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Dear Chris

Request for approval of the recalibration of fixed track access charges for CP6, led by Network Rail

The purpose of this letter is to seek ORR's formal approval of the recalibration of fixed track access charges for CP6, which reflect ORR's 2018 Periodic Review (PR18) Final Determination. This letter supersedes the previous letter we wrote to ORR on 28 August 2018, seeking ORR's approval of the recalibration of the fixed track access charges for CP6, which reflected ORR's 2018 Periodic Review (PR18) Draft Determination. The reason that we have sent this second letter is that it includes additional checks that we have carried out as a result of incorporating ORR's Final Determination into our recalibration work.

Context

Track Access Charge	Purpose of charge
Fixed Track Access Charge (FTAC)	To recover Network Rail's net revenue requirement after accounting for the income received from variable track access charges, station charges, other single till income and network grants.

At the start of PR18, ORR delegated the recalibration of the existing track access charges for CP6¹, set out in the table below, to Network Rail.

Recalibration of track access charges for CP6

Over the past two years, Network Rail has led the recalibration of the fixed track access charges for CP6. We have summarised in the table, below, the process that we have adopted for the recalibration of the fixed track access charges.

¹ As set out in ORR's December 2016 consultation on changes to charges and contractual incentives (page 6), available here: http://orr.gov.uk/data/assets/pdf_file/0019/23482/charges-and-incentives-consultation-document.pdf

Step	Date	Description of step in the process
1	May 2016 – July 2017	Proposed an approach to the recalibration of each of the track access charges to the industry.
2	May 2016 - September 2017	Discussed the approach with stakeholders at RDG hosted working groups.
3	July 2017 - September 2017	Published formal consultations which set out the proposed approach to the recalibration of the fixed charges. This provided the industry with an opportunity to formally set out their views on our proposals.
4	November 2017 – May 2018	Considered the responses received and updated our proposed approach to the recalibration of the charges to reflect industry comments, where appropriate.
5	May 2018	Discussed our proposed conclusions with stakeholders at an RDG hosted working group and sought views on our emerging proposal.
6	May 2018	Published formal conclusion documents setting out our conclusions to the recalibration of fixed charges. We highlighted any changes to our proposed methodology following industry feedback.
7	April 2018 – August 2018	Recalibrated the fixed track access charges, consistent with ORR policy decisions and our conclusion documents.
8	May 2018 - July 2018	Procured consultants to provide external assurance of the recalibration of the fixed track access charges for CP6, by completing an independent audit of the model (more detail set out in the section, below).
9	November 2018	Updated the fixed track access charging model to reflect ORR's decisions, as set out in its Final Determination.

Industry involvement in recalibration

We have worked closely and collaboratively with ORR and industry stakeholders to recalibrate the fixed track access charges for CP6. We consider that the industry's involvement in this process has been hugely valuable and we have welcomed the input that we have received from the industry throughout the recalibration of the fixed track access charges for CP6. We have welcomed ORR's attendance at the RDG hosted stakeholder meetings that have taken place during this process.

Audit of the recalibration of the track access charges

It is important that the industry is assured that the recalibration of the fixed track access charges is consistent with ORR's policy decisions and our conclusions on the methodology for the recalibration of the fixed track access charges for CP6. We also recognise that there is a risk of inadvertent errors occurring in the recalibration of the fixed track access charges for CP6.

Therefore, to mitigate against these risks, we have had the fixed track access charges model externally audited by Steer Davies Gleave (SDG)². The purpose of this audit was to:

- Provide assurance to ORR and stakeholders that the spreadsheet model developed by Network Rail reflected the intended methodology (consistent with ORR's policy decisions and our conclusions on the methodology for the recalibration of the fixed track access charges for CP6); and
- Provide assurance to ORR and stakeholders that the model is free from errors.

We worked closely with ORR in the development of the remit for the independent audit, to ensure that SDG's review meets ORR's assurance requirements of the recalibration. The link to the results of the independent audit of the fixed track access charging model is set out in Annex 1 of this letter.

However, the independent audit completed by Steer was carried out prior to ORR's Final Determination. Therefore, in addition to the assurance work carried out by Steer, we have separately completed detailed internal assurance checks to ensure that ORR's decisions, as set out in its Final Determination, have been correctly reflected in the fixed track access charges model. Network Rail's assurance comprised a member of the Regulatory Economics Team (who has not been directly involved in the recalibration of the track access charges for CP6) confirming the following:

- Correct application of further changes following industry responses to the draft CP6 price lists, and
- Revised the cost attribution model for FTAC.

