

# Fixed Charges & Mark-Ups – GBR's Charges Scheme

*Industry Engagement ahead of Funding Period 1  
(2029 to 2034)*

Please note, these slides will be published online and will be available, [here](#).

# Introduction and purpose

*– Caitlin Scarlett*

# Workshop purpose

- This is the fourth of our workshops exploring options for GBR's future charges scheme: today we will focus on Fixed Charges and Mark-Ups for freight and charter operators.
- During the workshop we will provide **an overview of Section 64 (3) in the Railways Bill**, which permits GBR to set mark-ups above costs directly incurred. We will also provide a brief **recap of ORR's current mark-up policy** for completeness.
- Ahead of today's workshop we have circulated a report by Oxera which provides initial advice and options about the future approach to mark-ups under GBR. This report is published online, here: [Independent-Advice-on-GBR-Mark-ups](#). **We ask that stakeholders familiarise themselves with the options presented in this report ahead of the workshop discussion.**
- The main priority for this workshop is to seek stakeholder views on the options presented in this research, as well as to introduce our current thinking on mark-up policy for freight operators under GBR. We recognise that further work is needed to explore charter markets, and we welcome discussion during the workshop.
- Caveat: all policy options discussed during the workshop carry no legal weight or commitment that they will come into effect. We are seeking industry views to help shape our proposals, ahead of formal consultation.

# Legislative context

– *Conor Murrells*

# Key legislative principles of the Railways Bill – mark-ups

## CLAUSE 64 (3) – PROVISION FOR MARK-UPS

**The scheme may provide for a higher amount to be charged in particular circumstances provided that it does not exceed the amount that Great British Railways considers is the amount that an efficient operator would be able to pay in those circumstances.**

- The Railways Bill permits GBR to set charges at a higher amount than Costs Directly Incurred, only where GBR considers that an efficient operator could afford to pay the additional ('mark-up') charge.
- This is a material change from the Access and Management Regulations, which directly references that the infrastructure manager *“may levy mark-ups on the basis of efficient, transparent and non-discriminatory principles, whilst guaranteeing optimum competitiveness, in particular in respect of rail market segments”*.
- The priority is for GBR to replace the ORR’s Market Can Bear test with an Efficient Operator test. We will provide an overview of the research Oxera has undertaken, and our initial thinking and key assumptions.
- We acknowledge previous feedback from stakeholders about whether mark-ups can be assessed based on a ‘market’, rather than a specific ‘operator’. We are continuing to test our position with legal experts.

# Recap of ORR's current approach to mark-ups

– *Conor Murrells*

# PR23: the approach to calculating freight mark-ups

## What is ORR's current policy for freight and charter mark-ups?

ORR sets an Infrastructure Cost Charge (ICC) for specific freight market segments, often referred to as the Freight Specific Charge. The ORR did not set an ICC for charter services in PR23.

The charge recovers a proportion of Network Rail's fixed costs associated with freight, based on an assessment of what specific freight market segments can bear (the Market Can Bear test).

## How was the charge set for PR23?

ORR adopts a Ramsey-inspired approach to assess ability to pay – see key links (right) for PR23 research undertaken for ORR.

The fundamental principle is, for market segments where demand is less sensitive to changes in charges, and which face less competition from other transport modes, their ability to bear a charge is higher.

The ICC is currently levied on freight services carrying: ESI (Electricity Supply Industry) coal; iron ore; spent nuclear fuel; and ESI biomass.

## CP7 Freight Specific Charges, 2026/27 prices

Commodity Type	ICC rate (£ per kgm)
Biomass	1.9788
Coal ESI	1.4215
Iron Ore	1.4556
Spent Nuclear Fuel	24.1432

### Key links:

[Annex 5 – Market-can-bear analysis for freight services – Report by CEPA](#)

[Updated impacts of changes in track access charges on rail freight traffic – Revised report by MDS Transmodal](#)

# Summary of Oxera's 2026 research on mark-ups

– *Conor Murrells*

# Oxera research

- We commissioned Oxera to provide independent advice on how GBR could levy mark-ups on open access and freight operators under the revised legislative framework set out in the Railways Bill.
- **Scope:** Reviewed ORR's existing market can bear framework; examined European case studies and regulatory precedents; identified approaches and tested them against the Railways Bill and emerging AUP.
- **Output:** Oxera's research identified 5 distinct policy models, ranging from continuity (as far as is possible) to more economically structured approaches (see next slide).
- Crucially, the research does not recommend a preferred option. It provides options to inform GBR's future policy decisions, which we will test with stakeholders today.

