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Dear stakeholder,

Consultation regarding methodology for calculating long-term charges for new franchised stations opening in CP6

The purpose of this letter is to seek stakeholders' views regarding the proposed methodology for calculating station long-term charges for new franchised stations that open during Control Period 6 (CP6).

Context

The purpose of the franchised station long-term charge is to recover what Network Rail expects to spend in the Control Period on maintaining, repairing and renewing operational property and station information and security system (SISS) assets at franchised stations.

ORR has already determined the long-term charge for each existing station. In CP6 approximately 50 new stations will open, for which long-term charges have yet to be set. We will need to calculate long-term charge for these stations to ensure that we have sufficient funds for the upkeep of assets and to ensure consistency between new and existing stations.

During CP5, 23 new stations have opened and have had a long-term charge calculated. Charges for these stations were calculated by taking the average of the long-term charge values for similar stations.

As part of the Periodic Review 2018, Network Rail calculated franchised station long-term charges for existing stations. A full description of the methodology used to calculate franchised station long-term charges for existing stations for CP6 can be found in Annex 1 of the document available here. In summary:

- For in-house SISS maintenance and repair, forecast route-level CP6 expenditure was allocated to relevant stations in proportion to each station's share of forecast renewals over 35 years;
- For the costs of SISS maintenance and repair work undertaken by third parties, forecast CP6 contract costs were allocated to relevant stations in proportion to each station's share of forecast renewals over 35 years;
- Forecast CP6 route-level SISS renewal expenditure was allocated to relevant stations in proportion to each station's share of forecast renewals over 35 years; and
- Forecast CP6 route-level operational property expenditure was allocated to each individual station based on the average of forecast long-run expenditure for stations of the same category in that route. Stations are categorised by average daily footfall according to the criteria shown below.

Category	Daily Entries Range
A	Over 13,000
B	5,000-13,000
C	2,500-5,000
D	1,200-2,500
E	300-1,200
F	Less than 300

Proposals

We propose that the long-term charge for new stations opening in CP6 is calculated using a similar methodology to that used for new stations opened in CP5, with minor amendments to reflect the revised CP6 methodology. We think that the approach described, below, benefits from being transparent and simple and is proportionate given the relatively small number of new stations opening in CP6 and the fact that these charges will be recalculated for CP7. It will also ensure that these charges are set in a non-discriminatory way.

SISS maintenance and repair and renewal elements

We propose that the SISS maintenance and repair element of the franchised station long-term charge for a new station be set equal to what we expect to spend, on average, annually on maintaining and repairing SISS assets at that station in the remainder of the Control Period. If a new station is to be covered by third party contracts for SISS maintenance and repair, we propose that the incremental cost of the contract be allocated to the new station.

We propose that the SISS renewal element of the franchised station long-term charge for a new station is set equal to the average annual depreciation cost of the SISS assets at a station. We consider that this approach is more transparent and more objective than the approach used to calculate station long-term charges for new stations opening in CP5.

Operational property

We propose that the operational property element of the franchised station long-term charge for new stations be calculated by taking the same value for stations in the same route and category.

The methodology used to calculate franchised station long-term charges for existing stations results in all stations in the same category and route having the same operational property charge. As part of the business case for a new station, footfall at the station will be forecast. This information can be used to assign each new station to a category. The operational property charge for a new station can then be set equal to the charge for existing stations of the same category and in the same route. For example:

- Were a new station to open in Anglia with an expected average daily footfall of 6,000 people, this would be assigned to category B;
- The annual operational property charge for category B stations in Anglia is £65,538.41, in 17/18 prices;
- Therefore, the annual operational property charge for the new station would be set equal to £65,538.41 in 17/18 prices.

Responding to this consultation

Question: Do you agree with our proposed methodology for calculating the long-term charges for new franchised stations opening in CP6? If not, please explain why and what methodology you suggest is used instead.

We request responses to this consultation by close of play 19 April 2019. Responses should be sent to RegulatoryEconomics@networkrail.co.uk.

Thank you for taking the time to read and respond to this consultation.

Yours faithfully,

Peter Swattridge

Head of Regulatory Economics, Network Rail