GBR’s Core Track Access Package – Freight and Charter VUC Rate Phasing

Industry Engagement to shape GBR’s Charges Scheme ahead of FP1

Introduction

– Caitlin Scarlett

Workshop purpose

- This is the sixth of our workshops exploring options for GBR's future charges scheme: today we will focus on potential approaches to phased-in Variable Usage Charge (VUC) rates for Freight and Charter Operators.
- During the workshop we will explain the **previous decisions taken by Office of Rail and Road (ORR)** to cap and phase-in VUC rates over recent Control Periods. This will help us to introduce the problem statement and the issue that GBR is tasked with addressing.
- We will provide an overview of our **early-stage thinking about how GBR can set fully cost-reflective VUC rates for freight and charter operators by the end of Funding Period 1 (FP1).** It is informed by previous ORR work, and has been developed in the context of balancing GBR's legal duties and charges objectives.
- The key objective of today's session is to seek stakeholder views on our early-stage thinking. In particular we would like to capture your views and priorities on this topic ahead of FP1. There will be time in the workshop for stakeholders to share their views – **<u>we ask that stakeholders come prepared to discuss the options presented in these slides and to respond to the workshop discussion points.</u>**
- **<u>Caveat: this engagement is starting at a very early stage, ahead of detailed VUC rate recalibration for FP1 (2029 to 2034). We may need to modify our approach as new information becomes available.</u>**

Recap of ORR decisions to phase-in VUC rates

– Conor Murrells

Understanding ORR policy and decisions

Over successive Periodic Reviews, ORR has adopted a mix of capping and phasing policies in response to Network Rail's recalibration activities, to provide certainty or avoid price shocks that would occur if VUC rates were immediately uplifted to fully cost-reflective levels.

PR08 (CP4) — 1
ORR reduced Network Rail's freight cost estimates by nearly 25% and capped freight VUCs to provide certainty.

PR13 (CP5) — 2
ORR capped the average freight VUC increase at 10% and phased that cap in across CP5.

PR18 (CP6) — 3
The current policy of phasing-in VUC rates was formalised: cost-reflectivity over a 10-year transition

PR23 (CP7) — 4
ORR deferred full cost-reflectivity until the end of CP8.

- The current policy of phasing-in VUC rates started ahead of CP6. In PR18, NR's recalibration produced materially higher uncapped VUCs, with increases of +38 % for freight. In response, ORR formalised its phasing-in policy for freight and charter, with **CP6-estimated cost-reflective levels notionally reached by the end of CP7.**
- **In PR23, ORR deferred full cost-reflectivity until the end of CP8.** The PR18 trajectory was preserved for CP7 (equivalent to an average capped increase of 17.5 % versus an uncapped 27.6 %). No correction was applied for the "inflation shortfall".

ORR's PR23 Final Determination

"We have set average VUC rates to increase during CP7 at the same rate as that set in PR18. VUC rates will then increase further in CP8 with a view to being fully cost-reflective by the end of CP8"

Source:

PR23 final determination: policy position – access charges

Problem statement

– Conor Murrells

Problem statement – balancing key trade-offs

With GBR assuming responsibility for setting charges in FP1, we need to consider ways of completing the transition to full FP1 cost-reflectivity in a way that balances GBR's legal duties, charges objectives, and broader rail objectives.

In setting policy on this topic, GBR must balance important trade-offs:

- *Statutory duties:* promoting the carriage of goods by rail (i.e., by limiting price shocks and protecting inadvertent modal shift away from rail), as well as considering the costs to be met from public funds and the efficient use of these funds;
- *Charges objectives:* sustainable cost recovery linked to CDI (i.e., consistent implementation of cost-reflective charges for all non-GBR operators), as well as supporting planning and investment (i.e., developing a charges scheme conducive to attracting inward investment from third parties).

PROBLEM STATEMENT

GBR must also be cognisant of how it manages subsidy transparently and holistically.

Policy options should not seek to create division, but rather identify solutions that are compliant, proportionate and deliverable.

GBR should manage and control the administration of subsidy awards through a single, transparent and joined-up policy.