## OVERARCHING ASSUMPTIONS

1. **There is no ex ante target for how much mark-ups are meant to raise.** This is relevant to a full Ramsey approach and means Government will need to meet any funding gaps through Network Grant.
2. **Mark-ups are to be calculated at the market segment level.** Approaches will not explore setting mark-ups at the level of individual operators.
3. **A mark-up would not exceed a segment's allocated share of infrastructure avoidable fixed costs.** This means GBR will maintain a cost allocation model for this purpose, similar to the model Network Rail uses today.
4. **GBR's approach to mark-ups will be assessed and updated every five years.** Unless there is a material change in circumstances, which is similar to the approach taken today.

Note: these assumptions may be subject to change as the Government fiscal position becomes clearer during the Funding Periodic Review

# Understanding Oxera's options: freight & charter

## Option 1: Do Minimum

Retain many elements of current approach, updated with light-touch efficient operator test.

## Option 2: Ramsey + affordability

**Market Segmentation:** would reflect elasticity differences across commodity types and operational characteristics.

**Ability to pay/ level of mark-up:** the mark-up for each segment is inversely proportional to its price elasticity (i.e., where demand is most insensitive to price the segment would bear a relatively higher mark-up). Traditional Ramsey approaches seek to achieve a desired level of revenue using scaling factors.

**Affordability check:** each segment's 'Ramsey-optimal' mark up would need to be assessed to verify whether a 'average efficient operator' could bear it. This may require consideration of costs, revenue and reasonable rate of profit.

## Option 3: Net-revenue approach

**Market Segmentation:** could be designed to group freight flows with similar profitability characteristics.

**Ability to pay/ level of mark-up:** the maximum mark-up would be set at a level that would enable an average efficient operator to achieve a reasonable rate of profit over the assessment period (e.g. five years), considering forecast costs and revenues.

**Affordability check:** representative cost structures reflecting the economics of different flows for an 'average efficient operator' would need to be developed, as these do not currently exist.

## Option 4: Ramsey & Net-Revenue

**Market Segmentation:** would need to distinguish between groups with different demand and profitability characteristics, avoiding erroneous groupings.

**Ability to pay/ level of mark-up:** the mark-up for each segment would be calculated using both a Ramsey and a net-revenue approach, with the lowest mark-up being levied.

**Affordability check:** this would be addressed by the approaches defined in Options 2 and 3 automatically.

## Option 5: Holistic judgement

Flexible approach incorporating different segmentation approaches and various methodologies (and assessments).

# Key findings presented by Oxera

- GBR's future approach to mark-ups must preserve investment and efficiency incentives for operators (and their investors) – the policy approach should not discourage operators from increasing revenues or lowering costs, due to concerns that GBR could 'claw back' these improvements through mark-ups. To mitigate this:
  - **Mark-ups should be fixed for five-years.** This means that mark-ups will not be adjusted mid-Funding Period. This is intended to not discourage investment and efficiency.
  - **Mark-ups should be benchmarked to an 'average efficient operator' not individual operators.** This means that individual operator's efficient improvement will only influence the benchmark.
- GBR will have the discretion to apply 'modifiers' to help pursue wider policy objectives, specifically 'market support mechanisms' (e.g., phasing-in mark-ups for new services) and the 'rail freight growth target' (e.g., reducing mark-ups to support market growth).
- GBR must consistently allocate infrastructure fixed costs across all operators, including its own services. This allows for a meaningful understanding of GBR's own costs compared to other operators.

