2018 periodic review final determination

Supplementary document – Overview of charges and incentives decisions

October 2018

About this document

The 2018 periodic review (PR18) is the process through which we determine what Network Rail[1] should deliver in respect of its role in operating, maintaining and renewing its network in control period 6 (CP6)[2] and how the funding available should best be used to support this. This feeds through into:

- the service that passengers and freight customers receive and, together with taxpayers, ultimately pay for; and
- the charges that Network Rail's customers, including passenger, freight and charter train operators, will pay for access to its track and stations during CP6.

In June 2018, we consulted on our PR18 draft determination[3], setting out our proposed decisions in all of the main areas of PR18. Following receipt of consultation responses, we have reviewed stakeholders' comments and these have helped to inform the final decisions set out in our final determination. We are grateful to all those who responded to the consultation.

Accordingly, the final determination sets out our overall decisions on PR18. Among the documents that we have published is an overview document, setting out:

- our decisions in all the main areas of PR18;
- a summary of how we will regulate Network Rail's delivery in CP6; and
- next steps in PR18.

In addition, there are high-level summaries of our main decisions for each of England & Wales and Scotland.

We have also published a document summarising stakeholders' comments on the PR18 draft determination and our response to these.

The full set of documents that form the final determination is set out in the box overleaf[4].

[1] All references to Network Rail in this document are to Network Rail Infrastructure Limited.

[2] CP6 will run from 1 April 2019 to 31 March 2024.

[3] The full suite of PR18 draft determination documents are available from this webpage. To access earlier consultation and conclusions documents that led up to the PR18 draft determination, please see the map of these documents here.

[4] Our policy on managing change will be published in November 2018. Some documents, such as the consultancy and reporter studies, will be published shortly after the final determination.

Our final determination documents (includes weblinks)

PR18 final determination overview document

England & Wales summary

Scotland summary (and settlement details)

PR18 draft determination consultation – summary of comments and our response

Settlement documents

- FNPO route
- System Operator
- England & Wales
  - Anglia route
  - LNE & EM route
  - LNW route
  - South East route
  - Wales route
  - Wessex route
  - Western route

Supplementary documents

- SBP assessment
  - Scorecards and requirements
  - Health & safety
  - Review of NR's proposed costs
  - Other single till income
  - Stakeholder engagement
- Policy
  - Financial framework
  - Review of network licence: conclusions from consultation
  - Overview of charges & incentives decisions
  - Infrastructure cost charges conclusions
  - Variable usage charge conclusions

Other documents

- Glossary
- Managing Change Policy
- Consultancy & reporter studies
- Grading of Network Rail's route and System Operator strategic plans for CP6

Introduction

1. This document summarises the final decisions we have made for charges and incentives in CP6.

2. The principal purpose of this document is to consolidate references back to the relevant published statements of these decisions on charges and incentives as each followed different, parallel decision-making processes. On the route-level efficiency benefit sharing mechanism, this document sets out our decision, rather than linking to another decision document.

3. This document covers the following aspects of charges and incentives:

- fixed and variable charges for using the network;
- the possessions and performance schemes (Schedules 4 & 8);
- the route-level efficiency benefit sharing mechanism (REBS); and
- the volume incentive.

4. For the recalibration of all CP6 charges and incentives, there is an established risk-based approach that recalibration leads (whether they are Network Rail, industry groups or ORR) are expected to follow. The detail of this approach is available on our website (here).

5. Annex A of this document provides a high-level overview of the charging structure for CP6, for different types of operators and annex B details our approach for the indexation of charges in CP6.

Charges recovering fixed network costs

Infrastructure cost charges (ICCs)

Policy

6. We have made the following policy decisions:

Decision	Consultation	Conclusion
To merge CP5 freight mark-ups (freight specific charge (FSC) and freight only line (FOL) charge) into a single ICC for freight market segments.	Proposed in our December 2016 consultation on charges and incentives (paragraph 2.28).	Published in our June 2017 charges and incentives conclusions (paragraph 5).

