Overview of presentation

• Current GB access charges
• Why did we consider introducing a reservation charge?
• Alternative administrative solutions
• The models of reservation charge that we used
• Reservation charge – cost/benefit study
• Reason for our conclusion not to implement reservation charge for next 5 year control period 2009 – 2014 but to keep it under review for the future
Current GB charges

- All operators pay variable charges
- These are intended to reflect the costs to the infrastructure manager that vary with traffic
- This is an approximation of short run marginal costs
- We interpret this as the ‘costs directly incurred’ as required in Article 7 of Directive 2001/14/EC
- We then have a non-discriminatory, transparent mark up or fixed charge paid only by franchised passenger operators
- Our current structure of charges does not include the recovery of costs external to the infrastructure manager
  - Environmental costs
  - Scarcity costs
  - Accident costs
- Our current structure of charges does not include a reservation charge as described in Article 12 of the Directive 2001/14/EC
Why we considered a reservation charge

• Several reasons
  - We had looked at implementing a full scarcity charge and without this decided to assess the simpler reservation charge as this might contribute to the more efficient utilisation of the network
  - Some anecdotal evidence was available of
    - Paths held by one freight operator but of potential use to others being held and rarely used and
    - Light engine movements being used to pass the use it or lose it provisions
  - A reservation charge could lead to paths being freed up for others’ use and delay or remove the need for costly enhancement schemes to provide enough capacity for all services
Alternative administrative solutions

• In the GB rail industry there are a number of administrative alternatives available where paths are held but not used
  • Use it or lose it provisions - currently paths need to be used once every 90 days or they can be taken away by the infrastructure manager under these provisions
  • Rights review meetings – scope is provided for the infrastructure manager and train operators to meet to discuss reviewing their access rights (which imply paths on the network)

• Reservation charge has advantages over both of these
  • UIOLI arrangements are set at an arbitrary level and can be complied with by running a single train service in the period (which might be relatively low cost)
  • Rights review meetings rely on the infrastructure manager being able to obtain information despite the asymmetry of information in favour of the freight operator
# Models of reservation charge

<table>
<thead>
<tr>
<th>Model 1: Network wide</th>
<th>Model 2: congested areas</th>
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<tbody>
<tr>
<td>Charge for all paths on the network</td>
<td>Charge for all paths using specified parts of the route - used three routes on the network defined as congested in Network Rail’s Network Statement</td>
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<tr>
<td>Rebate payable when paths used (consistent with Article 12 requirement)</td>
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<tr>
<td>Flat rate charge - £20 per unused path</td>
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<tr>
<td>Revenue neutral to infrastructure manager</td>
<td>Revenue neutral to infrastructure manager</td>
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<tr>
<td>Headroom allowance – allowed unused paths to account for necessary flexibility (varies by commodity)</td>
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Reservation charge - Industry consultation

• Consulted on the detailed proposals in December 2006 (http://www.rail-reg.gov.uk/upload/pdf/311.pdf)

• Industry responses in favour supported keeping the charge as simple as possible, those against favoured strengthening the administrative mechanisms as an alternative

• Freight operators emphasised the importance of needing a certain amount of headroom of paths not used but with the charge rebated
  • Different depending on the freight commodity type being carried

• We commissioned NERA to do a cost/benefit study which reported in August 2007 and concluded that costs significantly exceed benefits (see next slide) http://www.rail-reg.gov.uk/upload/pdf/cnslt-NERA-report_pv.pdf
NERA cost/benefit study conclusions

<table>
<thead>
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<th></th>
<th>£ per annum</th>
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<tbody>
<tr>
<td>Benefits freed up and used train rights</td>
<td>44k</td>
</tr>
<tr>
<td>Value lost from given up train rights</td>
<td>15k</td>
</tr>
<tr>
<td>Total benefits</td>
<td>30k</td>
</tr>
<tr>
<td>Total costs</td>
<td>123k</td>
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<tr>
<td>Net benefits</td>
<td>(93k)</td>
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Reservation charge - cost/ benefit study methodology

• NERA addressed three questions in its cost/benefit study
  • What would be the effect of the charge to different train operators? based on their current utilisation
  • How might the train operator react to this change in cost base? i.e. would it release paths
  • What benefits might be gained where paths are given up?

• NERA observed that in some cases paths would be given up in areas where no other operator wanted to run services

• Indeed where giving up paths may be of particular value to a competitor, only a very high reservation charge might have an effect

• A number of sensitivities were tested e.g. higher charge, removal of headroom allowance but generally costs > benefits except under extreme assumptions

• Costs > benefits if the charge is only introduced at congested parts of the network (partly because of the low elasticities associated with some freight commodities e.g. coal)
Our conclusions

• We concluded not to introduce a reservation charge for the period 2009 – 2014 but to keep it under review for the future along with a full scarcity charge

• Because
  ▸ Low benefits identified in study
  ▸ Administrative alternatives – particular focus is on making the rights review meetings more effective
  ▸ Rebate process made charge particularly complicated to charge for (infrastructure manager problems with mapping access rights to paths)

• We recognise the ongoing debate over whether external social costs should be included in charges (P = MSC) – particularly as measurement techniques improve over all transport modes