Peter Swattridge
Head of Regulatory Economics

John Trippier
Office of Rail and Road
John.Trippier@orr.gsi.gov.uk

10 March 2016

Dear John

Charging framework for the Heathrow Spur – Network Rail response

This letter sets out Network Rail's response to ORR's consultation on the charging framework for Heathrow Spur. We welcome the opportunity to comment on this.

We recognise that many of the issues in ORR's consultation are detailed and specific to Heathrow Airport Limited (HAL). However, there are a few topics that ORR has raised that may have wider implications for the GB railway. We are responding on these wider topics, only.

This letter is split into two sections. First, we discuss the potential implications of ORR's decision on future investment in railway infrastructure. We then discuss the importance of consistency of relevant legislation and the charging framework across the railway network as a whole.

Future investment in railway infrastructure

ORR's consultation discusses whether HAL should be able to charge users the historical costs of constructing the Heathrow Spur. ORR considers that HAL cannot recover the historical long-term costs from rail users, but would not be prohibited from recovering any <u>future</u> long-term costs.

Before making its final conclusions on the recovery of historical costs, we would encourage ORR to consider the wider implications of its decision. This decision could set a precedent, which could discourage future investment in railway infrastructure if historical costs were not allowed to be recovered from future users of the railway. Given that there is an increasing desire to encourage third party investment in the railway, ORR's decision could be potentially unsettling.

The importance of consistency across the railway network

Whilst we accept that there may be good reasons to depart from consistency in some circumstances, Network Rail considers that ORR should consistently apply relevant legislation to all infrastructure managers, across the entire railway network.

Similarly, Network Rail considers that the charging approaches used by Network Rail and HAL should be informed by a consistent framework, although, as with the application of legislation, we accept that there may be good reasons to depart from an identical charging framework (for example, to reflect the charging objectives for each network). We consider that train operators that make use of both Network Rail's and HAL's infrastructure are likely to value a 'whole industry' approach.

Consistency in the charging approach should lead to charges that:

- Are easier for train operators to understand;
- Translate into charges to end-users (i.e. passengers and freight customers); and
- Can be responded to by train operators.

We briefly discuss each of these considerations, below.

Understanding

The rail industry is widely considered to be complex. We should attempt to minimise this complexity wherever possible, for example by minimising the differences in charging frameworks faced by operators. However, we do accept that, to the extent that HAL has a different cost model, this is likely to impact on its preferred charging approach such that its charges are reasonably cost reflective.

Translating into end-user charges

Charges to train operators will ultimately be reflected in the way that end-users are charged. Fares charged by passenger operators will be informed by the way that the infrastructure manager levies access charges – for example if access charges have geographic or time of day differences, it is likely that these will be reflected in passenger fare structures. For train journeys that use both Network Rail's and HAL's infrastructure, having two different charging arrangements could lead to undue complexity in devising end-user charges.

Responding to price signals

Broadly speaking, access charges have two aims: (1) to recover the infrastructure manager's efficient costs; and (2) to provide incentives to users of their infrastructure to do so in a way that overall maximises use of the assets and minimises costs. If HAL and Network Rail have widely different ways of charging for their infrastructure, there is a risk that the incentive properties of the charging approaches will be blurred. As far as practical, we consider that the two infrastructure managers' charging regimes should be consistent – particularly in the context of rail journeys that use both companies' infrastructure.

If you would like to discuss the content of this response, please contact me using the details above.

Yours sincerely

Peter Swattridge