Decision	Consultation	Conclusion
To continue to levy ICCs on freight services carrying ESI coal, iron ore and spent nuclear fuel.	Proposed in our September 2017 consultation on charges recovering fixed network costs (paragraph 2.47)	Concluded in our October 2018 conclusions on infrastructure cost charges (supplementary to the final determination) (paragraph 2.38).
To levy ICCs on freight services carrying ESI biomass, with a phase-in period.	Proposed that ESI biomass should pay the ICC in our September 2017 consultation on charges recovering fixed network costs (paragraph 2.47) & June 2018 consultation on infrastructure cost charges (supplementary to the draft determination) (paragraph 2.23).	Concluded in our October 2018 conclusions on infrastructure cost charges (supplementary to the final determination) (paragraph 2.39).

Decision	Consultation	Conclusion
For open access services, we decided to:		
- **define two market segments for open access services in CP6, interurban and other;**	Proposed in our June 2018 consultation on infrastructure cost charges (supplementary to the draft determination) (paragraph 3.31)	Concluded in our October 2018 conclusions on infrastructure cost charges (supplementary to the final determination) (paragraph 3.71).
- **levy ICCs on new open access services in the interurban market segment, with a phase-in period;**	(paragraph 3.53)	(paragraph 3.71 & 3.73)
- **provide relief from increases in charges to existing open access services in the interurban market segment, unless an existing OAO proposes significant variation to its service; and**	(paragraph 3.47 & 3.49)	(paragraph 3.72)
- **not define further market segmentation for franchised services.**	(paragraph 3.27)	(paragraph 3.118)
To annually adjust franchised passenger operators' ICCs for changes in timetabled traffic[5]	Proposed in our September 2017 consultation on charges recovering fixed network costs (paragraph 4.78) & June 2018 consultation on infrastructure cost charges (supplementary to the draft determination) (paragraph 3.76).	Concluded in our October 2018 conclusions on infrastructure cost charges (supplementary to the final determination) (paragraph 3.119).

[5] This decision is subject to further discussions with Network Rail to confirm the approaches for measuring timetabled traffic and setting franchised passenger operators' timetabled traffic baselines are robust.

Decision	Consultation	Conclusion
On the design of franchised passenger operators' ICCs we decided to: ■ **use timetabled train miles as the traffic metric for the annual adjustment;** ■ **apply the annual adjustment at the operator level;** ■ **annually adjust franchised passenger operators' ICCs by the percentage change in their annual timetabled traffic; and** ■ **set a floor of 1% per annum for the percentage decrease in a franchised passenger operator's timetabled traffic that is reflected in its ICC adjustment**	Proposed in our June 2018 consultation on infrastructure cost charges (supplementary to the draft determination) (paragraph 3.84).	Concluded in our October 2018 conclusions on infrastructure cost charges (supplementary to the final determination) (paragraph 3.120).

7. We set out conclusions to our June 2018 consultation on our infrastructure cost charging policy in our ICC supplementary document[6]. We published it alongside the final determination.

8. See the overview document[7] for our next steps on the ICC.

Recalibration

9. ORR is leading the recalibration of infrastructure cost charges (ICCs) for freight and open access market segments[8]. As part of this work we consulted on proposed levels for these charges, available here.

10. Network Rail is leading the recalibration of the fixed track access charge (FTAC). As part of this work, Network Rail developed, and consulted on, a new cost allocation methodology for allocating fixed costs to services.

[6] *2018 periodic review: Final determination – Supplementary document – Conclusions to consultation on infrastructure cost charges*, Office of Rail and Road, October 2018. This may be accessed here.

[7] *2018 periodic review: Final determination – overview of approach and decisions*, Office of Rail and Road, October 2018. This may be accessed here.

[8] We note that this is the first time we have calibrated ICCs for open access services.

11. Having considered Network Rail's proposed cost allocation methodology and the responses to its consultation, in June 2018 we consulted on using this methodology in the calibration of the FTAC, excluding the elements that allocate non-avoidable costs to services.

12. We have now reviewed the responses to our June 2018 consultation and our final decision is to use the new cost allocation methodology to allocate fixed costs to services, excluding the elements of the methodology that allocate non-avoidable costs to services for the recalibration of FTAC. We set out the rationale for this decision in our October 2018 conclusions on infrastructure cost charges (here).

13. We have also reviewed Network Rail's proposed independent audit for the recalibration of FTAC. We are content with the audit Network Rail has proposed to-date. Our final approval of the recalibrated FTAC will be provided once we are satisfied that Network Rail's final submission reflects all the decisions included in our determination. Our approval letter will be published on our website (here).

