

# *Initial variable usage cost estimates*

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# *Aim of this presentation*

- Briefly set out the background to our work
- Provide a reminder of the work that we have carried out to date:
  - Initial variable usage cost estimates; and
  - Proposed level of any cap on freight variable usage charges
- Set out our next steps

# Background

- The variable usage charge (VUC) is designed to recover Network Rail's operating, maintenance and renewals costs that vary with traffic (e.g. track wear and tear costs)
- In PR08 ORR took account of the particular circumstances of freight operators by placing an early cap on freight VUCs
- As part of PR13 ORR is, once again, considering placing an early cap freight VUCs
- To inform the level of a possible cap we have calculated an initial estimate of freight variable usage costs
- We consulted on this estimate in November 2011 and concluded to ORR in March 2012

# *Initial cost estimates £/kgtkm (2011/12 prices end CP4 efficiency)*

	<b>CP4</b>	<b>CP5</b>	<b>Variance</b>
Average	£1.47	£1.56	£0.09 (6%)
Freight	£1.36	£1.46	£0.10 (7%)
Passenger	£1.52	£1.60	£0.08 (5%)

- Our initial CP5 cost estimates are slightly higher than those in CP4
- A key driver of the slight increases is the inclusion of variable usage costs in respect of cost categories that were excluded in CP4 e.g. masonry underbridges
- To reflect the uncertainty associated with these initial estimates we proposed a confidence interval of +/- 15%
- Uplifting the freight estimate by 15% results in a value of £1.68 per kgtk. We proposed to ORR that this could form a suitable basis for placing an early cap on freight VUCs

# *Next steps*

- **July 2012:** Appoint consultants to assist with the allocation of variable usage costs to individual freight and passenger vehicles
- **November 2012:** Issue consultation on the detail of our variable usage charging proposal
- **March 2013:** Conclude on our detailed variable usage charging consultation and publish draft VUC price list