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Dear Ekta,

High Level Review of Track Access Charges

Thank you for the opportunity to comment on the full CEPA review of track access charges, and also for the earlier workshop where the interim report was discussed.

It is perhaps difficult to understand the potential implications of any changes to track access charges ahead of any changes arising from the Value for Money study, the DfT Review of Franchising and Government spending cuts. It is possible that the results of such programmes will make changes to the structure and level of access charges more relevant, or particular options more favourable. At present however, where over 90% of rail services are not exposed to variation in the level or structure of access charges, we struggle to see how major change will be leveraged by any of the proposals.

As ORR is already aware, rail freight operators pay only the variable charge. At the last charges review, extensive analysis was undertaken to determine whether operators could afford to pay more, and indeed certain services now pay the fixed cost on freight only lines. Whilst rail freight continues to improve its efficiency, we are not aware of any step changes in the last 2-3 years which would cause the previous conclusion to be invalid. This suggests that for the most part, rail freight operators cannot afford to pay a greater contribution in access charges than at present, without a resultant increase in Government subsidy for those services that qualify. We would therefore be concerned at any options which increased the total access charge for freight services.

For any future consultation, it would also be helpful for ORR to set out explicitly the type and nature of the rail industry problem which the change is intended to address, and the alternative solutions which might exist (which might be regulatory, contractual or negotiatable). For example, it is still wholly unclear to us which specific problem will be solved by route based charging.

ORR might also wish to clarify with funders the relationship between services which deliver profit to Government, and those which deliver social, environmental and wider economic benefits. Proposals such as scarcity charge have the effect of ensuring that paths on constrained routes will only be given to profit making services which can afford them, irrespective of their other benefits, or de facto that Government subsidy must rise to compensate less profitable services. This may not be in line with other areas of ORR policy such as the recent consultation on Capacity Allocation. The document also fails to draw any comparison with the rules governing freight charges set out in European legislation, and in particular the affordability test.

Turning to the specific proposals;

LRIC approach. This approach is clearly complex and the implications difficult to understand. However it appears to presume that enhancements are always financially viable and not undertaken for the social or environmental benefits that they deliver. If the aim of this approach is to recoup enhancement costs from benefitting services, then it may be that the existing approaches through access options may be simpler.

Average Cost Approach It is unclear how this would affect freight. However the benefits which have been delivered through vehicle type charging would be lost.

Regional SRIC As outlined above, we are unsure which problem this seeks to address. The customers of rail freight are located at the optimum place for their business, and are unlikely to relocate because of access charging principles. They also do not pay a variable road charge. If this measure was 'successful', we would presumably see fewer or no trains operating on 'expensive' routes, but we are unclear why this is to the benefit of the consumer.

Scarcity Charge As above, our concerns with this approach is that it uses affordability as the basis of capacity allocation, not total benefits. We do agree that there are areas where the overall approach to capacity allocation may need review – including Strategic Capacity and the most efficient way of holding freight paths for long term use amongst others, and perhaps these workstreams should be undertaken ahead of a change to the charging regime. It is not clear how this links to the existing capacity charge.

Track Occupancy Charge We can see no reason why freight services should pay more for the privilege of slower journey times. This approach appears to be perverse.

Cost Benefit Sharing Recognising that freight operates around only 8% of current services, this approach may incentives Network Rail to prioritise passenger services and schemes over freight to ensure a greater proportion of the revenue share. Freight operators, who are not backed by Government would be unlikely to put up 20% of revenues to such a scheme.

Overall therefore we remain unconvinced that any of the proposed approaches offer significant benefits to the rail freight sector and its relationship with Network Rail. We would like to see a much clearer statement of the expected benefits to freight in any future consultation, also including consideration of affordability and of the competitive position with road freight.

We would as ever be very happy to discuss any aspects of this with you further.

Yours sincerely

M Simpson

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