

Second parallel sessions

D: Incentives and access charges

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OFFICE OF RAIL REGULATION

Overview

- Incentives framework (chapters 24 – 27 draft determinations)
 - Contractual incentives
 - Schedule 4 possessions regime
 - Schedule 8 performance regime
 - Financial incentives
 - Volume incentive
 - Efficiency benefit sharing mechanism
- Access charges (chapters 19 - 22 draft determinations)
 - Changes to the level of access charges
 - Access charges headlines
 - Outstanding work on access charges

Schedule 4 (possessions regime)

- Compensation regime for planned disruption caused by Network Rail to train operators with incentives for early notification by Network Rail of such disruption
- Changes
 - All compensation for possessions (whatever cause) through Schedule 4
 - Clearer and more effective compensation arrangements including 3 tiers of compensation in franchised passenger regimes
 - Formulaic calculation of bus costs
 - Increased notification factors providing greater payments for early notified possessions
 - Freight to receive compensation for very disruptive planned possessions

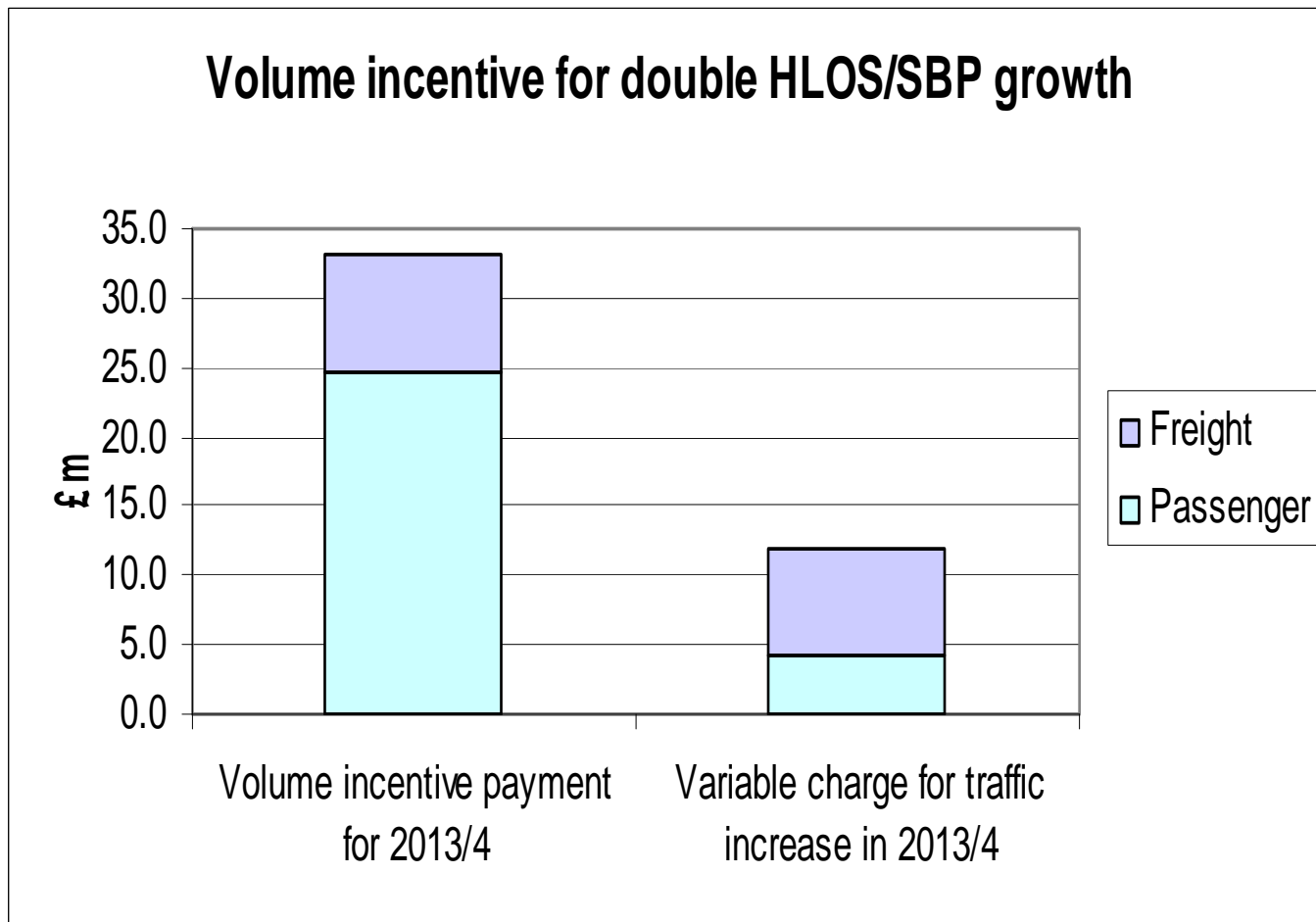
Schedule 8 (performance regime)

