

Network Rail's consultation on variable charges and station charges in CP6 – variable usage charge (VUC)

Ben Worley, 18 September 2017

Purpose of today

- ▶ On 28 July 2017 Network Rail published its consultation on the methodology for calculating variable and station charges in CP6
- ▶ The purpose of the consultation is to set out our proposed recalibration methodology and seek your views
- ▶ Conscious of how busy everybody is, we are talking you through the Variable Usage Charge (VUC) part of the consultation today
- ▶ We are discussing our approach to electricity charges (20 September at the RDG Traction Electricity Steering Group) and station charges (27 September at the RDG Station Strategy Group)
- ▶ The consultation focuses on our proposed methodology for calculating charges in CP6, rather than the level of these charges as result of updating them for PR18 cost data
 - Our cost forecasts for CP6 will not be available until our SBP is published in December 2017
 - We are aiming to publish draft price lists reflecting PR18 cost data in February 2018
- ▶ In Summary, we propose:
 - **Retaining the current structure of the VUC for CP6**, consistent with ORR's June 2017 charging conclusions document and the RDG Review of Charges
 - **Some minor changes as part of the recalibration process**, in light of issues that have arisen during CP5

Purpose of the VUC and key changes in PR13

Purpose

- ▶ The purpose of the VUC is to recover the track, civils and signalling ‘wear and tear’ costs that we incur when trains run on our network
- ▶ The charge is paid by all operators and in 2016/17 we received £224m of income

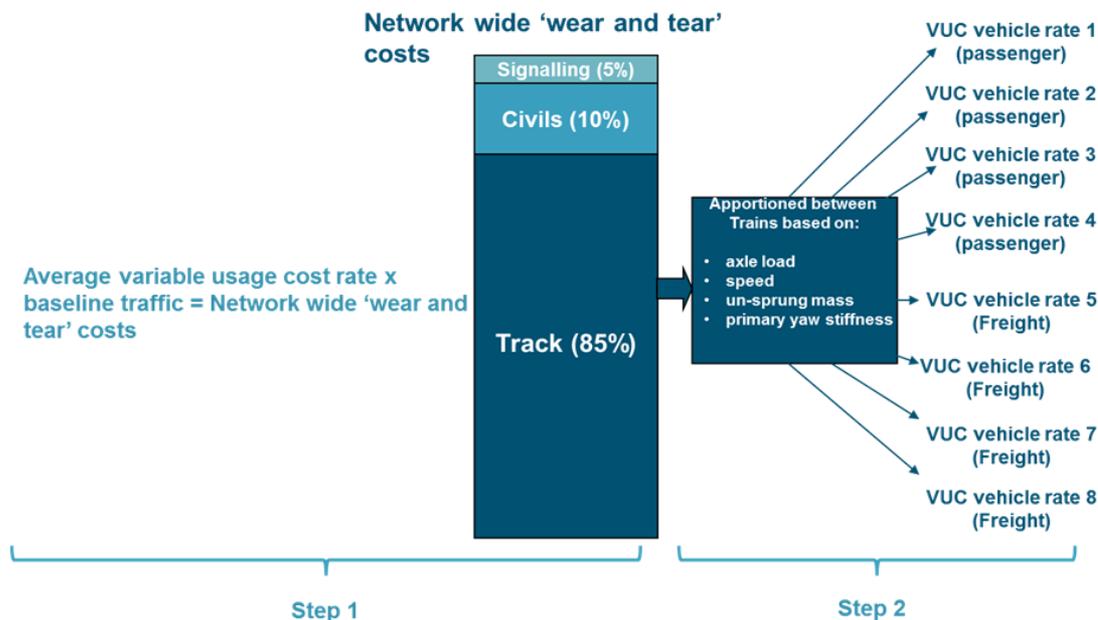
CP5 VUC cost category	CP5 proportion of the VUC
Track maintenance and renewals costs	85%
Civils renewal costs (embankments, metallic underbridges, brick and masonry underbridges and culverts)	10%
Signalling maintenance and renewal costs	5%

