



Periodic Review 2013

Consultation on Fixed Track Access Charges in CP5

Network Rail

30 November 2012

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1. EXECUTIVE SUMMARY

Fixed track access charges (FTAC) are payable by franchised passenger operators and recover our net revenue requirement. The net revenue requirement is the revenue required to run our business, after accounting for the income we expect to receive from charges, other single till income and the network grant.

CP4 methodology

To allocate the FTACs in CP4, we first calculated the net revenue requirement (NRR) for each funder area (one for England & Wales and one for Scotland). The Scottish NRR became the total FTAC for the Scottish franchised operator less the network grant from Transport Scotland (TS). For the E&W FTAC, we allocated the NRR to franchised passenger operators using the following steps:

- (a) agreed on the treatment of each component of the calculation of the NRR, particularly whether it should be covered at SRS level or at a higher level of aggregation;
- (b) used the ICM to calculate, or allocate, the relevant costs or income to each of the c.300 SRSs (strategic route sections);
- (c) used the most relevant traffic metrics (e.g. train miles, vehicle miles, tonne miles, electrified train miles) to divide each line item between the operators using, or forecast to use, that segment;
- (d) used appropriate metrics to allocate line items not linked to individual SRS, which could use the traffic metrics or distribute pro rata to the SRS-specific estimates;
- (e) identified any elements that should be ring-fenced to specific TOCs, e.g. related to enhancement deals; and
- (f) then summed the components for each TOC.

Proposed methodology for CP5

For CP5¹, we are proposing to use a similar methodology to that used to calculate the CP4² charges. The key differences between the two approaches are:

- In line with the newly devolved structure, the majority of our cost and income forecasts will now be developed at a route³ level (which may include some allocation), and not SRS as was the case before; and
- we are proposing to include an extra step in the methodology which will split the FTAC by route before allocating to relevant franchised passenger operators.

¹ Control period 5 – this will be the period from 1 April 2014 – 31 March 2019

² Control period 4 – this is period from 1 April 2009 – 31 March 2014

³ Route refers to one of our 10 devolved operating routes.

We are seeking your views on this proposal.

Other issues

We are also proposing the following in relation to FTACs in CP5:

- that any changes to FTACs as a result of remapped franchises are adjusted according to vehicle mileage;
- that facility charges should continue to the end of the agreed period, and not be incorporated into the FTACs at control period changes; and
- for simplicity we will assume that there is no Crossrail operator in CP5, and that the costs are 'absorbed' into the other train operators' FTACs in CP5.

Indicative route-based RABs

In light of our newly devolved structure, we now formally report results at a route level. Consistent with this we will be forecasting, for CP5, much of our costs and income at a route level. The exception to this is the RAB and therefore RAB related costs.

We recognise that it may be useful to set out a high-level apportionment based on the way in which RAB related costs are treated in the FTAC calculation. We set out an approach for doing this by 'rearranging' the building blocks including the route-based FTACs and imputing indicative route-based RAB returns.

We propose to include this as a memorandum item to the regulatory accounts.

Stakeholder engagement

We are proposing to use the VTAC developments meeting to discuss our proposals with the industry.

Conclusions

In conclusion, we are proposing to use broadly the same methodology to calculate FTACs in CP5 as was used in CP4. The key difference is that these will now be calculated at route level before being mapped to train operators for billing.

We are also setting out an indicative split of the E&W RAB by route, which will be imputed using the route-based FTACs.

We are keen to hear your views on our proposals. This consultation closes on 11 January 2013, which provides six weeks for consultation.

