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5<sup>th</sup> September 2012

Dear Joel,

**GB Railfreight Ltd. response to Periodic Review 2013 – Consultation on the Capacity Charge:**

As well as this PR13 consultation on the capacity charge, there are several other proposed changes to regulatory policy currently under consultation. Network Rail and the ORR must have regard for the total level of impact on FOCs from the aggregation of all of these proposed changes and should evaluate the total direct financial impact on the FOCs, the increasing complexity and compliance burden and the secondary impacts on the market (customers, suppliers, investors).

There's a very real danger for individual consultations to be concluded in isolation when, in totality, after all changes are aggregated, a significant level of uncertainty, complexity and financial burden is being added to the industry. Fundamental changes to the charging structures do need to be consulted and decided upon outside of the industry's normal commercial contracting timescales. Fundamental changes to the access charging structure should be made very infrequently and not each control period thereby taking account of the industry's 30 year investment timescales. Changes to the structure and aggregate level of access charging should also pass a test that they do not directly cause the stranding of investment made under the previous charging regime.

Since June 2002, when the current capacity charge was introduced, the freight operating companies having been running longer, heavier and fewer services, with the number of trains having been reduced by over 32% but with tonnage (freight tonne km) having increased by almost 15%. It is, therefore, only right that the charge is recalibrated in the correct way. FOCs have become so much more efficient from 2002-2012 and this improvement needs to be at the heart of the new CP5 baseline figure.

GBRf does not support the introduction of geographical charging, on top of time differential charging, as this would just complicate the whole process for FOCs and their customers and might also lead to some perverse incentives in routing certain services over less than suitable routes. Any charging structure needs to be kept simple and any justified increase to a minimum (or zero), taking into account other current PR13 charging work currently being considered by the ORR.

It's GBRf's view that, for many freight services running on the network, incorrect amounts of capacity charge are being recovered. As stated in Network Rail's consultation, it is only the incremental services that should be subject to the capacity charge not those services incorporated in the baseline figure. This over-recovery of the specific capacity charge cannot be justified and another, more accurate, way forward needs to be found.

#### ANSWERS TO SPECIFIC QUESTIONS:

1) *Do you agree that, beyond the arrangements that are currently in place, capacity charge tariffs that vary across time should not be introduced?*

GBRf agrees with the above view – no change to tariffs varying across time. There's a difficulty with trying to define "peak" periods on the many lines of route on which a freight train might run and the whole exercise would become very complicated and unclear. It's the exact opposite that's required.

2) *Do you agree that the weekend discount should remain in place? Do you agree that the magnitude of the discount should be revisited and informed by analysis undertaken as part of the capacity charge recalibration exercise?*

GBRf is running an increasing number of freight services during the whole of Sunday and the established Freight Joint Network Availability Plan (JNAP) is now gearing Network Rail, FOCs and their customers towards a regular and consistent 7 day a week operation. There are already GBRf Biomass, coal and Intermodal services regularly running on Sundays.

GBRf believes that Sunday capacity charges should be cheaper than corresponding Saturday charges. Saturday freight capacity charges are, currently, 25% less than the weekday charge. A suggested 35% discount for the Sunday charge would be beneficial to FOCs and their customers in quoting for a 7 day a week service. By the beginning of CP5, the efficiency gains for all Network Rail's engineering possessions should mean that the much heralded "8 hour Saturday night" possessions, for strategic freight corridors and other main routes, are far more common and should not be a barrier to freight growth, as described by the footnote on page 13 of this consultation.

5) *Do you agree that all freight operators should pay the same single capacity charge tariff in CP5? What are your views on the level of discount applied to freight services?*

Given that FOCs' track access contracts have a +/- 30 min. flex in their Schedule 5 Rights Table, and that Network Rail could flex a freight service into a more expensive time zone, GBRf agrees that a single, simple capacity charge should not be made more complicated if, indeed, it is to remain as a separate charge. Competitive neutrality between FOCs is also important and, therefore, in the absence of a charge that varies across time, all FOCs should pay the same single capacity charge.

There shouldn't be a discount applied to balance out any over-recovery – there just shouldn't be any over-recovery in the first place. Taking the flexing issue in the above paragraph as a case in point, GBRf considers the currently applied discount insufficient to compensate FOCs for the flexing right enjoyed by Network Rail. When freight trains are flexed, the resultant impact on what was previously an efficient operation is often to create higher operating costs and reduced efficiency.