Understanding why GBR needs to address this issue for FP1

Legislative compliance	• The Railways Bill requires access charges set by GBR to reflect the Costs Directly Incurred (CDI) by infrastructure use. In this context, GBR should seek to consistently achieve long-term cost recovery. • The Railways Bill also permits GBR to discount charges “for any other reason”. This allows for some continuation of phasing-in, but there needs to be a clear path to full cost reflectivity. • Otherwise, GBR would not be fully compliant with the statutory principle, risking inconsistent treatment between passenger and freight operators outside of GBR (thus exposing GBR to external appeal).
Financial sustainability	• ORR estimates that freight VUCs set in CP7 will recover c.87 % of freight direct costs during this time – this will result in freight operators paying £33m less in variable charges across CP7. • Extended phasing into FP1 maintains a shortfall between cost and income, effectively creating an implicit subsidy. There is a risk of external appeal if this subsidy is not managed transparently and holistically. • Continuation of phasing-in requires compensatory funding from governments, with implications for financial discipline and the use of public funds.
Complexity	• The phased-in approach adds complexity to the recalibration process, requiring ongoing oversight to manage the transition to cost-reflective rates. • This is compounded by the mixed treatment of freight rates, where some are phased-in and others are not, reflecting legacy affordability decisions linked to the removal of the capacity charge. • Paradoxically, it contributes to downstream complexity in the VUC Price Lists, with five rates for each vehicle type, further obscuring transparency and comparability across charging years.

Understanding broader market implications

Workshop discussion point: Where do you see the biggest risks to achieving full cost reflectivity by the end of FP1?

There is a clear legal and financial imperative for GBR to address the legacy phasing-in of VUC rates in FP1. We recognise, however, that decisions on VUC rates have significant implications for freight, charter and wider industry stakeholders. The challenge is not whether to achieve full cost-reflectivity, but how to do so while supporting freight growth, private investment and market confidence.

Modal shift & market competition

- Rail markets (in particular freight) are highly price-sensitive where volumes are marginal.
- Decisions about reaching full cost-reflectivity should be cognisant of GBR's statutory duties (in particular freight growth).
- Decisions will need to minimise distortions in competition, whilst also preserving efficient pricing signals.

Policy stability & predictability

- The rail industry is operating in a period of significant uncertainty, within the broader context of rail reform.
- Decisions about reaching full cost-reflectivity by the end of FP1 should seek to mitigate "price shocks" and provide policy stability.
- They will need to minimise negative impacts on private sector investment.

Our current thinking: option development

– Conor Murrells

Note: we are not endorsing option 4 at this stage, it has been included for completeness as a 'Do-Nothing' option

Option development – our emerging proposals

Objective: identify plausible solutions to ensure that all industry parties are paying fully cost-reflective VUC rates no later than the end of FP1.

Informed by previous ORR research, we are exploring possible approaches for completing the transition to cost-reflective freight and charter VUC rates. We have identified four headline options that could be refined and further developed. We would like your views on these options and their practical implications.

1. Establish phasing-in profile to reach fully cost-reflective rates by the end of FP1 (01)
2. Charge fully cost-reflective rates at the start of FP1 with rebate (or discounts) (02)
3. Apply fully cost reflective rates in specific market segments based on demand elasticity (03)
4. Apply fully cost reflective rates at the start of FP1 without additional support (04)

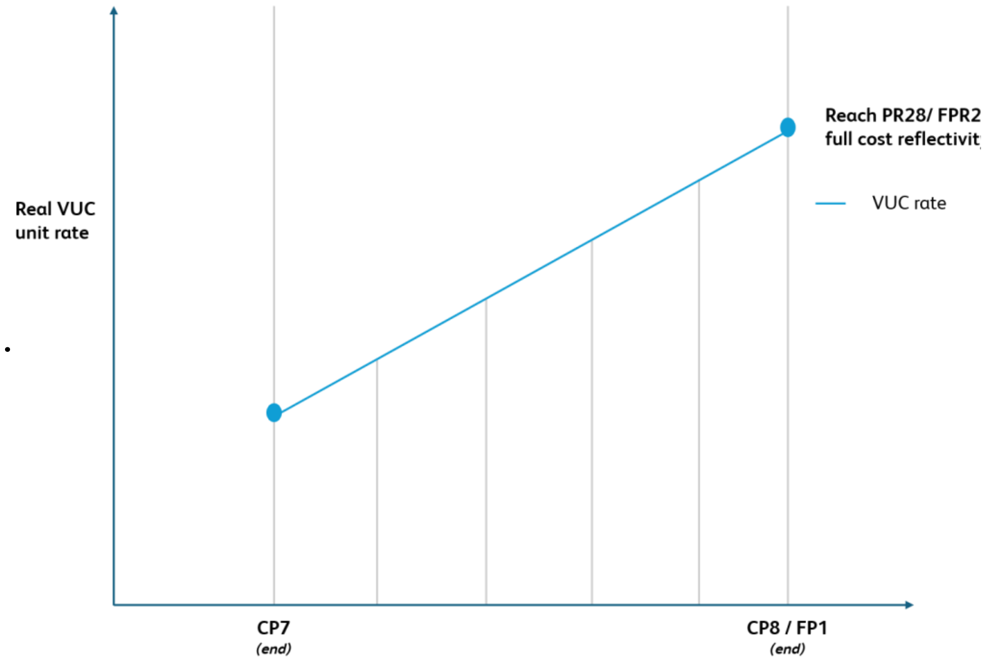
Note: this discussion is not about agreeing a policy position, but rather about testing the realism, risks, and design considerations of different approaches, ahead of formal consultation on this topic in Spring 2027.

