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Consultation Response

## **Network Rail Consultation on the Fixed Track Access Charge**

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## 1. Introduction

- 1.1. **pteg** represents the six Passenger Transport Executives (PTEs) in England which between them serve more than eleven million people in Tyne and Wear ('Nexus'), West Yorkshire ('Metro'), South Yorkshire, Greater Manchester, Merseyside ('Merseytravel') and the West Midlands ('Centro'). The West of England Partnership, Leicester City Council, Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of **pteg**, though this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all.
- 1.2. **pteg** welcomes the chance to respond to this consultation.

## 2. Context

- 2.1. The PTEs are seeking a greater devolved role in the delivery of local rail services in the West Midlands and North of England, and discussions are currently underway with the Department for Transport on this issue. The McNulty review identified potential benefits relating to devolved funding, specification and management of local rail services and **pteg** is looking for the review of the track access charging regime to facilitate this wherever possible.
- 2.2. Devolution would probably mean a much more substantial role for PTEs in the specification, development and funding of passenger franchises. The PTEs are also considering what the most appropriate risk allocation is likely to be and whether to propose to take more direct control over station management and operations. In a devolved scenario, we would indirectly become Network Rail's main client in our areas, both through subsidy payments to TOCs (part of which goes towards track access charges) and in the case of capital investment. As such we have an extremely keen interest in ensuring that the track access charges regime is fair, consistent with wider policy objectives and encourages optimum behaviour by all stakeholders involved.
- 2.3. In particular, we believe that franchising devolution will lead to a growing need for funders and operators to better understand the impact of service changes on infrastructure costs (including fixed costs). A clearer relationship between service specification decisions and long term changes in fixed track access charges would no doubt lead to better informed investment and service planning decisions. We feel that, at present, the setting of fixed track access charges lacks the required transparency and supporting evidence base to enable this process.

## 3. Current approach to Fixed Track Access Charges (FTACs)

- 3.1. We agree with Network Rail's statement in the consultation document that the way in which FTACs are allocated between franchised passenger operators should be **cost reflective**, **transparent**, and **simple to understand**. Unfortunately, we do not feel that either the current approach or that which is now being proposed for CP5 go far enough towards meeting these goals. Most importantly, we believe that, by failing to follow a full avoidable cost approach, the charge does not necessarily reflect the proportion of fixed infrastructure costs that are incurred by different types of service and operator. We believe that this has contributed to

undermining McNulty's assessment of the level of public subsidy that flows to different parts of the network<sup>1</sup> and could bias future policy decisions.

- 3.2. In addition, we feel that more could be done to improve the transparency and the industry's understanding of the way in which the calculation of FTACs is carried out. In particular we would call on NR to shed greater light on the assumptions, structure/operation and evidence base underlying the Infrastructure Cost Model (ICM). Not only would this inspire greater confidence in the calculation of the charge but it would also allow operators and sponsors to gain a better understanding of infrastructure cost drivers and adapt their behaviour accordingly. We would also like to see a clear explanation and rationale for all the cost allocation decisions made outside the ICM.

## 4. Proposed CP5 approach to FTACs

### Spatial Disaggregation

- 4.1. We feel that the proposal to carry out the allocation of costs at the level of Network Rail Routes rather than Strategic Route Sections (SRS), as is currently the case, is a backward step. This is because the potential devolution of franchising responsibilities is likely to see greater demand for the disaggregation of cost information, not less. We also feel that NR's proposal, while administratively expedient, runs contrary to the transparency agenda and the needs of its customers, as it makes an already opaque calculation even more difficult to unpick and audit. In any case, we can't see any reason why the SRS-level results couldn't be aggregated up to the NR route level for internal management purposes.
- 4.2. In the interest of greater transparency, we would be keen for Network Rail to continue to carry out the FTAC calculation at SRS level and would be keen to see the intermediate outputs of the calculation (e.g.: proportion of different cost items allocated to each SRS) as well as the final list of charges.

### Allocation metrics

- 4.3. The publication of the proposed allocation metrics is as a step in the right direction. However, we find it difficult to provide constructive comments on their suitability without understanding the rationale and supporting evidence for Network Rail's proposal. We would therefore welcome additional clarification from NR on this point.
- 4.4. That being said, our general view is that, in most cases EMGTPA km (ETkm in short) and vehicle-kms would be preferable to train-kms as the default allocation metric. Our rationale for this is two-fold:
  - ETKm and vehicle-kms more closely reflects differences in the quality requirements of infrastructure. For example, a faster, heavier and longer train, compared to a short, stopping, light weight passenger service, will require a smoother vertical and horizontal alignment, more regular inspection and maintenance as well as stronger load bearing infrastructure. For this reason, an allocation based on ETKm or vehicle-kms will lead to an outcome closer to avoidable cost charging;
  - ETKm and vehicle-kms will more closely reflect differences in Willingness to Pay, leading to an outcome closer to Ramsey pricing, which is likely to be welfare maximising. Taking

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<sup>1</sup> We have set this out in more detail in a paper to Transport Select Committee's inquiry into the Future of Rail.

the example above, the faster, longer train will typically be able to generate much greater revenue than the short stopping train.

#### **Operator-specific income**

- 4.5. We agree with NR's proposal to deduct any operator specific income from the final allocation of costs.

#### **Franchise re-mapping**

- 4.6. We agree with the general approach proposed by NR to deal with remapped franchises within each control period, with the single caveat that there may be more appropriate allocation metrics, for example EMGTPA km or vehicle-kms instead of train-kms as we argue above.

### **5. Indicative route-based Regulatory Asset Base (RAB)**

- 5.1. We agree that there would be value in producing route-based RABs, in particular, for the following reasons:
- To better understand the value of the existing capital stock;
  - To better understand the variation in NR's cost recovery across the network;
  - To be able to estimate long run marginal costs from changes in the RAB over time; this could inform the future pricing of rail infrastructure.
- 5.2. Unfortunately, we feel that the proposed approach would provide little meaningful information on the RAB as, rather than aggregating and depreciating past expenditure on the network, it merely takes NR's future estimated net income (or 'RAB return', which incorporates future estimated costs and income) and scales this up based on the national average rate of return. The accuracy of this estimate depends on the extent to which current net income reflects past expenditure and the level of profitability of a given route compared to the national average. There is little reason to believe that either of these assumptions will hold.