## Observations about non-GBR publicly owned or contracted operators...

- ❖ Separate charging arrangements will be required for non-GBR publicly owned or contracted operators running services on GBR infrastructure. These operators should be treated as a distinct segment, capable of bearing the full allocation of fixed costs.
- ❖ Mark-ups for non-GBR publicly owned or contracted operators should be operationalised through a lump-sum charge, covering the full allocation of avoidable fixed costs adjusted for Network Grant. This is comparable to the Fixed Track Access Charge. This is consistent with approaches across Europe.

# Overview of our current thinking

*– Conor Murrells*

**(1) Determining mark-ups for freight operators**

# (1): Define freight market segments

- The first stage of the analysis will be to define freight market segments that best reflect the structure of the rail freight market today, and the full suite of flows operating on the network.
- Our thinking on how we could update the freight commodity list is quite well-developed, having worked closely with colleagues in the Railfreight team at Network Rail.
- We want to bring together a consolidated list of freight market segments, reflecting that many of the commodities charged for today are not applied consistently (e.g., General Merchandise) or are associated with a historic wagonload model (e.g., Enterprise).
- **Our suggestion is to remove defunct or misleading commodities from the list, specifically: Coal ESI, Enterprise, General Merchandise, Other, and Royal Mail.**
- The segments with amended titles (orange) and newly introduced segments (green) are shown in the table, right. We will consult on these market segments in GBR's charges policy document in Spring 2027.

**Workshop discussion point: How well does the proposed list of freight market segments reflect the traffic flows likely to operate on the network in FP1?**

## Our emerging view on market segments

Biomass	Domestic Waste	Light Locomotives
Carbon Capture, Usage & Storage	European Automotive	Mail and Premium Logistics
Chemicals	European Other	Maritime Intermodal
Coal	European Intermodal	Nuclear & MOD
Construction Materials	Hydrogen	Passenger Stock Moves
Domestic Automotive	Industrial Minerals	Petroleum
Domestic Intermodal	Iron Ore	Steel
Wagon Maintenance		

## (2): Adopt a Ramsey-inspired approach, similar to ORR today

- Stage two of the analysis would be to undertake an assessment of the rail market segment's ability to pay a mark-up.
- **Our current thinking for freight market segments is that this should be demand elasticity analysis, inspired by Ramsey Pricing.**
  - This essentially replicates the approach that ORR currently takes to assessing freight markets and their ability to pay a mark-up. As a result, this provides policy stability to freight operators.
  - The Oxera research does not highlight any strong reasons why we should deviate from this approach for freight market segments. On the contrary, there would be significant data challenges to adopting a net revenue approach for freight markets.
- The results shown right are taken from the ORR's demand elasticity research from PR23. Scenario 1 represented a VUC increase in line with ORR's phasing-in policy. Note: an implied elasticity closest to 0 represents inelastic demand.
- **The next step for our work will be to procure consultancy support to update this analysis for the new commodity sectors shown previously. This work will be published and consulted on in Spring 2027.**

**Workshop discussion point: What are your views on the strengths, limitations, or implementation challenges of this proposed approach?**

**Table 6: Scenario 1 implied elasticities: Tonnes in 2028/29 reference case, change in VUC and resultant change in tonnes**