Caveat: we recognise that the VUC rates in FP1 will be affected by recalibration of the charge and this will need to inform how our thinking develops

Workshop discussion point: What would 'reasonable phasing' look like in practice across FP1 bearing in mind GBR's future duties?

Option 1 – phased rates over FP1

- This approach would build on the ORR's current policy by establishing a trajectory to phase-in freight and charter VUC rates across FP1, reaching full cost reflectivity by the final year of FP1.
- This would honour the original policy intent set by ORR in PR23; essentially serving as a policy neutral (or continuity) option.



DESIGN CONSIDERATIONS

01 **The profile of phasing-in and transitory arrangements in FP1.**

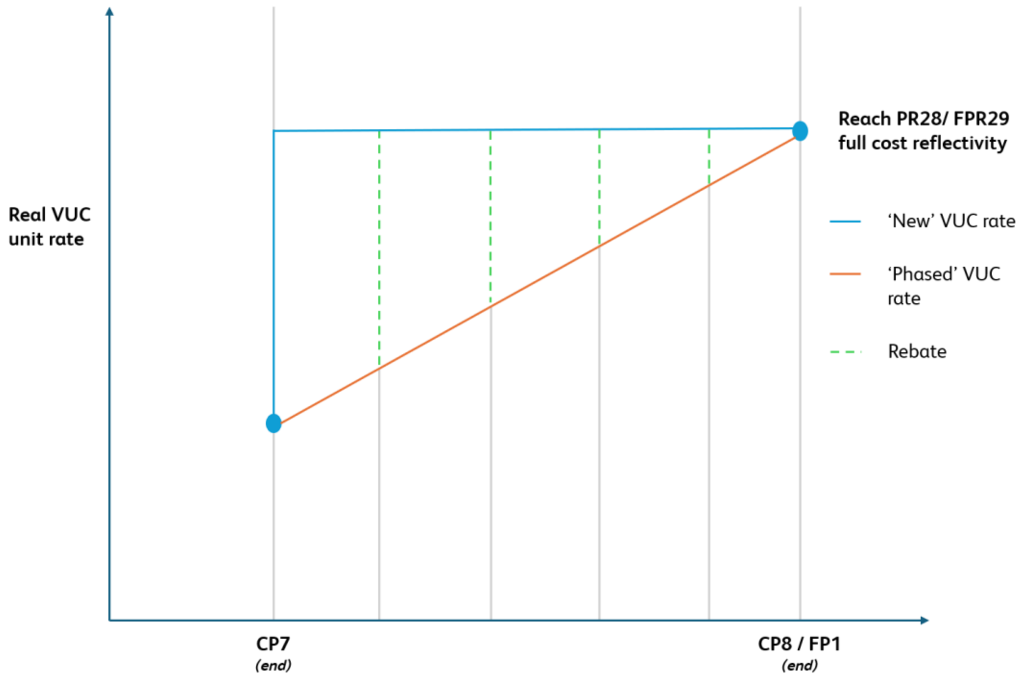
02 **The effect of recalibration on operator affordability in FP1.**

Advantages	Policy stability – provides policy contunity, i.e., no change from ORR position	Price stability – mitigates price shocks experienced by operators	
Disadvantages	CDI framework – below cost reflective charging for the first four years of FP1	Financial sustainability and transparency – requires pre-emptive reporting on the extent of subsidy, to bring under-recovered costs into view	Complexity – continuation of phasing-in does not resolve issues with explaining calibration and Price List (i.e., multiple rates on the Price List across FP1)

Workshop discussion point: How can GBR best mitigate the risk of price shocks while still progressing toward cost-recovery by the end of FP1?