- Compensation regime for unplanned disruption caused to train operators by Network Rail and other train operators that also provides all with encouragement to continuous improvements
- Changes
 - Freight regime standardised across all freight operators
 - Removes potential competitive advantage derived from differences in the performance regime rather than through changes in performance
 - Updated regime metrics for passenger and freight regimes

Volume incentive (1)

- Replaces current volume incentive with more accurate and effective incentive
- Onus on Network Rail to highlight benefit from facilitating growth in traffic throughout organisation
- Network Rail rewarded for growth over SBP assumed levels (needed to be consistent with HLOS/freight RUS)
- Retain current mix of volume indicators
- Incentive rates updated to reflect current economic value of passenger/freight traffic
- Greater reward for freight traffic growth compared to passenger traffic growth than under CP2/3 volume incentive
- Payment as lump sum at start of CP5
 - Stronger incentive
 - Greater certainty to funders

Volume incentive (2)



Efficiency benefit sharing mechanism

(1)

- Our efficiency assumption is challenging and achievable by Network Rail
- In fact the CP4 regime encourages Network Rail to seek to outperform this
- Efficiency benefit sharing mechanism encourages passenger and freight operators and Network Rail to maintain good partnerships
- NR and train operators share outperformance of OM+R expenditure and some revenue on a 75:25 basis
- NR performance reviewed in our annual assessment
- Train operators share based on variable usage charges

Efficiency benefit sharing mechanism

(2)

- How would it work in practice?
- England/Wales & Scotland level but expect operator input to be at local level
- We are interested in further suggestions/examples where this mechanism might apply
- Process – advantage in using current industry processes rather than inventing new ones
 - NTF
 - Local JPIP groups
 - Local route investment review groups
 - Local station groups
 - RUS process

Changes to variable access charges

£m (2006-07 prices)	Current (rebased to 2009-10 forecast traffic levels)	CP4 determinations (2009-10 forecast traffic levels)
Variable usage charge	240	120
EC4T	137	134
Electrification asset usage charge	31	7
Sub-total	408	261
Capacity charge	7	149
Franchised passenger total	415	410
Freight variable usage charge	100	58
Coal spillage charge	5	2.4
Capacity charge	4	4
EC4T	4	4
Freight only line charge (ESI coal and spent nuclear fuel)	0	5.3
Freight total	113	73.7

Access charges

- Variable usage charge
 - Improvement in **accuracy**; inclusion of **lateral/longitudinal forces**
 - No **route/geographical based** charges for CP4
 - Applying **long run efficiency** to variable usage charges and electrification asset usage charges
 - Updated **suspension type** banding discounts (freight)
 - Revised **coal spillage** and potential discount (freight)
- Freight only line charge – introduction of new charge to recover costs from freight only lines - paid by ESI coal and spent nuclear fuel traffic – charged as mark up on variable usage charge
- **EC4T** – new industry arrangements; freight to be included in wash-up
- **Capacity charge** – continues, with refinements
- **Fixed charge** – more closely based on avoidable costs
- **Network grant** – fixed for the duration of CP4

Outstanding work (access charges)

- Electricity consumption rates – passenger mid July 2008, freight end July 2008
- Capacity charge, final calculation taking into account Schedule 8 benchmark recalculation 31 July 2008
- Suspension band discount/penalty proposal methodology available end July 2008 consultation on revised tables – 15 August 2008
- Stations – we will consider changes for our final determinations **only** if material new evidence that charges should be re-balanced is submitted to us by end of August