2. INTRODUCTION & BACKGROUND

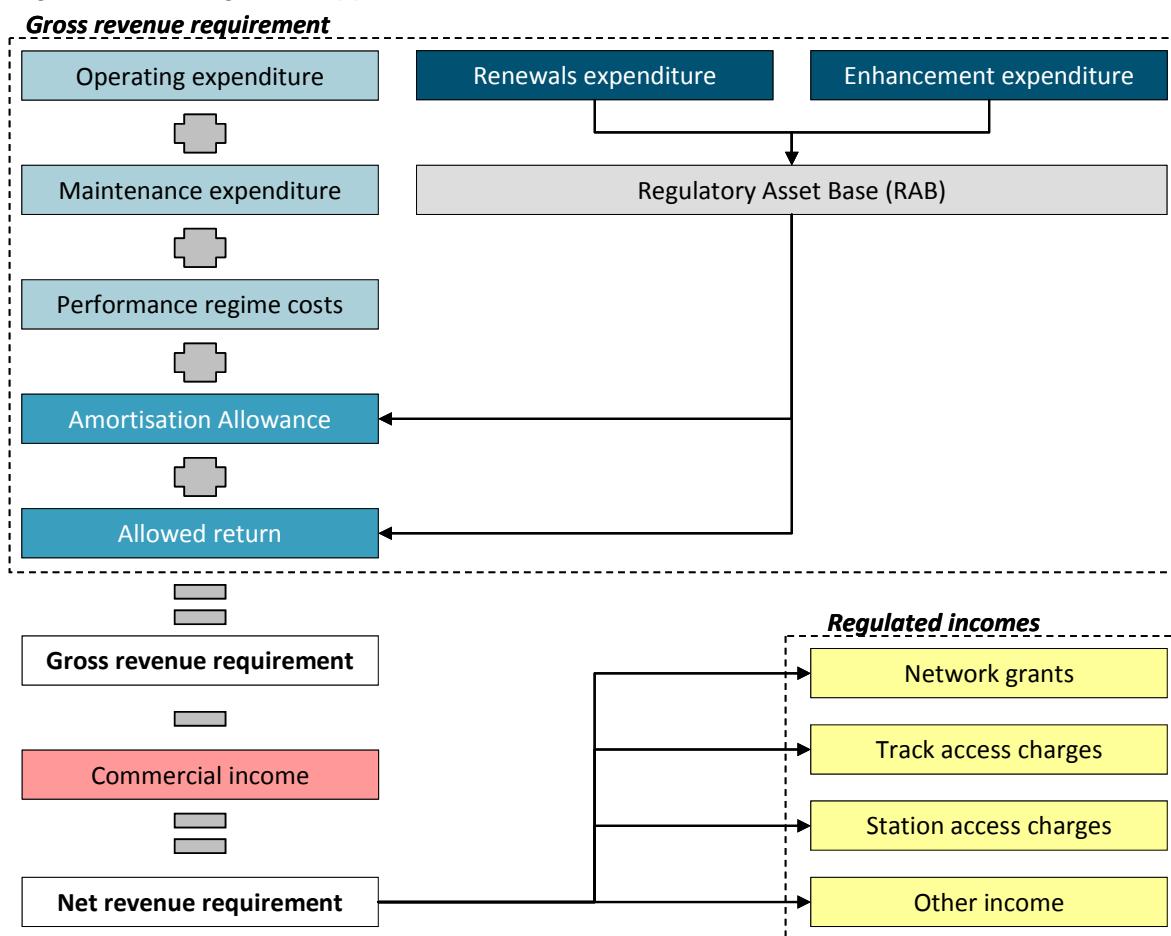
2.1. Introduction

Fixed track access charges (FTACs) are payable by franchised passenger operators and recover our net revenue requirement. The net revenue requirement is the revenue required to run our business, after accounting for the income we expect to receive from the following:

- variable track access charges;
- stations charges;
- other single till income; and
- network grants.

This approach is set out in Figure 1, below. Open access and freight operators do not currently pay FTACs.

Figure 1: Building block approach



It is crucial that the way in which FTACs are allocated between franchised passenger operators is transparent, simple to understand and cost reflective.

2.2. Scope

This consultation discusses our proposed methodology for calculating FTACs for franchised passenger operators for CP5. This calculation is based on the residual revenue requirement figure.

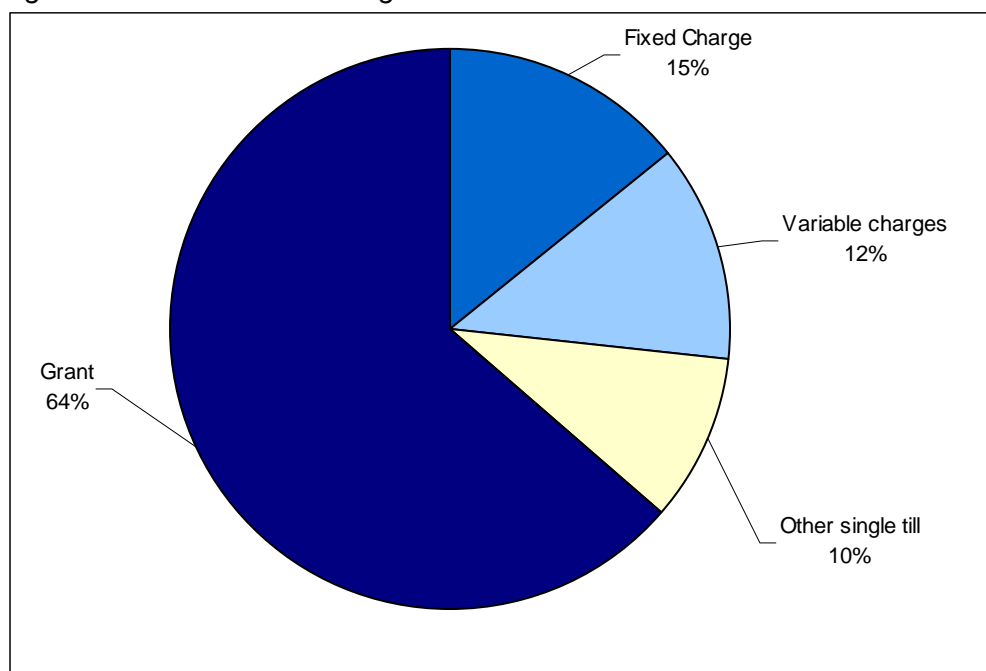
This document also discusses our approach to setting out an indicative split of the Regulatory Asset Base (RAB) by route for CP5.

This consultation does not include any proposals in relation to fixed charges for freight or open access operators.

2.3. Context

In 2011/12, FTAC income was £887m. Fixed track access charges make up around 15% of our total funding. Figure 2, below, sets out the different sources of our income and the percentage portion they represent. In the absence of government grant, our FTAC would be £4,876m (79%). The choice of classifying some of our net revenue requirement as grant is a matter for the governments and ORR.

Figure 2: Network Rail funding in 2001/12



2.4. Background

FTACs were last reviewed as part of the 2008 periodic review (PR08) for CP4. As part of PR08, we proposed an approach to disaggregating the residual net revenue requirement on a more cost reflective basis. This proposal was accepted by ORR and was used for developing the FTACs for CP4.

Prior to CP4, the FTACs were recovered from franchised operators on the basis of a share of total vehicle miles. These FTACs were derived in 2003 using the 'fixed charge allocation model' originally developed in 2000.

In 2005 the Office of Rail Regulation (ORR) commissioned its consultants to consider the feasibility of using an avoidable-cost approach to allocating FTACs. This work was undertaken as part of the 'structure of costs and charges (SOCC) review' in 2005. ORR was keen for us to consider the findings of this report in putting together our proposal for allocating FTACs for CP4.

