EAST COAST
East Coast Main Line Company

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Joel Strange
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Network Rail
Planning & Regulation
King's Place
90 York Way
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1st October 2012

Dear Joel,

First Consultation on the Station Long Term Charge in CP5

In reference to the above mentioned consultation dated September 2012 East Coast Main Line Company Limited (ECMLCo) would like to highlight the following points with the proposals set out and the questions asked;

- **Consultation question 1 – Do you agree that the established LTC structure should be retained in broadly its current form in CP5?**
  - ECMLCo has no specific concerns with the current structure for LTC and would have no objections to this continuing in its current form,

- **Consultation question 2 – Do you agree that the cost of capital associated with stations should continue to be excluded from the LTC?**
  - ECMLCo agrees that the exclusion of the cost of capital from LTC should be continued,

- **Consultation question 3 – Do you agree that SISS costs should be recovered by means of the LTC rather than fixed charges in CP5?**
  - ECMLCo does not agree that SISS costs should be recovered through the LTC but instead should remain as is with separate fixed charges. It is felt that the differing circumstances at different stations would give rise to discrepancies within the charging mechanism. For example there are stations where due to numerous upgrades of CCTV all the MMR has been passed to the SFO whereas at other stations there has been little or no changes since privatisation therefore the conditions contained within the Station Specific Annexes still show the MMR to be a responsibility of Network Rail. This could cause conflict in the agreement of charges. ECMLCo would be interested to understand how variation across different stations/franchises will be addressed to ensure all Operators are on a level playing field before any changes are made,

- **Consultation question 4 – As a general principle, do you agree that the industry should move to a portfolio charging structure for the LTC in CP5?**
  - ECMLCo has no issues with this general principle but does foresee problems with its application as there will be a lack of transparency for all parties if a general percentage is applied to each station in an 'Operators portfolio'. Further work into this proposal is required before a final opinion can be formed as it is yet to be understood the basis for the percentage allocation within a portfolio.
    Prior to CP4 it was the practise that a single periodic charge invoice was received by the SFO for the Third Reserve Rent charges at all of the franchise stations as one amount, this only changed in CP4 where the invoices were issued per station. To revert back to the pre-CP4 mechanism would effectively give the same result as portfolio billing but could still be justified with a breakdown of the charges per station at the beginning of the charging period.

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- **Consultation question 5 – Do you agree with the specific approach to portfolio billing described in the preceding paragraphs?**
    - Please see the response to Consultation question 4.

- **Consultation question 6 – Do you agree with the proposed methodology for translating expenditure into charges at franchised stations in CP5?**
    - ECMLCo agrees that a bottom-up budget of expenditure will always be more reliable than a top-down view for the same assets. Having said this it is a view of ECMLCo that there is no guarantee that during a Charging Period all charges that are paid for Third Reserve Rent reflect the MRR works that are carried out. A bottom-up budget will remedy this as the planned works will be fully visible to all parties to show the works that are due to be undertaken in any particular year. It is anticipated that the longer view of the expected expenditure will give more assurances to the SFO and the Beneficiaries at each station of the charges going forward. Before a final opinion can be expressed by ECMLCo on the full methodology for translating expenditure to charges will need to be reviewed.

- **Consultation question 7 – Do you agree with the proposed methodology for translating expenditure into charges at managed stations in CP5?**
    - Please see the response to Consultation question 6.

- **Consultation question 8 – What are your views about the LTC in light of the transfer of MRR activities to SFOs on some routes?**
    - ECMLCo welcomes the idea of a ‘shadow LTC calculation’ but would like to remind all parties that as we see the move from Network Rail MMR to TOC/SFO MMR the level of charging and categorisation of the works entailed should not be incorporated within another cost category. For example from the TOC/SFO point of view when the MMR works transfer to the SFO instead of Network Rail the costs should still be categorised as Long Term Charge works and not any other cost line i.e. planned maintenance. We should not see charges for works that were categorised as Third Reserve Rent become Qualifying Expenditure or anything else as this will impart larger charges on Beneficiaries due to various uplifts that apply to Qualifying Expenditure and not to Third Reserve Rent.

- **Consultation question 9 – What are your views about our proposals for industry engagement as part of the process to set LTCs in CP5?**
    - ECMLCo welcomes all forms of industry engagement in determining industry charges going forward. A consultation with all parties within the industry will promote cross industry working may well yield further industry wide savings as different points of view are taken on board. The milestones proposed seem acceptable. Further to this ECMLCo will be arranging a full review of the proposed MMR works during CP5 at each of the ECMLCo franchised stations.

- **Additional Consultation question 10 – Do you agree that Managed Stations SISS maintenance and repair should be brought together as a landlord responsibility, and therefore be included in the LTC for CP5?**
    - ECMLCo would like to express a concern with this question as with the obligations at other locations not managed by Network Rail the maintenance and repair elements are split by SFO/Landlord responsibility. If both elements are put together within the LTC charge this responsibility split would become blurred and the transparency of QX-able costs may become lost within an industry charge.

- **Supply of the illustrative example of the process to be used to calculate CP5 LTC charges for franchised stations.**
    - Having reviewed the spreadsheet supplied as an example ECMLCo understands and appreciates the process to be used and has no concerns over this calculation method.

ECMLCo gives consent for this response to be shown in full on the Network Rail website.

Yours sincerely

Niall Melvin
Commercial Access Manager
East Coast Main Line Company Limited.