Station charges

Policy

14. We have not taken any policy decisions that affect the station long-term charge (LTC) or the qualifying expenditure (QX) management fee.

Recalibration

15. Recalibration of the LTC and QX management fee is being led by Network Rail.

16. We have reviewed Network Rail's proposed methodologies and independent audit for the recalibration of the LTC at managed and franchised stations. We are content with the methodologies and audit Network Rail has proposed to-date. Our final approval of the recalibrated LTC will be provided once we are satisfied that Network Rail's final submission reflects all the decisions included in our determination. Our approval letter will be published on our website (here).

17. The QX management fee is made up of two elements: central costs and a profit element. Network Rail will submit a proposal for the central costs element when it has agreed the fixed QX charge with operators at its managed stations.

18. In conclusion to its July 2017 consultation (available here), Network Rail proposed increasing the profit element from 5% to 6%. Based on Network Rail's benchmarking exercise we consider this proposal to be reasonable. We therefore expect to determine that is the profit element Network Rail should include in its QX management fee for CP6. However, our final approval of the profit element is subject to our review of Network Rail's final QX management fee proposal, which will include

its proposal for the central costs element. Our approval letter will be published on our website (here).

Variable charges

Variable usage charge (VUC)

Policy

19. We have made the following policy decision:

Decision	Consultation	Conclusion
Not to geographically disaggregate the VUC	Proposed in our December 2016 consultation on charges and incentives (paragraph 3.14).	Published in our June 2017 charges and incentives conclusions (paragraph 43).
To cap the variable charges of freight and charter services through capping of and phasing-in the increase to the VUC.	Proposed in our June 2018 Variable usage charge consultation (paragraph 43).	Published in our October 2018 Variable usage charge conclusions (paragraph 57).

20. In April 2018 we published a letter updating stakeholders on our intention to cap or phase-in the VUC for freight and charter services and to explore whether capping is appropriate for open access passenger operators.

21. In June 2018 we consulted on our proposals for capping the variable charges of freight and charter services through capping and phasing-in the increase to VUC.

22. We have now reviewed the responses to our June 2018 consultation and our final decision is to cap and phase-in variable charges for freight and charter services but not for franchise or open access operators, as detailed in our conclusions document on the 'Variable usage charge in CP6'.

Recalibration

23. We concluded in our June 2017 charges and incentives conclusions, that there would not be a fundamental review of the methodology for calculating the VUC – in particular, we would not replace the role that the Vehicle Track Interaction Strategic Model (VTISM) has in setting the charge. However, the charge is subject to recalibration as part of the PR18 process (in line with other charges). Recalibration of the VUC is being led by Network Rail.

24. We have reviewed Network Rail's proposed methodologies and independent audit for the recalibration of the VUC. We are content with the methodologies and audit Network Rail has proposed to-date. Our final approval of the recalibrated VUC will be provided once we are satisfied that Network Rail's final submission reflects all the decisions included in our determination. Our approval letter will be published on our website here.

Capacity charge

25. We have made the following policy decision:

Decision	Consultation	Conclusion
To remove the capacity charge.	Proposed in our December 2016 consultation on charges and incentives (paragraphs 3.20 to 3.37).	Published in our June 2017 charges and incentives conclusions (paragraphs 61 to 69).

Coal spillage charge

26. We have made the following policy decision:

Decision	Consultation	Conclusion
To remove the coal spillage charge.	Proposed in our December 2016 consultation on charges and incentives (paragraphs 3.47 to 3.51).	Published in our June 2017 charges and incentives conclusions (paragraphs 58 to 60).

Electrification asset usage charge (EAUC)

Policy

27. We have made the following policy decision:

Decision	Consultation	Conclusion
Not to alter the principles of the application of, or the approach to recovering, the EAUC.	Proposed in our December 2016 consultation on charges and incentives (paragraph 3.46).	Published in our June 2017 charges and incentives conclusions (paragraph 53).

Recalibration

28. Network Rail is leading the recalibration of the EAUC. The scope of its work includes, where possible, improving upon the CP5 assumptions and enriching the evidence base.

29. We have reviewed Network Rail's proposed methodologies and independent audit for the recalibration of the EAUC. We are content with the methodologies and audit Network Rail has proposed to-date. Our final approval of the recalibrated EAUC will be provided once we are satisfied that Network Rail's final submission reflects all the decisions included in our final determination. Our approval letter will be published on our website here.