Whilst we reflected aspects of the avoidable-cost approach in the development of our Infrastructure Cost Model (ICM), we did not consider that applying the avoidable cost methodology directly was appropriate, this was because:

- it would have been complex and unwieldy as it relies on significant 'expert judgement' and is not automatable. This could reduce transparency and user-friendliness;
- it would not necessarily have been cost reflective, as it considered only the costs that would be avoided if that operator was to cease services which may not be the basis on which decisions are made; and
- it did not fully incorporate the building block components in its analysis.

Our proposal was to use the ICM to calculate costs on each of the c.300 SRSs and use the most relevant traffic metrics (e.g. train miles, vehicle miles, tonne miles, electrified train miles etc) to divide each element of cost on each segment between the operators using, or forecast to use, that segment.

ORR noted that we moved some way towards adopting the avoidable-cost approach. It welcomed the improvements we made and considered that our proposal was a reasonable basis for allocating the fixed track access charge in CP4. The charges were audited and approved by ORR, and published on 18 December 2008⁴. The current FTACs are set out in [Annex C](#).

2.5. 2013 periodic review

In its May 2012 publication, 'setting the financial and incentive framework', ORR said that fixed track access charges will be disaggregated at a route level⁵.

In recognition of this point, we describe, in Chapter 4, how we propose to calculate route-based FTACs. However, for billing purposes, this will be mapped to individual franchised operators.

⁴ The fixed track access charges pricelist is accessible on our website here:

<http://www.networkrail.co.uk/browse%20documents/regulatory%20documents/access%20charges%20reviews/cp4%20charges/a%20-%20fixed%20track%20charges%20schedule%20for%20cp4.pdf>

⁵ ORR, (May 2012), '2013 Periodic Review: Setting the financial and incentive framework for Network Rail in CP5', paragraph 3.20(g). Accessible here: <http://www.rail-reg.gov.uk/upload/pdf/financial-incentive-framework-cp5.pdf>

3. CP4 METHODOLOGY

For the CP4 FTACs, we used the ICM to calculate costs on each of the c.300 SRSs. Using the most relevant traffic metrics (e.g. train miles, vehicle miles, tonne miles, electrified train miles etc) we then divided each element of cost, on each segment, between the operators forecast to use that segment. This is explained in more detail below.

The first step we took to allocate FTACs was to calculate the NRR (net revenue requirement) for E&W (England & Wales). The NRR was an output from our E&W financial model. From the NRR, we deducted the relevant network grant. The remainder was the amount to be recovered from FTACs. This illustrates that the calculation of the FTAC used a purely 'top down' approach.

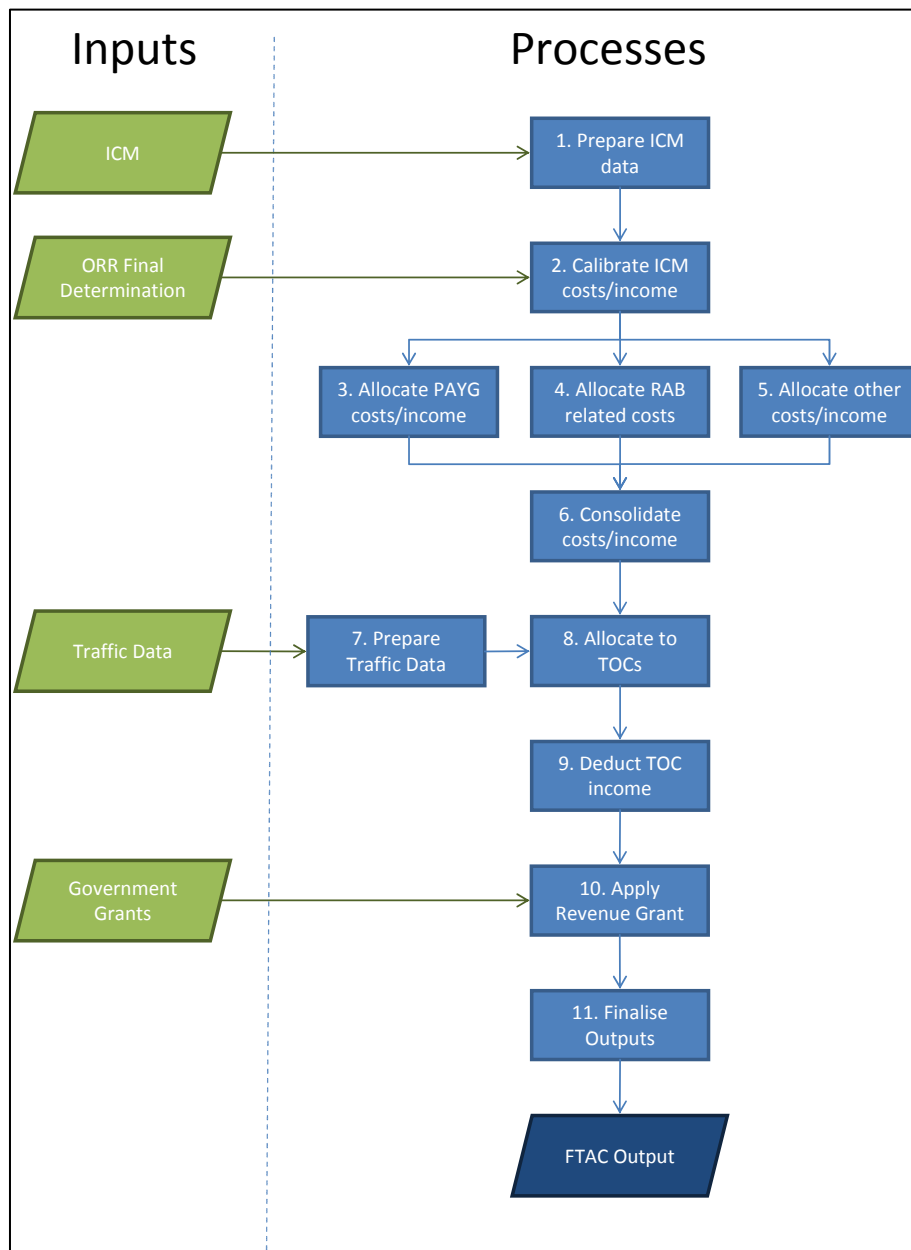
The next step was to allocate this total FTAC amount to individual FTACs for each of the franchised passenger operators. We changed to a more cost reflective way of doing this for CP4, which moved away from the simpler approach used prior to this which used a split of vehicle miles across all costs. To do this we:

- agreed on the treatment of each component of the calculation of the NRR, particularly whether it should be covered at SRS level or at a higher level of aggregation;
- used the ICM to calculate, or allocate, the relevant costs or income to each of the c.300 SRS;
- used the most relevant traffic metrics (e.g. train miles, vehicle miles, tonne miles, electrified train miles) to divide each cost line between the operators using, or forecast to use, that segment;
- used appropriate metrics to allocate line items not linked to individual SRS, which could use the traffic metrics or distribute pro rata to the SRS-specific estimates;
- identified any elements that should be ring-fenced to specific TOCs, e.g. related to enhancement deals; and
- then summed the components for each TOC.

To make the FTACs more cost reflective, we did not deduct income from franchised stations and facility charges from the gross revenue requirement. Instead, we deducted these specific charges at the end of the process from the specific operators to which they relate.

This process is set out in Figure 3, below.

Figure 3: CP4 FTAC model flow diagram



3.1. RAB related costs

The England & Wales financial model, not shown in Figure 3, incorporated the Regulatory Asset Base (RAB) related costs such as amortisation and rate of return. These costs contributed to our CP4 revenue requirement (see Figure 1). We allocated these costs on the basis of long-run renewals, using the following steps:

- (a) A 35-year profile of modelled renewal expenditure for each SRS and asset category was taken from the ICM, which derived long-run annual averages of renewal expenditure.

- (b) Renewal expenditure for each asset category (year and SRS) was consolidated into expenditures for each allocation pot⁶¹ (year and SRS).
- (c) For each allocation pot and year, the model calculated a percentage share for each SRS.
- (d) The total RAB return and amortisation costs were then taken from the Final Determination by year.
- (e) These costs were allocated back to SRS according to the percentage splits calculated in step c.
- (f) These disaggregated costs were allocated to franchised passenger operators according to the user selected traffic metric for the allocation pot, and consolidated.

3.2. Funder split

Generally DfT (Department for Transport) provides funding for services in E&W, and TS (Transport Scotland) fund services in Scotland.

As part of PR08 it was agreed that the funding split should be based on the assumption that TS funds the entire network in Scotland, and DfT the network in E&W. Hence we assessed the net revenue requirement in Scotland for the full Scottish network, and we did the same for England & Wales. We assumed that forecast train mileage from east coast services running on the Scottish network would pay variable charges in Scotland and contribute towards the TS net revenue requirement in Scotland, and that a similar effect would occur with ScotRail services running in England & Wales, where the variable charges from these services will benefit the DfT net revenue requirement.

It was also agreed that the resulting NRR in each funding area (England & Wales and Scotland) would be funded from FTACs plus direct government grant. This meant that the NRR in each funding area was to be funded / supported by the government and franchise specifier in each. As TS was the franchise specifier for ScotRail, and not east coast or west coast services, we agreed that the NRR for Scotland would be split between direct TS grant to us and ScotRail FTAC only. Similarly, as DfT was the franchise specifier for GNER (Great North Eastern Railway) and Virgin (and not ScotRail), we proposed that the NRR for E&W be split between the direct DfT grant to us and FTACs from all TOCs except ScotRail. This meant that ScotRail services would pay no FTAC for usage of the E&W part of the network and East Coast services would pay no FTAC for usage of the Scottish part of the network.

This is consistent with the approach taken for the original funding split in 2006 where FTACs were not split for GNER, Virgin or ScotRail; all GNER and Virgin FTACs were shown against E&W and all ScotRail FTACs were shown against Scotland.

⁶ A grouping of similar costs held at the same level of geography (generally SRS), which will be split among operators using the same traffic metric.

4. PROPOSED METHODOLOGY FOR CP5

We are proposing to use broadly the same methodology (with some minor refinements), to allocate the FTACs, as was used for CP4.

There are, however, two key differences between the CP4 approach and our CP5 proposed approach. The first is that, in line with the newly devolved structure, the majority of our cost and income forecasts will now be developed at a route level (which may include some allocation), and not SRS as was the case before.

The second key difference is that we propose including an extra step in the methodology which will split the FTAC by route before allocating to relevant franchised passenger operators. We consider that this is consistent with ORR's expectations as set out in its May 2012 document.

The route-based FTACs will be useful for reporting purposes, as well as illustrating the indicative split of the RAB (this is explained in further detail in Chapter 6).

4.1. FTACs for England & Wales

We are proposing to apply the following steps to determine the route-based FTACs for E&W.

Step 1

For CP5, we will be forecasting the following lines of expenditure at route level:

- Opex (operating expenditure)
- maintenance costs
- schedule 4 costs; and
- schedule 8 costs.

We will also be forecasting our income at route level for CP5, this includes:

- variable track access charges income;
- other single till income;
- schedule 4 costs; and
- schedule 8 costs.

All of these route-based cost and income lines will comprise a mixture of bottom-up and top-down forecasts, and therefore some will include some allocation. Most of the cost categories will be allocated on the basis of train miles. These cost lines will feed in to the route-based FTACs.

For the purposes of splitting FTACs to train operators, we will use relevant allocation metrics for each cost line to split the costs to individual train operators. For example,

we will split all electrification costs on the basis of electric vehicle miles, all signalling and telecoms costs on the basis of train km and all track and civils costs on the basis of EMGTPA km (equivalent million gross tonnes per annum). All other costs will be allocated on the basis of vehicle or train miles. We have set out the allocation metrics we propose to use for each cost line in [Annex B](#).

