

Annex A - Summary of current charges

1. This annex provides a high level description of the existing charges and incentives, which are in scope of the structure of charges review, together with a description of what costs each mechanism is designed to recover.
2. Table 1 sets out the current charges/incentives, their rationale and approximate scale (based on Network Rail's income received through each of the charges or incentives is also included for 2014-15 (1st year of CP5)).

Table 1: CP5 charges and incentives

	Name of charge	Basis for charge	2014-15 Network Rail income (£m)
Charges	Variable usage charge (VUC)	Recovers maintenance and renewal (M&R) costs that vary with traffic. Should incentivise action that reduces wear and tear caused by trains.	227
	Electricity asset usage charge (EAUC)	Recovers M&R costs of electrification assets that vary with traffic.	15
	Traction electricity charge (EC4T)	Recovers the costs of providing electricity for traction purposes. Should incentivise operators to make energy savings and Network Rail to manage transmission losses. The incentive is strongest when the operator is billed on the basis of metered consumption.	285
	Capacity charge (CC)	Recovers Network Rail's Schedule 8 compensation costs ¹ that vary with traffic. By neutralising Schedule 8 costs to Network Rail for accepting additional traffic, it should remove the disincentive on Network Rail to allow additional traffic on the network (due to performance impacts).	412
	Coal spillage charge (CSC)	Recovers the cost of coal spillage from freight operators transporting coal. Unlikely to incentivise reduction in coal spillage as this is charged based on transporting coal, rather than spilling coal.	3
	Station long term charge (SLTC)	Recovers station building and civils maintenance, repair and renewal costs; and station information and security systems	159

¹ Schedule 8 is designed to compensate train operators for lost revenue over time due to unplanned service disruption.

		(SISS) costs.	
	Fixed track access charge (FTAC)	Determined on the basis of Network Rail's revenue requirement after taking into account other charges income and other single till income.	440 ²
	Freight-only line (FOL) charge	Recovers fixed costs of freight only lines (but levied uniformly across the network). In CP5 it was levied only on coal for the electricity supply industry (ESI), spent nuclear fuel, and iron ore freight market segments.	4
	Freight specific charge (FSC)	Recovers 'freight avoidable costs' - the costs that would be foregone if freight services were to no longer use the network. In CP5 it was levied only on the ESI coal, spent nuclear fuel and iron ore freight market segments.	0 for the first two years of CP5 then the charge rate increasing to 20%, 60% and 100% of the full charge rate over the last three years of CP5
Incentive mechanisms	Volume incentive	Encourages Network Rail to grow passengers and freight traffic over the control period beyond forecast levels. Should encourage Network Rail to accommodate more traffic on the network, and to help grow passenger revenue.	10
	Route-level efficiency benefit sharing mechanism (REBS)	Allows efficiency gains and losses in Network Rail's costs to be shared between Network Rail and train operators which opt into the scheme. Should encourage train operators to work with Network Rail to reduce infrastructure costs at the route level.	Network Rail's assessment of the amounts payable under the REBS mechanism for 2014-15 has not yet been finalised.

3. Table 2 sets out the current structure of charges and sets out which train operators are required to pay each charge. It also explains which charges recover fixed costs and are therefore in scope of the infrastructure costs package and

² This is the figure after accounting for the lump-sum Network Grant payment from the governments to Network Rail (£4,164m in the first year of CP5).

which charges recover short-run variable costs and are therefore in scope of the package of improvements to short-run variable charges.

Table 2: CP5 structure of charges and its application to train operators

	Recovery of fixed costs			Recovery of short-run variable costs				
	FTAC	FOL charge	FSC	VUC	EAUC	EC4T	CSC	CC
Franchised Passenger Operators	Yes			Yes	Yes	Yes		Yes
Open Access Passenger Operators				Yes	Yes	Yes		Yes
Freight Operators		Yes (segments)	Yes (segments)	Yes	Yes	Yes	Yes (only those carrying coal)	Yes