Traction electricity charge (EC4T)

Policy

30. We have made the following policy decision:

Decision	Consultation	Conclusion
To keep the loss incentive mechanism.	Proposed in our December 2016 consultation on charges and incentives (paragraph 3.44).	Published in our June 2017 charges and incentives conclusions (paragraph 55).

Recalibration

31. Network Rail is leading the recalibration of the EC4T. This includes the recalibration of the Distribution System Loss Factors (DSLFs) in each Electricity Supply Tariff Area (ESTA) as well as the recalibration of the regenerative braking discount rates for non-metered electrified services.

32. We have reviewed Network Rail's proposed methodologies and independent audit for the recalibration of the EC4T. We are content with the methodologies and audit Network Rail has proposed to-date. Our final approval of the recalibrated EC4T will

be provided once we are satisfied that Network Rail's final submission reflects all the decisions included in our final determination. Our approval letter will be published on our website here.

Contractual incentives

Schedule 8

Policy

33. We have made the following policy decisions:

Decision	Consultation	Conclusion
Not to change the measure of passenger operators' performance in CP6.	Proposed in our December 2016 consultation on charges and incentives (paragraph 4.43).	Published in our June 2017 charges and incentives conclusions (paragraph 81).
Not to restrict the losses eligible for compensation under Sustained Poor Performance provisions to cost only.	Proposed in our December 2016 consultation on charges and incentives (paragraph 4.49).	Published in our June 2017 charges and incentives conclusions (paragraph 96).
Not to incorporate formulaic recovery of passenger compensation into Schedule 8.	Proposed in our December 2016 consultation on charges and incentives (paragraph 4.24).	Published in our June 2017 charges and incentives conclusions (paragraph 74).
To remove the annual traffic adjustment to FOC benchmarks.	Proposed in our letter to industry on 8 November 2017.	Published in our letter to industry on 9 March 2018.

Recalibration of the passenger operator regime

34. RDG is leading the recalibration of the Schedule 8 regime for passenger operators. RDG has made available the detail of its submissions to us (on its website here).

35. In some areas, as RDG could not reach agreement on how the recalibration should proceed, we were asked to determine the basis for the recalibration in accordance with the agreed process. These areas were:

- which delay multipliers should be used for CP6. Our decision, including the rationale for it, is available on our website (here);
- the methodology to be used to re-calibrate the Network Rail payment rates for C2C service groups and one Chiltern service group (HO02). Our decision, including the rationale for it, is available on our website (here) in annexes 1 and 2; and
- the level of the sustained poor performance (SPP) threshold. Our decision, including the rationale for it, is available on our website (here).

36. It should be noted that in July 2018 we received a proposal from Network Rail to adjust the TOC-on-TOC element of the Network Rail benchmark for expected traffic growth in CP6 and a proposal from passenger operators to apply the same adjustment to the passenger operator benchmark. We were not able to approve these proposals as we had significant queries over the underlying rationale and evidence[9], which it was too late in the PR18 process to address.

37. In the passenger operator regime we have approved the following parameters for use in CP6:

- Monitoring Point Weightings and Cancellation Minutes our approval letter is available on our website (here); and
- Network Rail payment rates, our approval letter is available on our website (here).

38. In the passenger operator regime we are yet to approve the:

- SPP thresholds;
- Network Rail benchmarks;
- passenger operator payment rates; and
- passenger operator benchmarks.

39. We will review the recalibration of these parameters when we receive the final submission from RDG and are satisfied with the audit that has been undertaken.

40. When we have approved these parameters our approval letters will be published on our website (here).

[9] Our decision was set out in an email to the Passenger operator Schedule 8 Recalibration Working Group, which is available here.

Recalibration of the freight and charter operator regimes

41. A working group consisting of Network Rail and freight and charter operators is leading the recalibration of the Schedule 8 regimes for freight and charter operators.