Publication of CP6 price lists

On 24 August 2018 Network Rail published draft CP6 price list, consistent with ORR's Draft Determination³ and the methodology that we have previously concluded on, for fixed track access charges. Alongside the draft price list, consistent with ORR's Draft Determination, we also published a document setting out the key assumptions that we made in calculating the price lists. We invited the industry to provide comments on factual accuracy to the draft CP6 price lists, consistent with ORR's Draft Determination, by 28 September 2018. We have considered and reflected industry comments, where appropriate, in the CP6 fixed track access charge model. This charging model will be used to create the CP6 price lists, which will be published on 20th December 2018 and will be consistent with ORR's Final Determination.

² On 16th July 2018, Steer Davies Gleave changed its name to Steer.

³ Available here: http://orr.gov.uk/_data/assets/pdf_file/0005/27788/pr18-draft-determination-charges-and-incentives.pdf

ORR approval of the recalibration of track access charges

To support ORR's formal approval of Network Rail's work on recalibrating the fixed track access charges for CP6, we have included links to the following relevant documents in Annex 1 to this letter:

- Key presentations to industry on our proposed methodology for the recalibration of the fixed track access charges for CP6;
- Network Rail's formal consultation documents which explain our proposed methodology for the recalibration of the fixed track access charges and accompanying draft results;
- Network Rail's conclusions document to the consultation document. This summarises the feedback that we received from the industry on each of our proposals, and set out the changes that we made to the methodology in response to that feedback; and
- The results of the audits of the recalibration models produced by Steer.

In addition, we have separately shared with ORR a summary of detailed internal assurance checks that we carried out to ensure that ORR's decisions, as set out in its Final Determination, have been correctly reflected in the fixed track access charging model and the CP6 price list.

Next Steps

By way of this letter, we ask ORR to approve Network Rail's work on recalibrating the fixed track access charges for CP6, consistent with the methodology that we have concluded on and ORR's policy decisions, as set out in its Final Determination.

Subject to ORR's approval of the recalibration of the fixed track access charges for CP6 (as described in this letter), we will share with train operators and Network Rail Routes the draft CP6 price list, consistent with ORR's Final Determination, by no later than 23rd November 2018. Train operators and Network Rail Routes will then be asked to review the draft CP6 price lists, consistent with ORR's Final Determination, and raise any concerns with Network Rail by 30th November 2018. We will review and reflect, where appropriate, all issues raised by train operators and Network Rail Routes in the final CP6 price lists. Subject to ORR approval, we will publish the final CP6 price lists, consistent with ORR's Final Determination, on 20th December 2018.

Should you have any questions about this letter or require any further information to approve Network Rail's work on recalibrating the fixed track access charges for CP6, please do not hesitate to contact me.

Yours sincerely,

Peter Swatridge

Annex 1: Summary of key documents shared with industry stakeholders during the recalibration of the fixed track access charges for CP6

Track Access Charges	Initial discussion at RDG Working Group	Network Rail consultation on methodology	Conclusions to Network Rail's consultation on methodology	Audit of recalibration
Fixed track access charges ⁴	<ul style="list-style-type: none"> • Cost allocation pilot study – RDG update available here (26 May 2016) • Cost allocation GB roll-out update available here (14 November 2016) • Cost allocation GB roll-out update on results available here (27 March 2017) • NR consultation on fixed costs consultation slides available here (9 October 2017) 	<ul style="list-style-type: none"> • Consultation available here • Industry responses (set out under heading: Network Rail's consultation on its methodology for allocating fixed costs to train operators in Control Period 6) available here 	<ul style="list-style-type: none"> • Conclusions document available here • Detailed Avoidable Fixed Cost Breakdown, available here (set under heading: Network Rail's consultation on its methodology for allocating fixed costs to train operators in Control Period 6). 	<ul style="list-style-type: none"> • SDG report available here • Network Rail assurance of update to the track access charging models to reflect ORR's Final Determination.

⁴ Full details of Network Rail's engagement with industry on Fixed Track Access Charges is set out in Annex A to Brockley Consulting's report: A new method for allocating network fixed costs, available here (Page 105): <https://cdn.networkrail.co.uk/wp-content/uploads/2017/01/Brockley-Consulting-report-A-new-method-for-allocating-network-fixed-costs-September-2017.pdf>