Key changes in PR13

- ▶ Research we commissioned found that ‘wear and tear’ was more strongly influenced by heavier vehicles and less strongly influenced by vehicle speed than previously thought
- ▶ This new research generally resulted in higher freight VUC rates and lower passenger rates
 - ORR capped the increase in the average freight VUC rate at 10%, relative to the average CP4 rate

VUC recalibration process

- ▶ The process for recalibrating VUC rates comprises two key steps:
 - **Step one:** Estimating our total variable usage costs
 - **Step two:** Apportioning our total variable usage costs between different vehicle types



- ▶ Our consultation focuses on step two of this process and proposes small changes to how we allocate costs between different vehicles
- ▶ We are not proposing any methodological changes in relation to the step one but updating charges to reflect PR18 cost data will impact the level of charges

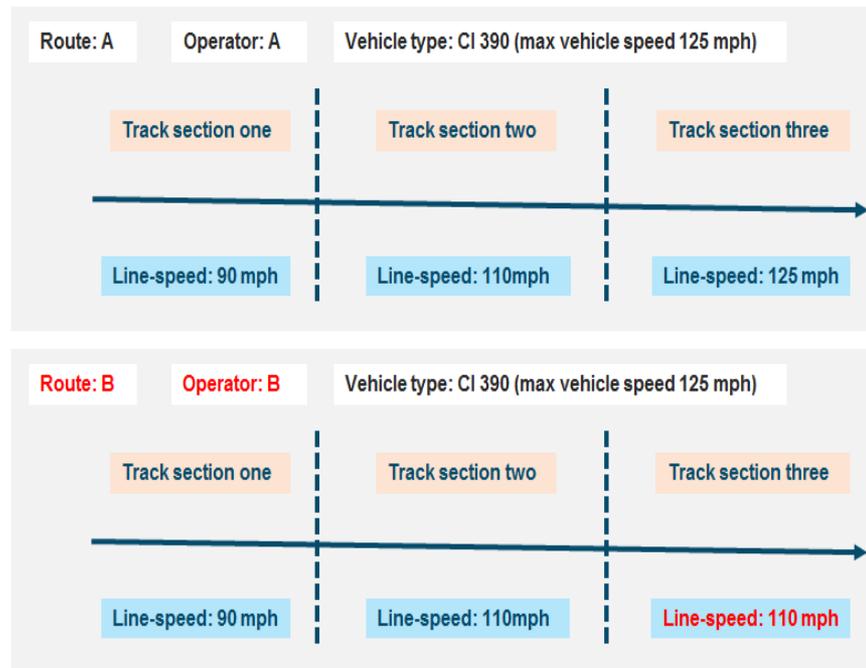
Proposed recalibration changes (1) – Vehicle characteristics

- ▶ The characteristics of a railway vehicle (e.g. its speed, axle load and unsprung mass) are important factors in calculating ‘wear and tear’ and, therefore, its VUC rate
- ▶ As part of the PR13 consultation process, the industry put significant effort into reviewing vehicle characteristics
- ▶ Again we request that all operators review the assumed vehicle characteristics published alongside this consultation (available [here](#))
- ▶ Consistent with the approach adopted for CP5, we will not be re-opening CP6 vehicle characteristics once ORR has set VUC rates as part of its final determination

Vehicle type	2016/17 vehicle miles where available	Operating weight (t)	Max Speed (mph)	Formulaic Operating Speed (mph)	Timetable Operating Speed (mph)	Operating speed applied (mph)	Axles	Unsprung mass (kg/axle)	Curving Class	Loco hauled or multiple unit	Stakeholder comments
1	16,263	42.00	75	33.77	0	33.77	4	1700	Coach_8	Y	
2	67,057	35.16	100	55.24	0	55.24	4	1260	Coach_12_40	Y	
3	489,329	38.22	125	80.90	0	80.90	4	1260	Coach_16_40	Y	
4	2,302	42.35	125	80.90	0	80.90	4	1860	Coach_60_50	Y	