Option 2 – Rebate or discount

- This approach would see freight and charter operators pay the fully cost reflective VUC rates from the beginning of FP1.
- Crucially, however, there would be a mechanism to 'rebate' a proportion of the increased VUC cost (i.e., a discount).



DESIGN CONSIDERATIONS

01 **Extent of VUC increase acceptable to operators and recalibration impacts.**

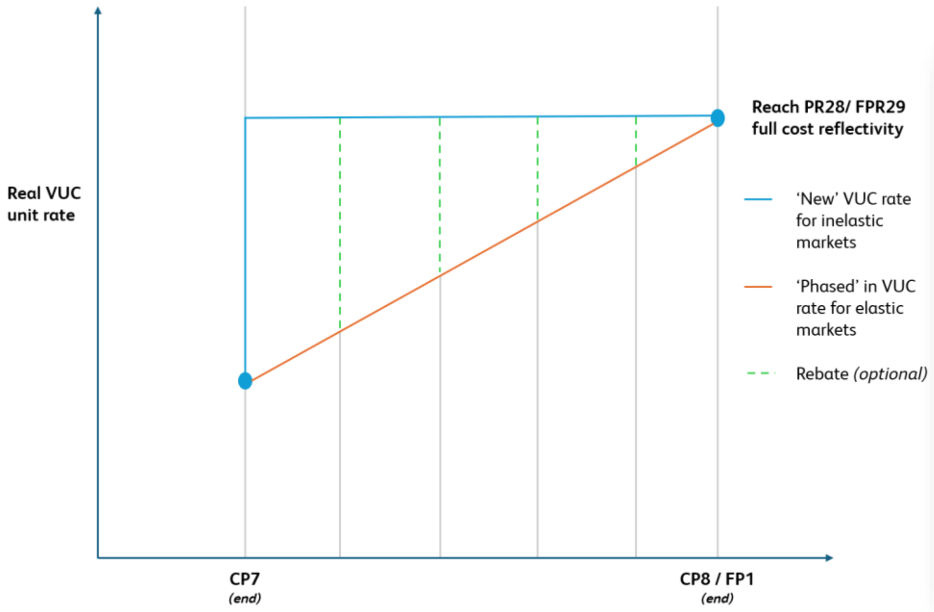
02 **Trade-off between phasing-in with or without a rebate option.**

Advantages	CDI framework compliance – ensures that operators face the correct marginal price signal.	Financial sustainability – ensures transparency in the subsidy award on an ongoing basis.	Provides additional support which accords with statutory duties.
Disadvantages	Procedurally complex with periodic rebates administered through the Billing Team.	Price List complexity – to ensure visibility of all VUC rates it might be necessary to publish multiple Price Lists	

Workshop discussion point: If full cost-reflectivity were achieved in FP1 for certain markets deemed inelastic, what safeguards or transitional support would be most important during the transition?

Option 3 – hybrid elasticity model

- This approach is a 'hybrid' model: structured support would be provided to operators based on market elasticity.
- On the one hand, market segments deemed inelastic would pay the fully cost reflective rates from the beginning of FP1 (without support).
- However, markets deemed elastic would receive support either through phasing (Option 1) or a rebate (Option 2).