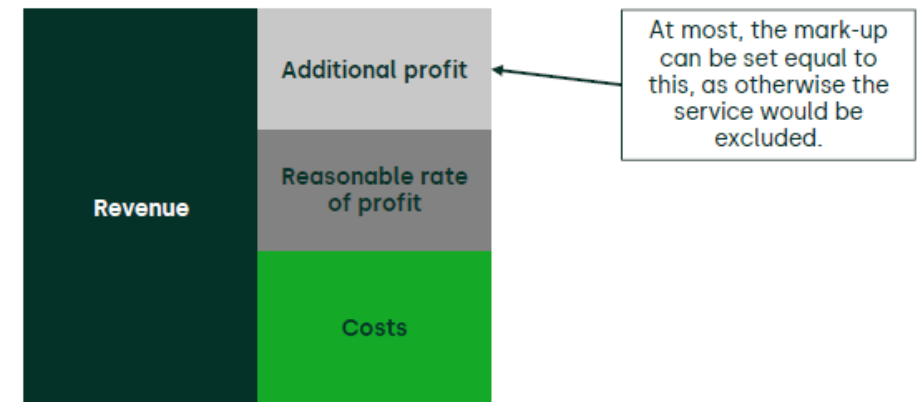
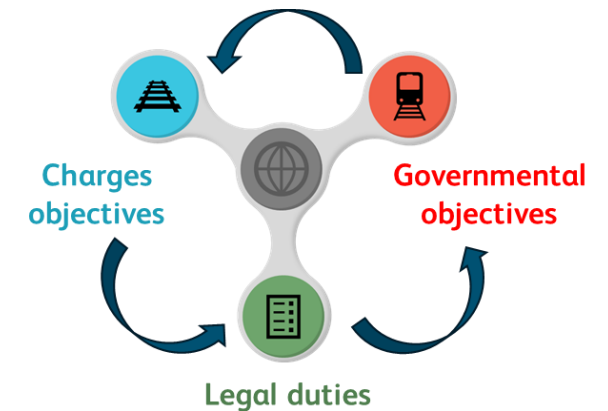
Commodity	Tonnes 2028/29 Ref case (thousand)	Sc1 % change in VUC	Sc1 % change in Tonnes	Sc1 Implied elasticity
Intermodal	27,318	8.5%	-1.3%	-0.157
Automotive	248	6.9%	-0.2%	-0.033
Construction materials	31,275	25.7%	-4.4%	-0.172
Domestic Waste	2,761	15.2%	-0.02%	-0.001
General Merchandise	632	16.3%	-2.3%	-0.143
Metals	7,876	18.5%	-1.7%	-0.093
Petro / Chemicals / Industrial Minerals	7,593	16.7%	-1.2%	-0.070

**Source:** [Updated impacts of changes in track access charges on rail freight traffic – Revised report by MDS Transmodal](#)

**Workshop discussion point: What are your views on how GBR should evidence that an efficient operator can afford to pay mark-ups, including the appropriate balance between analytical robustness and proportionality?**

## (3): Efficient operator test overlay, to comply with Railways Bill

- The third stage of the analysis will need to take account of what an efficient operator is able to afford. This is necessary to comply with Clause 64 (3) of the Railways Bill.
- One potential option for how GBR could undertake this assessment is a quantitative approach that explores a “reasonable rate of profit”. This relies on GBR having access to, and a better understanding of, cost and revenue assumptions at the level of individual market segments. GBR could develop a “standard carrier” for each freight market segment to model affordability.
- A second potential option is to rely on a lighter-touch qualitative assessment to take a conservative approach and reduce the ‘optimal’ mark-up set, based on GBR’s duties and objectives.
- In undertaking this assessment, we will (A) consider an average efficient operator in the context of the given market segment under consideration **not** the operator holistically, and (B) only consider the viable markets identified in stage two, to focus the analysis and keep it proportionate.



[Independent-Advice-on-GBR-Mark-ups.](#)

# Summary and next steps

*– Caitlin Scarlett*

# Summary and next steps

- Proportionate amendments to how mark-ups are set for freight operators are needed to suitably address the legislative changes in the Railways Bill 2026.
  - In our view, the approach to setting mark-ups for freight does not require a complete refresh or large-scale change.
  - Although we cannot predict the outcome of future work, it is not our current intention to significantly broaden the scope of freight market segments paying mark-ups.
  - A clear next step for this work is to procure demand elasticity analysis for our updated market segments, and undertake further research on how GBR should undertake the efficient operator test.
- **Outcome of our engagement in 2026: the information shared and gathered during these workshops will help to shape our thinking on GBR's future approach to setting mark-ups for freight operators, which will inform GBR's Charges Consultation in Spring 2027.**

## Key dates / Look ahead – upcoming charges workshops

**VUC Phasing-In on 21 July [Freight & Charter]** – this will be an opportunity to understand previous decisions to cap or phase-in VUC rates, and discuss potential options for FP1.

**TBC, follow-up workshops on key areas, e.g., Discounts. (\*no invites sent yet).**

**10 and 11 November – Overview of Charges Proposals (\*no invite sent yet).**

*For more information on our charges and performance workshops, please visit this link: [GBR's Charges and Performance Schemes](#).*

# 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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