(A) Do you have any views on the allocation metrics we are proposing to use for each of the cost categories for allocation of the FTACs to franchised passenger operators? (see [Annex B](#))

4.2. RAB related costs

The cost line which is missing is 'RAB related costs' these costs will not be forecast at route level (this is explained in more detail below).

The process of considering these costs and income follows the basic 'building block approach', which is set out in Table 1, below. Please note that this table is for illustrative purposes and therefore does not contain any figures.

Table 1: E&W Net Revenue Requirement

E&W	Year 1	Year 2	Year 3	Year 4	Year 5
	£m	£m	£m	£m	£m
Costs (inc. RAB related costs)					
less Income (VTAC + OST)					
NRR (i.e. total FTAC)					

Step 2

We are proposing to calculate E&W RAB related costs (amortisation and RAB return) using the financial model for E&W as a whole. For the purposes of setting the FTAC, we then propose to apportion these costs based on the following steps:

- (a) split the total RAB related costs by route in proportion to the long-run renewals forecast for each route (this would create percentage splits by route using long-run renewals which will be forecasted by route); then
- (b) apply these percentage splits to the amortisation and RAB return costs, which provides an apportionment of these costs to route.

After carrying out these steps, we would then have all costs and income by route.

Step 3

The amount to be recovered in each route and CP5 year could then be derived by summing all expenditure (including amortisation and RAB return) for each route and then subtracting all income. This will enable the creation of route-based FTACs.

We propose to assume no grant at this stage with the total FTAC being equal to the E&W NRR.

(B) Do you agree with our proposal, to use an approach similar to the one used in CP4, to allocate FTACs?

4.3. CP5 WACC approach

For CP5, the actual RAB return that we will receive will be calculated on the basis of the 'adjusted WACC (weighted average cost of capital)' approach, as opposed to the 'full WACC' approach used currently. We propose to calculate FTACs under both approaches for illustrative purposes.

4.4. Operator-specific adjustments

We propose to, as far as is possible, reflect any operator-specific income to make the individual FTACs as cost reflective as possible. This is consistent with the approach used to calculate the CP4 charge.

For the route-based FTAC, we propose to deduct the total of all income (at route level) from the corresponding costs in that route. This will enable the creation of route-based FTACs.

The TOC-based FTACs will also be allocated on the basis of the allocation metrics, however where we are able to make operator-specific adjustments we will. For example this could be done for franchised stations' income and facility charges. The income from these categories will be netted off towards the end of the process, so that they are netted from the specific operators to which they relate.

(C) Do you have any views on our proposal to reflect operator-specific income where possible?

4.5. FTAC for Scotland

We propose to follow the same approach as was used for CP4 to determine the Scottish FTAC for CP5.

This means that we are proposing that the FTAC for the Scottish franchise (currently First ScotRail) will be exactly equal to the net revenue requirement for Scotland. The net revenue requirement for Scotland will include the RAB return and amortisation in relation to its own RAB. The Scottish RAB was determined in 2005⁷, and has been logged up, as appropriate, since then. Therefore, Scotland's RAB related costs will be based on the Scottish RAB only.

The variable track access charges we expect to receive from the Scottish franchise will be reflected in both the Scottish and English & Welsh net revenue requirements in relation to the areas in which the services operate. For example, the amount we are forecasting to receive through variable track access charges in relation to the First ScotRail sleeper service will be reflected in both the Scotland and E&W charges incomes respectively, because the service runs over both networks. This will also be the case for E&W franchises which operate services in Scotland.

⁷ ORR (December 2005), 'ORR's approach to regulation in Scotland: Conclusions'.

As discussed above, we are proposing to calculate one FTAC for Scotland to recover the Scottish NRR. We have assumed that we will charge this FTAC, in full, to the current single Scottish franchise - First ScotRail. In June 2012, Transport Scotland set out its decision to let a separate franchise for the Caledonian Sleeper service of up to 15 years⁸, which is currently part of the single Scottish franchise. The specifications for the new franchises will be set out in the new year. We consider that it would be a matter for Transport Scotland and ORR to agree on the methodology to be used to implement the 'split' with respect to FTAC between the two Scottish sponsored franchises. We do, however, consider that the total Scotland net revenue requirement will need to be recovered by way of the total of the two Scottish franchises' FTACS.

Later in this consultation, we discuss franchise remappings. If the Scottish franchise is split during CP5, it could be viewed as a remapping. In this situation we have proposed to adjust FTACs according to split of vehicle mileage (see section 5.1). We note that given the nature of the cross boundary service, a straightforward vehicle mileage split within Scotland may not be as cost reflective

- (D) Do you agree with our approach to calculating the Scottish FTAC?**
- (E) Do you have any additional comments to make in relation to our proposed approach to calculating FTACs?**

⁸ Transport Scotland (June 2012), 'Ministerial Rail Statement'. Accessible here: http://www.transportscotland.gov.uk/files/documents/rail/Rail_2014_-_Ministers_statement_to_Parliament_.pdf

5. OTHER ISSUES

5.1. Remapped franchises

Generally, FTACs are determined for an entire control period, as part of ORR's Periodic Review. However, during a control period franchised services may be changed. This is usually referred to as a 'remapping' as the same services tend to be specified, but provided by different operators.

In the past, franchise remappings have resulted in changes to the FTACs paid by the affected franchised operators. In this case, the FTACs paid by both parties were adjusted to reflect the change in network usage. We propose that a pragmatic approach is agreed at the outset to ensure consistency across all such remappings which may occur during a control period.

