26 August 2010

Ekta Sareen,
Economist,
Office of Rail Regulation
1 Kemble Street
London WC2B 4AN

Dear Ekta,

High Level Review of Track Access Charges

Thank you for the opportunity to comment on the high level review of track access charges. We read with interest the CEPA report and have some comments on its conclusions.

It is important that both funders and users face effective price signals especially at a time of financial constraints. However, any significant change to track access charges will impose costs and may introduce uncertainty into the industry. At the recent industry workshop, participants pointed out that it was important to be clear about the purpose of track access charges and the issues this review seeks to address. Before considering any change in the high level structure of charges, ORR should be certain that the likely benefits from changes in behaviour would outweigh the costs of implementation. Effects on behaviour of a change in charging structure will in any case be limited by the low proportion of variable charges and the fact that franchised operators are protected from changes to the charging regime.

CEPA recommend taking forward four options. It excluded from the shortlist both average cost charging and a track occupancy charge. TfL agrees with this decision. Average cost charging has few benefits other than simplicity. A track occupancy charge reflecting the amount of capacity used could, if based on train minutes, favour fast over slow trains. TfL does not believe this is appropriate given the mix of traffic that uses many route in the London area, serving different but nonetheless important markets.

LRIC based charging would take account of future investment needs but would be costly and difficult to implement. TfL does not believe a sufficiently strong case has been made for considering a switch to LRIC based charging at this time.

TfL does not support the option of introducing cost benefit sharing with Network Rail. Revenue risk should rest with the parties best able to manage that risk and as Network Rail has little influence over TOCs' revenue, the organisation is not well placed to manage that risk. If Network Rail were to engage in revenue sharing, it could have an incentive to favour high revenue earning services over services that serve an economic or social need when taking decisions. Funders and ORR are responsible for planning rail services taking account of financial and economic criteria and it is important that capacity is allocated according to sound economic principles.

A regional SRIC charge would vary charges according to the costs incurred by different types of traffic on a regional basis and TfL believes this would represent a more efficient allocation of costs than the current charging structure. A reservation charge could also bring benefits. TfL supports further investigation of these approaches if ORR believes that such changes to the charging regime would deliver net benefits.

A review of changes to the charging regime will need to take into account the outcomes of the consultation on Reforming Rail Franchising and Sir Roy McNulty's Value for Money study. These studies could result in changes to industry structure and to the current method of funding Network Rail through access charges and network grant.

TfL is content for this response to be made public.

Yours sincerely,

Carol Smales

Forecasting and Business Analysis Manager
London Rail
Transport for London