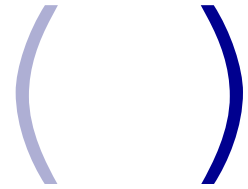


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Ekta Sareen
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Date:
11 January 2013

Dear Ekta

Network Rail Consultation on Fixed Track Access Charges in CP5

Thank you for the opportunity to respond to this consultation. I've restricted our comments to the proposed approach to calculating the Scottish FTAC.

Current model and Network Rail proposal

In setting the FTACs for Control Period 4 (CP4) it was agreed that the funding of Network Rail's net revenue requirement (NRR) for the GB network be split such that Transport Scotland fund the entire network in Scotland, and DfT the network in England & Wales (E&W). This was also the basis on which the rail devolution settlement was negotiated and agreed.

Network Rail proposes to follow the same approach used for CP4 to allocate the Scottish FTACs for CP5. Under this model Network Rail would calculate one FTAC for Scotland and charge this in full to the ScotRail franchise.

Strengths and weaknesses of proposed approach

The current methodology is a simple approach which is well-established, understood and accepted by the GB railway industry and is consistent with what was agreed as part of the rail devolution settlement. It is important, however, that Network Rail uses the Periodic Review process to consider alternative approaches that may help to strengthen incentives, better align with both new and emerging industry structures and ultimately ensure that any opportunities to improve the running of the railway in Scotland for the benefit of passengers are not missed.

Whilst Transport Scotland (via ScotRail) does not incur any costs in respect of FTACs for ScotRail services' use of the network in E&W, it does not receive any FTACs payment from the cross-border franchises. The amounts of FTACs forgone in each network will not be equal, so there will be an imbalance in the system. Furthermore it could be argued that the current system does not reflect the value that cross-border operators derive from operating to Scotland or deliver any income benefits to Transport Scotland as funders from any investment on the relevant infrastructure within Scotland.



An alternative approach would be to allocate Scottish FTACs to the cross-border franchises on the basis to that proposed by Network Rail for E&W. Applying a methodology that allocates FTACs to TOCs in some manner in line with their track usage may be more equitable than the current approach and would link a cross-border franchise's payments to Network Rail more closely to their use of the network. Variations of this model may also be possible by differentiating between FTACs on sections of the track infrastructure predominantly used by cross border operators north and south of Edinburgh and Glasgow.

Treatment of Caledonian Sleepers

In the consultation document Network Rail notes our intention that the Caledonian Sleeper franchise will be let as a separate franchise. Network Rail states that it considers 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. Network Rail also notes that it considers that the total Scotland NRR will need to be recovered by way of the total of the two Scottish franchises' FTACs.

Network Rail also suggests that if the Scottish franchise is split during CP5, it could be viewed as a remapping. In section 5.1 of the consultation, Network Rail proposes that in the event of a remapping the associated FTACs could be remapped according to the split of vehicle mileage. However, it also notes that, given the nature of the sleeper service, a straightforward vehicle mileage split within Scotland may not be as cost reflective.

Given the relative scale of the proposed franchises, the nature of the Sleeper services and the fact that the Sleeper does not currently incur FTACs in E&W, it may be appropriate to treat the Sleeper franchise in a manner broadly comparable with an open access operator on both sides of the border, paying variable track access charges but no FTACs. However, please note that we would not wish the rights of the Sleeper franchisee to overnight paths and station access to be compromised in any way.

Next Steps

Transport Scotland would welcome further discussions on the issues and opportunities identified above. These will naturally require input from other key stakeholders so I am copying this letter to John Jellema at the ORR and Phil Killingley at DfT.

I can also confirm that Transport Scotland does not require any of this response to remain confidential.

Yours sincerely



STEVEN MCMAHON