7) *What are your views in relation to arrangements for handling large timetable changes in CP5?*

The CP5 capacity charge needs to be set for the full 5 years and GBRf would not want one or a number of mid-period reviews of this charge, triggered by a large timetable change or any other capacity change event listed by the Event Steering Group. This would present an unmanageable situation and would lead to a lack of confidence in the CP5 charging regime by FOCs and, more importantly, their customers. Any changes to any charges, especially on a number of occasions during a Control Period, would just drive rail freight traffic to road haulage as it would be seen as having a far more simple cost structure.

8) *Do you consider that the proposed methodology for recalibration of the capacity charge, described above and detailed in Appendix 2, is appropriate?*

From the consultation, it appears that a similar methodology is being used for recalibrating the CP5 capacity charge. It is only a broad outline but GBRf can agree to this similar methodology but only if there are safeguards to ensure that there is no longer over-recovery of this charge. GBRf would like to see evidence of this and I'm sure further debate on this is required.

9) *Do you agree that the CUI should be used as the basis for capacity charge recalibration as part of PR13?*

GBRf has no strong views on whether the CUI continues to be used or if a new measure is introduced so can agree to it.

10) *What are your views about accounting for other determinants of reactionary delay as part of the CP5 recalibration of the capacity charge?*

There needs to be some recognition of the increasingly common issue of running on a restricted railway network, either with Single Line Working or the diverting of a service or downgrading of its capability (gauge etc.) due to diversions. Other determinants, therefore, must be taken into account during this exercise and there may well be some netting off from CP5 capacity charging given the number of occasions of disruption likely to occur in the Control Period.

11) *What are your views about the functional form used to model the relationship between reactionary delay and capacity utilisation?*

No comment.

12) *How do you think the industry can guard against analytical risk in the capacity charge recalibration? In the unlikely event the statistical recalibration approach described above is not fully successful, how should we proceed to secure a capacity charge which is fit for purpose in CP5?*

If necessary, the simplest and quickest solution would be to start with the original CP3 figures and work forwards from there. possibly with a simple RPI formula.

13) *How should changes in the capacity charge, between CP4 and CP5, be managed?*

As mentioned in the beginning of this response, the proposed CP5 capacity charge needs to be considered in combination with the review of all other proposed PR13 charges for freight. It's the sum total of these CP5 costs that need careful consideration and comparison with the equivalent CP4 figures.

The consultation states that changes in passenger revenue and capacity utilisation are two of the most important sources for likely change. With the number of freight services having decreased by over 32%, but with tonnage (freight tonne km) having increased by almost 15%, coupled with the number of passenger services having increased over 10 years, it looks as if freight's efficiencies (i.e. now running fewer longer trains) are to be penalised because of more frequent passenger services on the network.

If there is to be any increase in the capacity charge for freight, at the very least, this needs to be linked to better quality freight paths, i.e. without large amounts of pathing time or following stopping services.

Good quality freight pathing, with a faster overall freight velocity and as little change in braking and accelerating as possible, is little understood by Network Rail but hugely important to FOCs in respect of fuel usage and costs. Better quality freight paths also, directly, affect performance as, without regular decelerating and accelerating, trains are far more likely to keep to or exceed the sectional running times.

*14) Do you support the creation of a capacity charge working group? How do you consider that its membership should be decided? What should be its remit?*

At this point, GBRf doesn't believe there's a requirement for a working group. If, in time, there's a requirement, it should be for a limited period only as FOCs' resources are limited, given the many consultations that need engagement and formal responses. GBRf is happy to have bi-lateral meetings with the successful bidder, also Network Rail, and the Rail Freight Operators' Association (RFOA) can also input into the process with freight operators' views.

*15) Do you have any further views or suggestions about our approach to stakeholder engagement in relation to the capacity charge?*

None.

*16) Do you prefer fewer and longer consultations or more regular and shorter consultations?*

Having been dealing with many Network Rail, ORR and DfT consultations over the last 15 months, both small and large, GBRf would prefer fewer and longer consultations as it's easier to concentrate and not be distracted with a smaller number of documents. This is particularly the case with the whole periodic review of every aspect of freight charging now taking place for Control Period 5.

*17) Do you have any further views or suggestions about our approach to stakeholder engagement in general?*

Many consultations can be long and repetitive, with sections of text being repeated, almost verbatim, firstly in a summary and then in a detailed section of the consultation. This repetition needs to be eliminated so there's less to read through but what is left is all important. GBRf would also like a very clear timetable of consultations for the next 2 years so, to some extent, our limited time available for responding to important consultations can be managed better, in advance.

Yours sincerely,

**Ian Kapur.**  
**National Access Manager.**