It is our understanding that the approach used to remap LOROL and Southern services was on the basis of network usage, i.e. vehicle km. We propose that this approach is used for any remappings during CP5.

(F) Do you agree with our approach to calculate FTACs for remapped franchises based on vehicle km?

5.2. Facility charges

We propose that any facility charges that are in place should continue to the end of the agreed period. We do not consider that these should be incorporated into the FTACs at control period changes.

In line with the investment framework⁹, at the end of the relevant franchise we consider that the facility charge should be charged to the successor franchisee, for the agreed recovery period. This would ensure zero effect on the FTAC.

Prior to CP5 commencing it is possible that the funding bodies (other than DfT or TS) may choose to procure additional railway outputs in their jurisdictions. If this were to occur, we consider it appropriate to reflect such arrangements through a facility charge charged to the relevant train operator.

(G) Do you agree with our proposal not to incorporate any facility charges into the FTACs at control period changes?

Welsh Valley Lines electrification

An example, of where a supplementary FTAC might apply, is the Welsh Valley Lines electrification project. This enhancement is likely to be funded by the Welsh Assembly Government. We, therefore, propose to recover the costs of this project through a facility charge, which would be charged to the Welsh franchised passenger operator only (currently Arriva Trains Wales). This would mean that we could recover the

⁹ ORR (October 2010), 'Investment framework consolidated policy and guidelines', paragraph 75. accessible here: http://www.rail-reg.gov.uk/upload/pdf/investment_framework_guidelines_october_2010.pdf

specific costs associated with such incremental outputs from the operators benefiting from the investments. The funding bodies could then, in turn, recompense the train operators for the facility charge.

We discuss our proposal for treating facility charges in the FTAC model in section 4.4.

(H) Do you agree with our proposal to recover the Welsh Valley Lines electrification project costs through a facility charge?

5.3. Open access

ORR has consulted on the possibility of introducing some form of fixed charges for open access operators. The FTACs referred to in our consultation relate to fixed charges for franchised operators only. We are assuming that there will be no open access fixed charge at the start of CP5.

(I) Do you agree with our approach to the treatment of potential open access fixed charges?

5.4. Crossrail

Crossrail is currently under construction. Rail services are forecast to come in to effect just before the end of CP5. Because the exact date of introduction of Crossrail services is a little uncertain and will only be in place for a few months of CP5 we will assume that there will be no Crossrail operator in CP5. For this reason we propose that Crossrail costs are 'absorbed' into the other train operators' FTACs for CP5. Because we are proposing a route-based approach, these costs will be reflected in the Anglia and Western routes.

(J) Do you agree with our approach to the treatment of Crossrail costs in CP5?

6. INDICATIVE ROUTE-BASED RABS

In light of our newly devolved structure, we now formally report results at a route level. Consistent with this we will be forecasting, for CP5, much of our costs and income at a route level. The exception to this is the RAB and therefore RAB related costs.

The RAB includes historic spend on enhancements and renewals, and hence it would be a rather complex task to apportion the RAB in a meaningful way by route. We recognise, however, that it may be useful to set out a high-level apportionment based on the way in which RAB related costs are treated in the FTAC calculation. We have set out an approach to do this, below.

6.1. Proposed approach

In order to calculate indicative RABs by route, we are proposing to use the forecast E&W average RAB return. For each route we then propose to impute the route-based RAB such that the RAB return is the same as the average E&W forecast return. To do this we propose to use, for each year of CP5, the forecast:

- a. RAB; and
- b. RAB related costs (see Table 2, below). Please note that this table is for illustrative purposes and therefore does not contain any figures.

Table 2: E&W RAB related costs

E&W total	Year 1	Year 2	Year 3	Year 4	Year 5
	£ m	£ m	£ m	£ m	£ m
Income (VTAC + OST + FTAC)					
less					
- costs (O + M + sch4/8)					
- amortisation					
RAB return					

In year 1, for E&W as a whole, the forecast RAB return would be:

$$c. \text{ RAB return} / \text{RAB} \times 100 = x\%$$

(e.g. circa £2bn / £40bn = 5%)

By rearranging the 'building blocks' and including the route-based FTACs (calculated as explained in Section 1) in each route's income line, we can impute the total RAB return by route, see Table 3, below. Please note that this table is for illustrative purposes and therefore does not contain any figures.

Table 3: Route (A) RAB related costs

Route (A)	Year 1	Year 2	Year 3	Year 4	Year 5
	£ m	£ m	£ m	£ m	£ m
Income (VTAC + OST + FTAC)	A ₁				
less					
- costs (O + M + sch4/8)					
- amortisation	B ₁				
RAB return	A₁ – B₁				

Route-based indicative RABs

In year 1 the forecast RAB return for route (A) would be:

$$RAB\ return_{A1} = A_1 - B_1$$

And the indicative RAB for route (A) in year 1, (where x% is the average forecast E&W RAB return in year 1), would be:

$$RAB_{A1} = RAB\ return_{A1} / x\%$$

(e.g. if $RAB\ return_1 = £100m$, then $£100m / 5\% = £2bn$)

The out-turn return achieved by each route will vary depending on the income that it achieves and on management of its costs.

A worked example based on 2011/12 data is set out in [Annex D](#).

6.2. Discussion of proposed approach

The benefits of this approach are listed below.

- It is consistent with CP5 FTACs.
- Operating and maintenance costs are route specific, so the method of deriving route-based FTACs will be accurate for these costs.
- It is simple to calculate and to understand.
- It does not purport to be anything other than indicative (otherwise there may be a danger of spurious meaning to the numbers).
- It is no less arbitrary than any other method.

The limitations of this approach include:

- 'Jam spreading' the return on the 'historic RAB' using CP5 allocation metrics, may not be accurate.
- The CP5 route-specific enhancements part of the RAB return will be split based on forecast long-run renewals for each route, which may be an approximation.
- The proportion of the RAB attributable to each route may vary slightly in each year of CP5 (because of the allocation metrics used to derive route based FTACs).
- This approach will incorporate any TOC specific charges added to the individual FTACs, which may distort the route-based RAB.

