significantly lower than the range of LTCs for existing managed stations. The financial impact might therefore be expected to be greatest for passenger operators using these stations. • For four of these five stations, the passenger operators calling at these stations are contracted by funders, so are likely to pass through any impacts of changes in LTCs back to this funder, which would mitigate the specific impact on these individual passenger operators.

[1] This counts Glasgow Central High / Low as separate stations, and Glasgow Queen Street High / Low as separate stations, as these have separate LTCs.

	• Arriva Rail London (ARL) calls at the fifth station (Highbury and Islington). ARL is commissioned by TfL, who would therefore be affected by a change to the calculation methodology for this station LTC. Based on a comparison of passenger usage at Highbury and Islington station with similar managed stations, and an estimate of ARL's proportion of calls at this station, we estimate that the impact on its LTC could be in the region of £1-2 million per year. • However, the impact on ARL's (and other passenger operators') *overall* LTCs would depend on its use of these stations relative to other stations. This is because removing these stations from the category-averaging approach would be likely to *lower* LTCs for other stations in the relevant station category in that region/route. As it is likely that passenger operators will call at both types of station with some frequency, this would tend to offset any financial impact. Additionally, over time, we consider this will increase transparency of, and allow for increased scrutiny over, Network Rail's costs at its major stations. As discussed below, this should serve to strengthen incentives for Network Rail's station management to be more cost-efficient and ultimately reduce MRR costs for these stations. **Cost-reflectivity:** This proposal can lead to more accurate and cost-reflective station LTCs for two reasons. Firstly, it will result in a slight increase in the number of station specific LTCs (from 20 to 32), where the charge would be expected to more closely reflect long-run MRR costs at that specific station[2]. Secondly, it removes these stations from Network Rail's region/route-level forecasts, which means that station LTCs for other stations are more likely to be reflective of average expenditure for the stations in the relevant category for that region/route. We consider that a move to more cost-reflective station charging – even if this is relatively modest – is beneficial. This is because it can in principle result in more efficient network use, by prompting operators to consider the long-run costs that are caused by their use of stations (though, in practice, most passenger operators' calling patterns are tightly specified in contracts and therefore not heavily influenced by station access charges, so this benefit is likely to be marginal).
(3) Station Facility Owners (SFOs)	**Financial impacts:** At franchised stations, Network Rail levies the total LTC on the SFO at that station, rather than individual passenger operators. However, as SFOs then recover a proportion of the LTC from other operators that call at the station, in line with each operator's share of vehicle departures from the station, the SFO is in practice only liable for a portion of the LTC. We therefore consider that the impact on SFOs

[2] It would also result in the LTC for one existing managed station – Guildford – moving into the category average set of stations, which would reduce cost reflectivity for this station. This reflects that Guildford is a smaller station in terms of passenger usage. On balance, across Network Rail's whole station portfolio, the proposal will increase the cost reflectivity of LTCs.

	is broadly similar to the impact on individual passenger operators as described above.
(4) Other impacts	**Cost efficiency:** Under this proposal, Network Rail will derive station-specific expenditure forecasts for more of the largest / most complex stations on the network, where the associated MRR activities are likely to be highest. We consider that increasing transparency over Network Rail's expenditure at these stations can allow for greater scrutiny over its costs, which can, over time, serve to strengthen incentives for Network Rail's station management to be more cost-efficient.
Option A: Impacts on affected parties (relative to Option A)	
In general, the impacts of Option A will be very similar to Option B. This is because the two definitions are very similar in practice. The only differences are that Option B includes five stations not included in Option A (Brighton; Gatwick Airport; London Cannon Street; Vauxhall; and Wimbledon) and excludes three stations included in Option A (Bath Spa; Oxford; Paisley Gilmour Street). We consider that Option B will better reflect those stations where total MRR expenditure is likely to be greatest. This is because the stations included in Option B (not Option A) accommodate greater passenger numbers than those excluded from this definition. At the same time, it also still ensures the largest stations in each region are removed from the region/route-level forecasts that are used to set franchised station LTCs. Therefore, while the difference is likely to be minor, we consider that cost efficiency and cost-reflectivity will be better-served by calculating station-specific LTCs for the set of stations under Option B. Furthermore, we note that the set of stations under Option B are clearly the largest stations in each region, in terms of passenger usage. In other words, there is a significant difference between the smallest station in each region included in Option B, and the next largest station in each region. This means the definition of a large/complex station in Option B is likely to be more resilient to future changes in relative station usage, and should not need to revisited in the near future (notwithstanding further changes to statement management arrangements once GBR is established).	
Recommendation	Network Rail should calculate LTCs for the stations set out under **Option B** using station-specific expenditure forecasts. All other station LTCs would be calculated using a 'category averaging' approach currently used to calculate franchised station LTCs. We consider that this will strike a more appropriate balance between cost efficiency, cost-reflectivity and complexity than the existing distinction that is used to determine LTC calculation approaches (i.e. based on whether a station is managed or franchised). This categorisation – based on passenger usage as a proxy for size and complexity of station – is also likely to have more enduring relevance than the existing categorisation, which may be reviewed and changed in light of rail reform. Furthermore, it is not envisaged to have significant impacts on Network Rail's cost recovery or on the financial position of most passenger

	operators who use these stations. There may be a moderate impact for some specific operators – particularly ARL, which uses Highbury & Islington station (the station with one of the lowest LTCs that is subject to a change of methodology). However, to the extent this transpires, this will be more reflective of the true MRR costs at this and other stations. Finally, while the impacts of Options A and B are similar, we consider that Option B strikes a slightly better balance than Option A in terms of the various impacts considered above.
Next steps	Network Rail will implement this change as part of its recalibration of station LTCs for CP7. It will publish draft price lists next summer consistent with this methodological approach.