42. In some areas, as freight and charter operators could not reach agreement with Network Rail on how the recalibration should proceed, we were asked to determine the basis for the recalibration in accordance with the agreed process. These areas were:

- what the risk premium (charged for the provision of incident caps in the freight regime) should be. Our decision, including the rationale for it, is available on our website (here);
- how the freight and charter operator benchmarks should be recalibrated. Our decision, including the rationale for it, is available on our website (here);
- freight and charter operators' exposure to delay minutes above the incident caps. Our decision, including the rationale for it, is available on our website (here); and
- in the recalibration of the Network Rail benchmark in the freight regime the performance trajectory to apply to the Network Rail delay minutes to Class 0 trains. Our decision, including the rationale for it, is available on our website (here).

43. In the freight and charter operator regimes we have approved the following recalibrated parameters for use in CP6:

- the Network Rail payment rate for the freight and charter operator regimes;
- the freight operator benchmark;
- the charter operator benchmark;
- the Network Rail benchmark in the charter regime;
- the cancellation sum in the freight regime (above and below threshold);
- the cancellation sum in the charter regime;
- the joint cancellation sum in the charter regime;
- the small and new entrant annual caps in the freight regime (Network Rail and train operator); and
- the annual caps in the charter regime (Network Rail and train operator).

44. Our approval letter for all the parameters listed above is available on our website (here).

45. In the freight and charter operator regimes we are yet to approve the:

- Network Rail benchmark in the freight regime ;
- freight operator payment rate;
- charter operator payment rate;
- cancellation threshold in the freight regime; and
- incident cap ACS.

46. We will review the recalibration of both of these parameters when we receive the final submission from the Freight and Charter Recalibration Working Group, and are satisfied with the audit that has been undertaken.

47. When we have approved these parameters our approval letters will be published on our website (here).

Schedule 4

Policy

48. We have made the following policy decisions:

Decision	Consultation	Conclusion
Not to pursue the following issues in PR18: • **liquidated damages passenger train operator cost compensation:** • **liquidated damages freight compensation;** • **cancelled possessions;** • **scope of incentives; and** • **joint working on timetabling.**	Proposed in our December 2016 consultation on charges and incentives (paragraph 4.58).	Published in our June 2017 charges and incentives conclusions (paragraph 102).
Not to amend the principles behind the Access Charge Supplement (ACS)	Proposed in our December 2016 consultation on charges and incentives (paragraph 4.65).	Published in our December 2017 consultation on amending Schedule 4 notification factors (Annex B).

Decision	Consultation	Conclusion
Not to amend the Schedule 4 negotiated compensation arrangements	Proposed in our December 2016 consultation on charges and incentives (paragraph 4.74).	Published in our December 2017 consultation on amending Schedule 4 notification factors (Annex C).

Recalibration

49. We have decided to amend the notification factors in Schedule 4:

- we consulted on this in December 2017 (available here); and
- published our decision in May 2018 (available here).

50. As part of our decision on notification factors we asked industry to consider whether we should add a new intermediate threshold at 14 weeks before the timetable week of the planned possession. RDG established a working group and considered a number of options but was unable to reach consensus on a specific proposal. We have therefore decided not to pursue this as part of this periodic review. However, given the general support for the proposal we recommend RDG continues its work in this area over CP6 to develop a proposal in time to be introduce as part the 2023 periodic review. Our full decision is available here.

51. On 20 September 2018, in the light of new evidence about the sensitivity of passenger demand to disruption, RDG asked us to review our calculation of notification factors for London and South East (LSE) services, on which we concluded in May 2018. We have decided to accept the revised LSE notification factors submitted by RDG. The background to this and our decision is explained in detail here.

52. RDG is leading the recalibration of the remainder of the Schedule 4 regime for passenger operators. A working group consisting of Network Rail and freight and charter operators is leading the recalibration of the Schedule 4 regime for freight and charter operators.

53. Network Rail is leading the ACS recalibration. There were some aspects of the ACS recalibration that industry were unable to agree on. So, as per the agreed process, we were asked to determine the basis for the recalibration. These were:

- whether emergency timetable possessions forecasts should be included in the ACS;

- the level of granularity at which the ACS should be allocated between passenger operators; and
- the notification assumptions that should be used in the ACS recalibration.

54. Our decisions, including our rationale in making them, is available on our website here.

55. The industry could also not agree on alternative methodologies for calculating a representative diesel vehicle fuel consumption rate as part of its recalibration of train mileage payment rates. As per the agreed process, we were asked to determine on the most appropriate methodology. Our decision, including the rationale for it, is available on our website here.

