ATOC

ASSOCIATION of TRAIN OPERATING COMPANIES

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Dear Joe

CONSULTATION ON THE VARIABLE USAGE CHARGE AND ON A FREIGHT-SPECIFIC CHARGE

Thank you for the opportunity to comment on the consultation on the variable usage charge and on a freight-specific charge. Our comments below are largely confined to the proposals on the variable usage charge, although ATOC has been active on the industry VTAC working group which is looking at a range of charges including the VUC, capacity charge and the freight-specific charge and will continue to participate in this ongoing process.

Overall we would emphasise the importance of the following key principles in relation to reform of the VUC and related charges:

- Charging should be simple, transparent and predictable. In this context we are not convinced that CP5 is the right timeframe within which to implement a geographically-disaggregated VUC. Nonetheless there is value in working towards this as a CP6 objective. This could perhaps be achieved through a more general debate on charging outwith the PR13 process with the aim of achieving a broader whole-industry consensus, in particular around how route-based charging might work in the context of alliancing and wider reform of incentives currently underway;
- Flowing from this, changes to the structure of charging should run at the same pace as wider industry reform. There is no need to fundamentally change the structure of VTACs or introduce more complexity at a time when other important industry reform processes – particularly alliancing – are ongoing. Indeed, it is likely that alliances will increasingly be the means by which costs at the wheel/rail interface are addressed since they ought to better highlight opportunities for savings at a local level which cannot be reflected in template national charges;
- Charges should, where possible and subject to the principles above, be cost-reflective and incentivise improvements to vehicles that reduce track damage. This requires a clear and simple mechanism for translating vehicle changes into reductions in VUCs. Experience in CP4, for example with SWT's Desiro modifications, indicates that the lack of this kind of mechanism has made it difficult to build a business case based on VUC reductions to implement these sorts of changes. To address this for CP5 we suggest the adoption of some form of pre-agreed tariff whereby measurable improvements in vehicles, underpinned by evidence, would qualify for a set reduction in VUC.

Against this background we have the following additional comments on the VUC analysis:

- We broadly support the move to assess separately the track damage impacts driven by both vertical and lateral forces as part of the review. Although this may result in some redistribution of VUC across different vehicle types due to the differing proportions of vertical/lateral forces each exerts this should ensure charge is more cost-reflective.
- We recognise that the current work being undertaken by LEK, Serco and NR on track forces is still ongoing and that further evidence may come to light as a result of this process. In this context we reserve the right to comment further once this work is complete.
- We would encourage the consistent use of data and co-ordination with RDG and wider industry-led initiatives, in particular those workstreams looking at asset management in more detail.

I hope these comments help to inform your thinking and would be happy to discuss these issues further with you and colleagues if that would be helpful.

Yours sincerely

Jonathan Pugh
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