DESIGN CONSIDERATIONS

01 **Extent of VUC increase acceptable to operators and recalibration impacts.**

02 **Phasing-in profile, and whether this includes a rebate.**

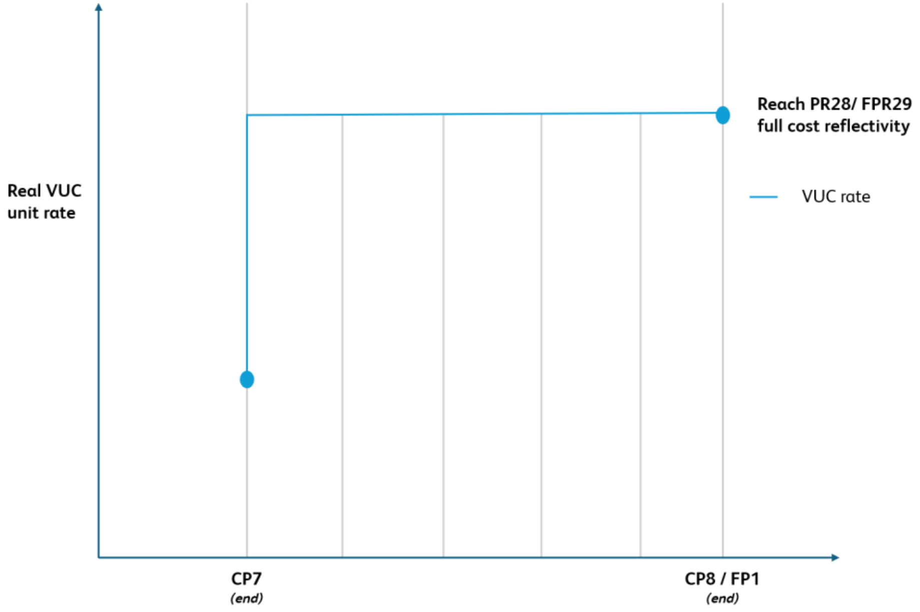
03 **Alignment with demand elasticity analysis to ensure coherence**

Advantages	Partial CDI framework compliance – ensures that operators face the correct marginal price signal for markets deemed inelastic.	Reflects markets' ability to pay – ensures appropriate protections for elastic markets, while achieving full cost reflectivity in markets considered able to afford it.
Disadvantages	Additional complexity – different approach for elastic and inelastic markets, which requires recalibration and explanation to customers.	Requires a coherent approach with GBR's mark-up policy, to ensure that decisions are consistent, joined-up, and do not duplicate impacts.

Workshop discussion point: What information or modelling would help industry plan for future VUC trajectories?

Option 4 – full cost-reflectivity

- This approach represents a 'do-nothing' option. It represents the most de-minimis option, providing no structural or financial support to mitigate price increases.
- It would see the VUC rates for all freight and charter markets increase to fully cost reflective rates immediately from the start of FP1.



CAVEAT

We are not endorsing option 4 at this stage, it is included for completeness.

Advantages	CDI framework compliance – ensures that operators face the correct marginal price signal.	Simplification – does not require complex recalibration and reduces total number of rates on the Price List	
Disadvantages	It will result in price shocks and does not recognise the impact on different market segments	It risks being incongruent with GBR's statutory duty promote the carriage of goods by rail if users are priced off rail	It undermines central charging objectives such as supporting long term planning and investment

Next steps

– Caitlin Scarlett

Summary and next steps

- The purpose of today's session has been to introduce the four overarching options we have considered for how GBR can complete the transition to fully cost reflective VUC rates by the end of FP1.
- Our emerging view is that the most compelling solution is Option 2, as it ensures cost-reflective charging and marginal price signals. This option should be completed with a rebate or discount mechanism that mitigates price shocks and market distortion.
- What is clear is that there is currently no imperative to accelerate the transition to cost reflective rates, without providing support mechanisms during this time.
- The immediate next step is to reflect on the feedback from this session and to develop these proposals further, ahead of formal consultation in April 2027.

Key dates / Look ahead – upcoming charges workshops
TBC – follow-up workshops on key areas, based on stakeholder feedback. **(No invites sent yet).**
Overview of Charges Proposals on 10 November – this will be a workshop to summarise all our policy proposals for Open Access and Devolved Operators. **(No invite sent yet).**

For more information on our charges and performance workshops, please visit this link: GBR's Charges and Performance Schemes.

- **Outcome of our engagement in 2026: the information shared and gathered during these workshops will help to shape our development of GBR's access charges, which will inform GBR's Charges Scheme Statements in FP1.**

How you can help shape GBR’s Charges Scheme and Performance Scheme Statements for FP1

Ways to get involved:

- Technical workshops on important charges and performance scheme topics.
- Targeted engagement with freight, devolved bodies, open access, other infrastructure managers, and funders.

We are committed to:

Early visibility of emerging approaches.

Open feedback and transparent reporting.

Listening to concerns and perspectives.

For more information on our emerging proposals for charges and performance , please visit this link:
https://www.networkrail.co.uk/industry-and-commercial/developing-gbrs-charges-and-performance-schemes/

If you have any questions or would like to discuss this further, you can contact the team via our dedicated inbox:
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