Passenger Schedule 4

56. In the passenger operator regime we are yet to approve the following recalibrated parameters for use in CP6:

- train mileage payment rates;
- estimated bus cost miles payment rates; and
- Defined Service Group Revenues.

57. We will review the recalibration of these parameters when we receive the final submission from RDG and are satisfied with the audit that has been undertaken.

58. When we have approved all the parameters listed our approval letter will be available on our website here.

59. We have determined the sustained planned disruption revenue and costs thresholds for the Schedule 4 passenger regime parameter for use in CP6. Our determination letter can be found on our website here.

60. Network Rail is leading the ACS recalibration, however, because a number of Schedule 4 parameters that are inputs to the ACS recalibration have not been finalised, it has been unable to complete its recalibration. We will review Network Rail's ACS recalibration when we receive its final submission and are satisfied with the audit that has been undertaken. When we have approved the ACS our approval letter will be available on our website here.

61. In the freight operator regime we have approved the following recalibrated parameters for use in CP6:

- normal planned disruption sum;
- enhanced planned disruption sum;
- disruption sum;

- service variation sum; and
- late notice cancellation sum.

62. Our approval letter for all the parameters listed above is available on our website (here)

Route-level efficiency benefit sharing (REBS) mechanism

63. We have made the following policy decisions:

Decision	Consultation	Conclusion
To remove the REBS mechanism.	Proposed in our November 2017 working paper on collaborative working on the rail network.	We have concluded to remove REBS in CP6 (see below).

64. In PR13, we introduced the REBS mechanism to strengthen the financial incentives on operators to work with Network Rail to reduce network costs.

65. Following widespread concern as to the effectiveness of REBS, we explored alternative approaches to supporting collaboration between operators and Network Rail. As part of this process, we published in November 2017 a working paper that set out two options: improving REBS and removing REBS in favour of facilitating an industry-led approach[10].

66. There was a strong view from stakeholders supporting the removal of REBS. In addition, a number of respondents expressed a preference for an industry-led approach going forward. We consider that an industry-led approach – where we facilitate industry striking more deals itself – is likely to be more effective in driving collaborative behaviour.

67. Reflecting this, we have concluded to remove REBS for CP6.

The volume incentive

68. We have made the following policy decision:

[10] Working paper 7: Collaborative working on the rail network, ORR, November 2017. Responses to this working paper are available here.

Decision	Working paper	Conclusion
To remove the financial payment elements of the volume incentive in CP6 (but continue reporting on volume metrics).	Proposed in our November 2017 working paper on the volume incentive.	Published in our May 2018 conclusions letter to Network Rail.

69. In our May 2018 conclusions letter, we stated that we would continue to require Network Rail to report on volume metrics for both passenger and freight services. After careful consideration, we determined that Network Rail's reporting 'use of the network' measures on route comparability scorecards was an appropriate mechanism to report on volume measures[11]. From CP6, we will no longer require Network Rail to report on the volume incentive in its annual Regulatory Financial Statements. This will be reflected in our CP6 Regulatory accounting guidelines (expected to be published in 2019).

[11] *PR18 final determination - Supplementary document: Scorecards and requirements*, Office of Rail and Road, October 2018. This may be accessed here.

Annex A: Summary of proposed CP6 charging structure

Table 1 summarises the proposed CP6 charging structure for different types of operators. Figure 1 on the following page shows how, at a high-level, the charging structure is set to change between CP5 and CP6. Some of these changes have already been confirmed (e.g. the removal of the capacity charge and coal spillage charge), as set out in this document. We are currently consulting on proposals in relation to the VUC and ICCs.

