

Pedro Abrantes
Head of Analysis and Rail Economics

29 January 2020

Peter Swatridge
Head of Regulatory Economics
Network Rail



Dear Peter,

Long term charges for new franchised stations opening in control period 6

Further to your letter of 18 December 2019, I am writing to approve Network Rail's methodology for calculating station long term charges for new franchised stations opening in control period 6 (CP6).

As part of the 2018 periodic review (PR18), Network Rail consulted stakeholders in early 2019 on its proposal to set the:

- **operational property** element of the long term charge for new franchised stations at the same level as existing stations in the same route and of the same station category;
- **station information and security system asset (SISS) maintenance** element of the charge equal to average expected expenditure on those assets at the station in question for the remainder of the control period; and
- **SISS renewal** element equal to the average annual depreciation of the assets at the station in question.

ORR was the only party to respond to this consultation. ORR expressed concerns that the approach to calculating the operational property element of the charge could result in an over-recovery of maintenance and renewal costs, as new stations should incur significantly lower costs than existing stations.

Network Rail reviewed its methodology in light of ORR's comments, consulting engineering experts to identify the cost of maintaining a new station, and to estimate the proportion of maintenance and renewal expenditure at existing stations that this represents. This was supported by an assessment of the proportion of long term charges to maintenance and renewal expenditure, for a sample of new franchised stations opened in control period 5.

Network Rail told us that both evidence sources suggest that maintenance costs for new stations should be in the region of 10% of the cost of maintaining and renewing existing stations. Network Rail therefore proposed to amend its approach by setting the operational property element of the charge at 10% of the level of existing stations in the same route and station category. Network Rail maintains that the approach to calculating SISS maintenance and renewals, as set out in its initial consultation, remains appropriate.



Network Rail's December 2019 letter, requests ORR's approval of this amended methodology. In January 2020, ORR consulted key industry stakeholders on the amended proposal by email. We received only two responses to the consultation. One from Govia Thameslink Railway, which said that it is content with the amended proposal, and one from Transport Scotland discussed below. We assume that stakeholders who chose not to respond are content with Network Rail's amended proposal.

Transport Scotland's concern relates to how a station opening in CP6 transitions from 'new' to 'existing'. Specifically, Transport Scotland considers it unfair that a station opened closer to the end of CP6 (or, in principle, any control period) incurs the lower operational property charge for a shorter timeframe than a station opened earlier in the control period.

We acknowledge Transport Scotland's view but note that the question of when a new station opening in CP6 transitions to an existing station only arises in control period 7 (CP7). As such, we will either consult on the charging arrangements for these stations during the 2023 periodic review or expect Network Rail to review this as part of the process for setting CP7 charges.

In conclusion, whilst there may be scope to further improve the evidence base on new station maintenance and renewal costs, we are satisfied that this is a proportionate revision to the initial proposal, ultimately resulting in a more cost reflective charge. We therefore accept the methodology for the station long term charge for new franchised stations in CP6 as set out in Network Rail's December 2019 letter to ORR. This decision forms our final determination on this charge for PR18.

Yours sincerely,



Pedro Abrantes