PR23: Impact assessment on amending station LTC methodology for new franchised stations

Policy area	Station LTC methodology – new stations
Background	The station LTC allows Network Rail to recover MRR costs for operational property and SISS at stations. To calculate LTCs for franchised stations, Network Rail forecasts total operational property and SISS MRR expenditure at a route level for the next control period. For the operational property element, stations are grouped into several categories based on passenger usage. Total route-level expenditure is allocated to those station categories in line with each category's share of the relevant route's long-term average renewal expenditure. The resulting cost for each station category is then allocated equally to every station within that category. The one exception to this is for stations that open within a control period. That is because a newly opened station is expected to incur lower maintenance and renewals costs early in its life. In PR18, we asked Network Rail to review the evidence base underpinning the LTC for new stations. Network Rail's analysis indicated that the operational property element of the LTC for new stations should be set at 10% of the forecast expenditure levels for existing stations in the same route and station category, until the end of the control period during which the station opened. This is how LTCs for new stations are set in CP6.
Proposed change to charging framework being considered	We have considered a small amendment to the methodology for calculating station LTCs, such that Network Rail categorises all newly opened stations as 'new' for a fixed five-year term from the date of opening (regardless of when in the control period it opened), and sets the LTCs to reflect this. This would mean that new stations incur a lower operational property charge for the same period of time, regardless of when in the control period they open.
Impacts on affected parties (relative to making no change)	

(1) Network Rail	**Ensuring cost recovery:** This proposal should not affect Network Rail's ability to recover its total station expenditure. Under the current approach to charging new stations, Network Rail's route-level plans capture forecast expenditure for all existing franchised stations which are operational at the start of a control period – including those which opened during the previous control period. Franchised station LTCs are then set to recover total route-level costs in aggregate. Under this proposed change, franchised station LTCs would still be set so that in aggregate they continue to recover total costs (though it would affect the precise *profile* of franchised station LTCs in a route/region where a station has opened in the previous control period). We also note that Network Rail has expressed support for this proposal in its responses to our PR23 charges review consultations.
(2) Passenger operators	**Financial impacts:** This proposal would result in a lower LTC for a new station that has opened during CP6 for a portion of CP7, and a slightly higher LTC for all other franchised stations (to ensure total forecast expenditure continues to be recovered at route/region level). It would therefore have some impact on the station charges paid by passenger operators, depending on the extent to which they call at newly opened stations relative to existing stations. We have not quantified any financial impacts of this proposal on passenger operators, but we expect them to be small. This is because: • This proposal primarily affects LTCs paid for calling at new stations that have opened in CP6. So far in CP6, we understand just ten new stations have opened (out of more than 2,000 stations). The LTC paid for these stations would be *lower* in CP7 than under the status quo • For other franchised stations in the same route/region and category as a new station, this proposal means that LTCs would be slightly higher (relative to the status quo approach). However, this impact would be spread across all other franchised stations in the same route/region and category, which would 'dilute' the impact for a given station • It is likely that the same passenger operators that call at these stations will also call at the new station that has opened. As such, the financial impacts of this change on station LTCs will to some extent offset each other (with operators paying higher LTCs at some stations, and lower LTCs at the newly opened stations) • The proposal also affects new stations that open in CP7. However we would expect the impacts to be small, for the same reasons discussed above in relation to stations that have opened in CP6. Furthermore, we would not expect particular passenger operators to benefit more or less from this change, because the impact is entirely dependent on where new stations open on the network.

(3) Station Facility Owners (SFOs)	**Financial impacts:** At franchised stations, Network Rail levies the total LTC on the SFO at that station, rather than individual passenger operators. However, as SFOs then recover a proportion of the LTC from other operators that call at the station, in line with each operator's share of vehicle departures from the station, the SFO is in practice only liable for a portion of the LTC. We therefore consider that the impact on SFOs is broadly similar to the impact on individual passenger operators as described above.
(4) Other impacts	**Consistency and predictability:** This proposal would ensure that LTCs for new franchised stations are calculated consistently and are not dependent on the timing of a periodic review. We consider this would improve the overall consistency and predictability of the charging framework.
Recommendation	The operational property element of station LTCs for new stations that have opened during CP6 – and those that open during CP7 – will be set at 10% of that for existing stations in the same route/region and station category for a fixed five-year period from the date of opening. We consider this will ensure that LTCs for new franchised stations are calculated in a more consistent manner, and will not have major impacts on Network Rail's cost recovery or on the financial position of individual passenger operators.
Next steps	Network Rail will implement this methodology as part of its recalibration of station LTCs for CP7. It will publish draft price lists next summer consistent with this methodological approach.