Table 1: Proposed CP6 charging structure for different types of operators

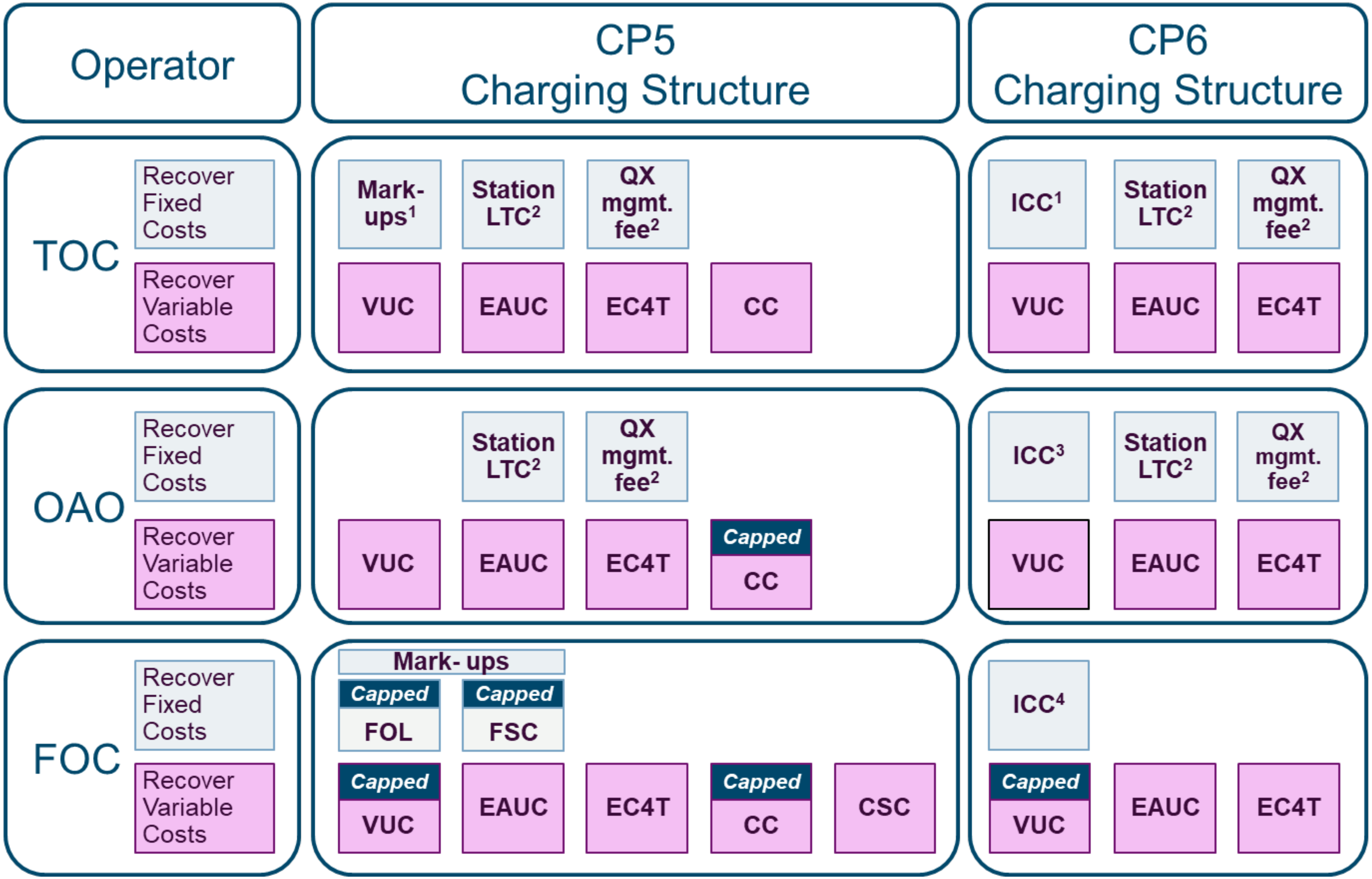
Type of operator	Infrastructure cost charges (ICCs)	Variable usage charge	Other charges[12]
Franchised passenger	Continue existing approach (fixed track access charge), but charge will vary annually to reflect changes in timetabled traffic.	No change from CP5. Unaffected by capping policy.	Remove capacity charge. No other change in policy from CP5.
Open access			
A. Existing open access operators	No ICCs in CP6 (unless significant changes to access rights).	No change from CP5. Unaffected by capping policy.	Remove capacity charge. No other change in policy from CP5.
B. New entrant open access operators – 'interurban' market segment	Will pay ICCs in CP6 according to a specified phasing-in profile.		
C. New entrant open access operators – 'other' market segment	No ICCs in CP6.		

[12] This includes the EAUC, EC4T, SLTC and QX management fee, the capacity charge and the coal spillage charge.