We expect to include the indicative route-based RABs as a memorandum item in the regulatory accounts.

6.3. Comparison to Scottish approach

We have carried out some very brief analysis to compare this approach to that taken in 2005 to allocate the RAB to Scotland¹⁰.

The approach taken for the Scotland method was rather complex. Generally speaking, it used long-run renewals as a metric to split the RAB. In our simple analysis, we have used long-run renewals as the basis for spitting the RAB by route, to provide a comparison of the approaches. We found that the two approaches were very similar, with an average of absolute differences¹¹ by c.14%.

(K) Do you have any views on our approach to calculate indicative route-based RABs?

¹⁰ ORR (Dec 2005) 'ORR's approach to regulation in Scotland: conclusions', Annex B, paragraph 8.

¹¹ Absolute differences have been used otherwise, by definition, the differences would average to c. 0%.

7. STAKEHOLDER ENGAGEMENT

Fixed track access charges represent a significant cost for franchised passenger operators and through franchise competitors, to the respective governments.

As with all track access charges, we are committed to working with the industry in developing a charging structure that:

- is fully transparent;
- is practicable to administer;
- accurately reflects the costs incurred;
- does not result in unreasonable levels of risk for any party; and
- is consistent with ORR's charging objectives.

We plan to use the already established 'VTAC developments meeting' to communicate our plans to review the fixed track access charge. This will include providing presentations and updates on the development of the charges for CP5. Table 4, below, sets out the milestones for the development of FTACs.

Table 4: Milestones for the development of FTACs

Date	Activity
December 2012	Seek views from stakeholders on the consultation questions and other issues presented in this consultation at the VTAC developments meeting.
By February 2013	Conclude on this consultation
March 2013	Submit indicative FTAC pricelists to ORR
December 2013	Final pricelist published

(L)	Do you have any views or suggestions about our approach to stakeholder engagement?
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8. CONCLUSIONS

8.1. Summary of proposals

In conclusion, we are proposing to use broadly the same methodology as was used in CP4 to allocate the FTACs. The key differences between the proposed approach and the CP4 approach are:

- Some costs are now collected at route level instead of SRS; and
- We will calculate route-based FTACs as well as individual operator FTACs.

We are also proposing to set out an indicative split of the E&W RAB by route. We expect to include this as a memorandum item to the regulatory accounts.

8.2. Next steps

We plan to conclude on the results of this consultation in early 2013. By the end of March 2013, we aim to submit draft FTAC pricelists to ORR.

8.3. Responding to this consultation

This document sets out a number of specific consultation questions, which are summarised in [Annex A](#). We would welcome responses to these questions, as well as comments on any other aspect of the charges work programme as part of PR13. The closing date for this consultation is **11 January 2013**. This provides six weeks for consultation.

We intend to make responses public, including sharing them with ORR and publishing them on our website. Please indicate if you wish all or part of your response to remain confidential.

Please address any responses and / or queries to:

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This consultation can also be downloaded from our website here:

<http://www.networkrail.co.uk/PeriodicReview2013.aspx>.

ANNEX A – CONSULTATION QUESTIONS

A list of the consultation questions is set out below:

- (A) Do you have any views on the allocation metrics we are proposing to use for each of the cost categories for allocation of the FTACs to franchised passenger operators? (see Annex B)
- (B) Do you agree with our proposal, to use an approach similar to the one used in CP4, to allocate FTACs?
- (C) Do you have any views on our proposal to reflect operator-specific income where possible?
- (D) Do you agree with our approach to calculating the Scottish FTAC?
- (E) Do you have any additional comments to make in relation to our proposed approach to calculating FTACs?
- (F) Do you agree with our approach to calculate FTACs for remapped franchises based on vehicles km?
- (G) Do you agree with our proposal not to incorporate any facility charges into the FTACs at control period changes?
- (H) Do you agree with our proposal to recover the Welsh Valley Lines electrification project costs through a facility charge?
- (I) Do you agree with our approach to the treatment of potential open access fixed charges?
- (J) Do you agree with our approach to the treatment of Crossrail costs in CP5?
- (K) Do you have any views on our approach to calculate indicative route-based RABs?
- (L) Do you have any views or suggestions about our approach to stakeholder engagement?

ANNEX B – PROPOSED ALLOCATION METRICS

We are proposing to use the following allocation metrics for each of the cost categories listed below for the allocation of FTACs to franchised passenger operators.

Table 5: Proposed allocation metrics

Cost type	Cost description	Allocation metric
Renewal costs	Buildings	Train km
	Civils	EMGTPA km
	E&P: AC distribution & OLE	AC electric vehicle km
	E&P: DC distribution & ETE	DC electric vehicle km
	Fixed plant	Train km
	IT	Vehicle km
	Wheeled plant and machinery	Vehicle km
	Corporate offices	Vehicle km
	Other renewals	Vehicle km
	Signalling	Train km
	Telecoms	Train km
	Track	EMGTPA km
Maintenance costs	Asset Management	Vehicle km
	Civils	EMGTPA km
	E&P: AC distribution & OLE	AC electric vehicle km
	E&P: DC distribution & ETE	DC electric vehicle km
	Fixed plant	Train km
	Exceptionals	Vehicle km
	Group	Vehicle km
	Indirect	Train km
	National Delivery Service	Vehicle km
	Operations and Customer Services	Vehicle km
	Other	Vehicle km
	Commercial Property	Vehicle km
	Signalling	Train km
	Telecoms	Train km
Track	EMGTPA km	
Non-controllable costs	Cumulo rates	Vehicle km
	Electric traction	Electric vehicle km
	Other joint industry costs	Vehicle km
Operate costs	Non Signalling Costs	Train km
	Signalling costs	Train km
Property costs	Property	Train km
Support costs	Asset Management	Train km
	Business Services	Train km
	Finance	Train km
	Government and Corporate Affairs	Train km
	Group	Train km
	Human Resources	Train km
	Information Management	Train km
	Insurance	Train km
	Investment Projects	Train km
National Delivery Service	Train km	