Proposed recalibration changes (2) – maximum speed of passenger vehicles

- ▶ VUC rates aim to reflect vehicles' operating speeds which are calculated from their maximum speeds
- ▶ A higher speed = a higher VUC rate
- ▶ Rates are currently based on the maximum speed that the vehicle class is capable of, irrespective of line speed, and are the same GB-wide
- ▶ We propose introducing the option of basing the maximum speed assumption on the maximum line speed of the routes over which the vehicle operates
- ▶ Where different passenger operators operate the same vehicle class, we propose introducing the option of having two (or more) VUC rates
- ▶ Where operators take up this option you would expect it to result in more cost reflective (lower) VUC rates



Proposed recalibration changes (3) – rates for passenger multiple units

- ▶ The VUC price list currently only contains one motor rate and one trailer rate for each vehicle class, reflecting the weighted average vehicle characteristics of a typical formation
- ▶ For CP6 we are proposing to introducing the option of having more than one VUC rate for motor/trailer vehicles within a vehicle class

Vehicle type	Pence per vehicle mile (2017/18 prices)
375/M	7.79
375/T	5.79

Vehicle type	Pence per vehicle mile (2017/18 prices)
375/M/DMOC	8.11
375/M/MOSL	7.21

- ▶ In CP5 we have noted increasing:
 - Variation between motor vehicles, in particular
 - Trains running in different formations (e.g. as 7-car or 9-car trains)
- ▶ These emerging trends make it increasingly challenging to calculate an appropriate weighted average VUC rate

Clarification point – Freight operators running passenger vehicles

- ▶ During CP5 ORR has observed an increasing number of passenger vehicles being run by freight operators (mainly for testing purposes)
- ▶ The CP5 VUC price list did not envisage this scenario, so it was unclear whether charges should be calculated using the freight or passenger charging methodology
 - Charges would have been lower under the freight charging methodology, mainly due to a lower assumed operating speed for freight vehicles
- ▶ During CP5 ORR has stated that an operator's VUC rate should be based on the type of vehicle and its intended use (i.e. carrying passengers or freight, rather than the track access contract it is being operated under)
- ▶ In CP6 if a freight operator operates a vehicle intended for passenger use, its VUC rate will be calculated using the passenger charging methodology
- ▶ We will continue to express this rate in £/kgm consistent with other freight VUC rates

Impact on operators

- ▶ The focus of our consultation is the VUC charging methodology for CP6, rather than the level of charges, and we are not proposing any material changes in this area
- ▶ When we publish draft price lists in February 2018 we will include a full assessment of the expected impact of changes to the level of charges on train operators
- ▶ However, we have set out below the impact of removing the caps that ORR applied to freight VUCs in CP5 (overall impact c. £3m p.a.)
- ▶ ORR has instructed us to assume that these caps are removed for our SBP CP6 income forecast, although it is yet to formally conclude on their removal

Commodity	2016/17 traffic (%)	Forecast revenue based on end of CP5 capped rates (£m, 2016/17 prices)	Forecast revenue if CP5 caps totally removed (£m, 2016/17 prices)	% change if CP5 caps totally removed
Construction Materials	21%	12.9	15.4	20%
Domestic Intermodal	43%	16.2	15.1	-7%
Petroleum	6%	2.4	2.5	3%
Biomass	5%	2.3	2.7	17%
Coal ESI	6%	3.5	4.3	23%
Steel	7%	4.3	4.7	10%

Responding, key milestones and questions

- ▶ We are requesting responses to this consultation by close of play **20 October 2017**
- ▶ Please send responses to RegulatoryEconomics@networkrail.co.uk

Key future milestones

Key milestone	Information	Date
Network Rail SBP	Network Rail's CP6 business plan, including cost forecasts	December 2017
Our conclusions on this consultation	Network Rail's conclusions on its proposed charging methodology for CP6 and draft price lists reflecting PR18 cost data	February 2018
ORR Draft Determination	ORR's minded-to view in relation to setting structure of charges for CP6, including its views on our February 2018 conclusions	June 2018
ORR Final Determination	ORR's final view which will ultimately set the structure of charges for CP6	October 2018

Questions?