Type of operator	Infrastructure cost charges (ICCs)	Variable usage charge	Other charges[12]
Freight			
A. Commodities subject to ICCs (ESI coal, iron ore, spent nuclear fuel, ESI biomass)	Will pay ICCs in CP6, with phasing-in of ESI biomass ICCs.	Capping policy applies – VUC increases phased-in over CP6 and CP7.	Remove capacity charge and coal spillage charge. No other change in policy from CP5.
B. All other commodities	No ICCs in CP6.		
Charter (incl. heritage[13])	No ICCs in CP6.	Capping policy applies – VUC increases phased-in over CP6 and CP7.	Remove capacity charge. No other change in policy from CP5.

[13] In the context of our VUC capping/phasing-in policy, we have treated the North Yorkshire Moors Railway and the Jacobite services run by West Coast Railways as being akin to charter services.

Figure 1: High-level illustration of changes in charging structure between CP5 and CP6



Notes to Figure 1:

1. For CP6, we have called all charges recovering fixed network costs ‘infrastructure cost charges’ (ICCs). The ICC for franchised passenger operators will continue to be called FTAC.

2. Station charges: There is also qualifying expenditure (we only regulate the QX management fee at managed stations), facility charges (which we approve) and franchised station lease income (which we do not regulate).

3. We have proposed to levy ICCs on open access services in the interurban market segment in CP6, as a rate per train mile.

4. For CP6, we have called all charges recovering fixed network costs ‘infrastructure cost charges’ (ICCs). These are the charges we have previously referred to as mark-ups. For freight services, we have confirmed the FOL and FSC will be merged in CP6, and only one ICC will be levied, which for billing purposes will be called the FSC.

Annex B: The indexation of charges in CP6

Table 2 summarises the indexation of charges in CP6. Further information on inflation indexation is provided in our 'Financial framework' supplementary document.

In CP6 we will move from RPI to CPI for the inflation indexation of track access charges (and other payment rates where we set the method of indexation). However, we will apply this adjustment in different ways to certain charges. We set out our reasons for this below along with a summary of our decisions.

For most charges, we will make an adjustment in order to make the change neutral in terms of the total charges paid/received over CP6. To do this, we will make a 4% upward adjustment to the opening (2018-19) CP6 rates, which compensates for the lower indexation increases (we have assumed that annual RPI inflation will exceed CPI inflation by 1% per annum over the period of CP6).

Therefore, train operators with adjusted charges will pay the same in cash terms over the course of CP6, as they would have under RPI[14].

This adjustment will not be applied to all charges. It will be applied where the following conditions hold:

(i) the charge is indexed;

(ii) indexation of the charge is set as part of the PR18 process;

(iii) the change in the indexation of the charge to CPI results in a forecast reduction in the income received by Network Rail; and

(iv) the operator [group] paying the charge has not been subject to a 'market-can-bear' assessment on its ability to pay infrastructure costs charges or is subject to our PR18 variable charge capping arrangements[15]

This means that where charges have been capped due to a 'market-can-bear' assessment, the charge will increase by CPI during CP6 but will not be subject to an initial upward adjustment to reflect the move from RPI to CPI indexation.

Table 2 illustrates which charges are subject to the RPI/CPI differential adjustment (*CPI**) and the charges which will increase only by CPI (CPI).

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[14] If the actual differential between CPI and RPI is 1%.

[15] We have concluded that the variable charges of freight and charter operators will be capped/phased-in in CP6.

Table 2: Indexation of charges in CP6

Charge	Franchised	Open Access	Freight	Charter
ICC[16]	CPI	CPI	CPI	n/a
Station LTC	*CPI**	*CPI**	n/a	n/a
QX mgmt. fee	n/a[17]			
VUC	*CPI**	*CPI**	CPI	CPI
EAUC	*CPI**	*CPI**	CPI	CPI
EC4T	n/a[18]			
Schedule 4	CPI			
Schedule 8	CPI			

*CPI** - charges indexed by CPI following the RPI/CPI differential adjustment (applied to the opening 2019-20 rate).
CPI – charges indexed by CPI without any adjustment

Initial indexation factor

We have also concluded that the ‘initial indexation factor’ used to convert 2017-18 prices to the opening 2019-20 charges will be CPI, in line with our broader PR18 inflation indexation approach.

[16] Franchised ICC = FTAC

[17] Indexation provisions for QX mgmt. fee are outside of the scope of the periodic review process

[18] The EC4T is a pass-through charge and is not indexed