ATOC response to Network Rail First consultation on the station Long Term Charge in CP5

November 2012

ATOC is pleased to provide its response to Network Rail's consultation on the structure and level of the station Long Term Charge (LTC) in Control Period 5 (CP5). While ATOC supports, in principle, Network Rail's ambition to learn lessons from previous periodic reviews and to provide additional time to discuss and agree a way forward, we are concerned that there is a risk of putting the cart before the horse through this process.

We have set out our detailed response to the consultation questions in the attached appendix and consider that there are three important points of principle that Network Rail should keep in mind as it develops the consultation on the form and level of the station LTC.

Firstly, we are surprised that Network Rail's consultation provides little, if any, assessment (or even explanation) of the fundamental purpose of the station LTC. In our view, the charge exists to strengthen the alignment of the funding and expenditure associated with stations. TOCs naturally have a strong interest in understanding what they receive in terms of the maintenance, renewal and repair of the stations that they rely upon in exchange for the charges that they pay.

If functioning correctly, the station LTC should create effective signals that enable Network Rail and TOCs to evaluate the options available for station assets. We consider that prior to examining issues related to the structure of the charge, it is essential to evaluate whether the charge is currently fulfilling this purpose.

The second point of principle, which is related to the point above, is that the consultation makes no reference to the outputs that Network Rail is proposing to offer in relation to stations expenditure. The latest CP4 delivery plan document notes that Network Rail expects to meet its target to maintain the average condition of stations within each category (A-F) and across all categories in Scotland. We think it is extremely disappointing that the consultation on the station LTC does not take up this excellent opportunity to explore the relationship between station outputs and the charges that TOCs pay for station assets.

We note with some interest Network Rail's stated approach to forecasting stations expenditure which '*…follows a risk based methodology, drawing* *on real time risk and asset condition data taken from Network Rail's asset management database'*. Given that this approach is based upon a '*bottom-up, station-by-station'* view, it seems to us that it would be relatively straightforward to unbundle the regulatory targets with respect to station outputs to set these at a station level. As a minimum, we would expect the consultation to consider this type of issue and would urge Network Rail to review this as part of the next stage of the process.

The third point of principle relates to the treatment of the cost of capital. The consultation notes that the cost of capital associated with stations is currently recovered through the fixed charge but does not set out the rationale for this approach. Noting the point above that charges should be fully cost reflective in order to provide appropriate economic signals, the case for excluding the cost of capital associated with stations is far from clear.

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Appendix – response to consultation questions

Do you agree that the established LTC structure should be retained in broadly its current form in CP5?

As noted above, we consider that the consultation on the station LTC should encompass a more holistic review of whether the charge is currently fulfilling its purpose. This should include a review of the relationship between station outputs and the charges that TOCs pay for station assets.

Do you agree that the cost of capital associated with stations should continue to be excluded from the LTC?

In considering this question, it would be useful to understand further the rationale for the current approach under which the cost of capital is recovered through the fixed charge.

Do you agree that SISS costs should be recovered by means of the LTC rather than fixed charges in CP5?

We agree that SISS should be recovered by means of the LTC rather than fixed charges. However, it would be useful for Network Rail to provide more details of how SISS costs currently operate including the impact of this change on individual operators.

As a general principle, do you agree that the industry should move to a portfolio charging structure for the LTC in CP5?

There appears to be a clear contradiction in that Network Rail has stated that it has developed a much more sophisticated approach to projecting expenditure station-by-station but is proposing to scrap the station-by-station charge in favour of charging at portfolio level. Network Rail has suggested that portfolio charging may reduce the administrative burden, however, any benefits arising from this approach would need to be traded-off against the benefits of a more granular relationship between station expenditure and station charges. We consider this to be a central issue which needs to be explored in far greater detail with stakeholders.

More specifically, under the proposed portfolio approach, certain SFOs will need to recover a proportion of the LTC from other users. Network Rail has suggested that this could be achieved by providing a breakdown of total portfolio costs by station based on long term MRR costs rather than within control period costs. In theory, this could create a mismatch in a scenario where the within control period costs are significantly different from long term MMR costs e.g. during a period of high investment. We consider that this is an issue that will need to be addressed further in the light of Network Rail's strategic business plan projections.

Do you agree with the specific approach to portfolio billing described in the preceding paragraphs?

See point above in relation to portfolio charging.

Do you agree with the proposed methodology for translating expenditure into charges at franchised stations in CP5?

We have had some difficulty in understanding the logic behind Network Rail's proposed approach to translating expenditure into charges. The document sets out a four stage process as follows:

(i) identify average annual long term expenditure by station over 35 years

(ii) aggregate average costs by station to level of SFO portfolio

(iii) apply generic overlays to reflect SBP and CP5 efficiency assumptions; and

(iv) apply an adjustment so that total LTC by SFO at the level of portfolio over CP5 is equal to projected expenditure

It would be helpful to understand why 35 years was chosen as the proxy for reasonable long-term cost estimates at the station level. Additionally, given that step 4 adjusts the charges to ensure that the CP5 charge is equal to projected CP5 expenditure it is unclear what purpose step 1 (identifying average long term expenditure by station) serves in the calculation. For the avoidance of doubt, we welcome the proposal to provide estimates of long run expenditure at a station level but do not understand why this has been included as a step in the calculation.

It may be that this becomes clearer when the calculation is based upon actual estimates of expenditure rather than illustrative data.

We note Network Rail's efforts to develop its approach to forecasting costs associated with operational property and SISS at stations. The use of real-time risk and asset condition data should enhance the ability of Station Facility Owners (SFOs) to scrutinise and monitor both Network Rail's ex ante proposals for stations expenditure and the ex post delivery of the plan. We look forward to reviewing Network Rail's 'bottom-up, station-by-station' projections of required expenditure for CP5 and beyond.

Do you agree with the proposed methodology for translating expenditure into charges at managed stations in CP5?

See response to question above

What are your views about the LTC in light of the transfer of MRR activities to SFOs on some routes?

It would be useful to understand more around Network Rail's proposed rationale for calculating a 'shadow' charge for stations for which it no longer has responsibility.

What are your views about our proposals for industry engagement as part of the process to set LTCs in CP5?

On a matter of process, Network Rail's letter notes that this is one of several consultations being issued over the summer and autumn of 2012 in relation to track and station access charges. We consider that it would be extremely useful for Network Rail to produce a timetable setting out details of the key milestones associated with this process as well as the relationship with the wider PR13 process.

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