Table 5: Proposed allocation metrics

Cost type	Cost description	Allocation metric
	Network Rail Telecom	Train km
	Other corporate functions	Train km
	Group Strategy	Train km
	Property	Train km
	RAMs	Train km
	Utilities	Train km

ANNEX C – CP4 FIXED TRACK ACCESS CHARGES

Table 6: Schedule of Fixed track access charges (£, 2009/10 prices)

Schedule of Fixed Track Access Charges (£) (2009/10 prices)					
Train Operator	2009/10	2010/11	2011/12	2012/13	2013/14
XC Trains Limited	62,296,585	66,042,863	63,261,600	66,337,773	89,058,123
Arriva Trains Wales/Trenau Arriva Cymru Limited	44,557,840	46,933,147	44,936,607	47,416,950	63,636,270
c2c Rail Limited	9,131,619	9,577,472	9,131,597	9,564,504	12,794,369
The Chiltern Railway Company Limited	16,581,948	17,003,726	16,507,871	16,870,258	20,032,606
East Midlands Trains Limited	39,317,554	41,697,807	39,942,867	41,881,054	56,220,789
First Capital Connect Limited	25,485,181	26,747,890	24,780,748	25,591,274	34,307,118
First Greater Western Limited	68,337,082	71,893,473	68,493,871	71,639,076	95,731,814
First ScotRail Limited	111,617,442	116,069,939	125,381,045	247,547,349	283,409,649
First/Keolis TransPennine Limited	25,314,978	26,497,532	25,295,361	26,387,715	35,337,132
London & Birmingham Railway Limited	29,297,283	31,110,539	29,803,886	31,239,883	41,925,386
London Overground Rail Operations Limited	3,731,416	3,961,741	3,795,305	3,978,327	5,339,270
Merseyrail Electrics 2002 Limited	7,458,558	7,863,639	7,533,675	7,923,484	10,631,025
London Eastern Railway Limited	45,608,163	47,948,836	45,493,763	47,589,614	63,568,695
NXEC Trains Limited	41,530,803	43,373,581	43,082,710	44,237,983	58,853,330
Northern Rail Limited	77,681,703	81,577,143	78,112,936	82,480,369	111,018,496
Stagecoach South Western Trains Limited	55,997,510	58,881,307	55,778,426	58,358,265	78,040,478
London & South Eastern Railway Limited	52,297,681	55,474,814	52,934,567	55,679,707	74,756,036
New Southern Railway Limited	40,901,652	43,320,036	40,940,733	42,758,518	57,444,526
West Coast Trains Limited	64,518,015	67,398,830	63,742,267	66,392,967	88,555,834
Total	821,663,012	863,374,314	838,949,835	993,875,072	1,280,660,945

ANNEX D – WORKED EXAMPLE OF INDICATIVE ROUTE RABS

Currently, we do not have route-based CP4 determination figures. We do, however, have out-turn for 2011/12, this is reported each year in our regulatory accounts. To illustrate the method that could apply as a forecast for CP5, we have imputed route-based RABs for 2011/12 so that each route has the same % RAB return at that time (equal to E&W average 2011/12 return).

Table 7: E&W RAB return

Cost / income line	E&W actuals in 2011/12 (£m)
FTAC + GRANT	4,337
variable charges	664
other single till	644
	5,645
Less:	
opex	(1,208)
maintenance	(884)
schedule 4 and 8	(159)
	2,251
Less:	
amortisation	(1,523)
RAB return	1,871

Source: Network Rail regulatory accounts 2011/12

In 2011/12, for E&W as a whole, the forecast RAB return would be: $1,871 / 38,045 \times 100 = 4.92\%$, for each route in each year

Table 8: Anglia route indicative RAB

Cost / income line	Anglia route actuals in 2011/12 (£m)
FTAC + GRANT	354
variable charges	66
other single till	83
	503
Less:	
opex	(145)
maintenance	(95)
schedule 4 and 8	(14)
	254
Less:	
amortisation ¹²	(112)
RAB return	137

Source: Network Rail regulatory accounts 2011/12

In 2011/12 the actual RAB return for the Anglia route was £137m. The indicative RAB for the Anglia route in 2011/12 would be: $137 / 4.92\% = \mathbf{£2,791m}$.

¹² We have allocated amortisation costs in proportion to the RAB related costs *i.e.* $\text{amortisation} = (\text{RAB related costs for Anglia} / \text{RAB related costs for E\&W}) \times \text{amortisation for E\&W}$

ANNEX E – ACRONYMS AND ABBREVIATIONS

Table 9: Acronyms and abbreviations

ATOC	Association of train operating companies
CP4	Control period 4 (1 April 2009 – 31 March 2014)
CP5	Control period 5 (1 April 2014 – 31 March 2019)
DfT	Department for transport
E&W	England and Wales
FTAC	Fixed track access charges
ICM	Infrastructure cost model
KGTM	Thousand gross tonne miles
KGTKM	Thousand gross tonne kilometres
NRR	Net revenue requirement
ORR	Office of rail regulation
OST	Other single till
PR08	Periodic Review 2008
PR13	Periodic Review 2013
RAB	Regulatory asset base
SRS	Strategic route section
TAA	Track access agreement
TOC	Train operating company
TS	Transport Scotland
VUC	Variable usage charge
VTAC	Variable track access charge