RailCalc – Views and comments from CER

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RailCalc Workshop
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Representing the European railway community

- 70 railway undertakings and infrastructure companies
- Representing the entire European area (including Switzerland, Norway, EU accession states, and aspirant EU members)

Private / State owned • Integrated / Separated • Freight and/or Passenger • East / West • National / Across borders • EU / EU neighbours / EFTA
The RailCalc Initiative

- CER welcomes the RailCalc initiative to develop a best practice guide on compliance of rail infrastructure charges with the rules of Directive 2001/14/EC.

- The consultants have obviously made a huge effort of cataloguing and comparing different practices.

- In order to truly evaluate the work, more information is needed and especially the deliverables coming out of the project.
Cost Accounting Systems

- CER believes that every Infrastructure Manager needs to have control of his costs and how these costs are generated.
- Experience has shown that the situation each IM is facing is highly individual.

**Therefore:**
- Recommendations on how this can be improved are welcome.
- Enforcing a specific detailed system is not useful given the existing differences.
- Any harmonisation of cost accounting systems and/or charging principles must take into account the individual situation in each case and
- It should also allow for the managerial freedom of Infrastructure Managers.
Cost Accounting Systems vs. Pricing

- The RailCalc discussion paper makes a very strong link between the cost accounting system and the setting of charges.

- CER would like to point out that while a proper cost accounting system is necessary to keep track of costs and cost generating activities, charging and pricing for infrastructure is by and large a matter of national policy.

Pricing is not necessarily linked to the cost accounting system
Pricing Policies and Funding Obligations

Different Funding Policies in application

- Low charges, typically linked to the social marginal costs.
- Various kinds of mark-ups
- Full cost coverage

Regardless of the charging policy, the state must always acknowledge the obligation to add the funds necessary to cover the part of the infrastructure costs that are not covered by charges.
Activity-Based Costing (ABC)

- Activity-Based-Costing is an advanced and efficient method of cost accounting. However, even though it can support pricing decisions it is not a price-setting method itself.

- Although ABC can help allocate costs in a more comprehensive way than other methods, this doesn’t make it the only way to allocate common costs in an objective manner.

- Implementing ABC doesn’t imply that there is information about the one “correct” pricing structure.

- ABC often reflects average costs rather than incremental (marginal) costs.
Activity-Based Costing (ABC)

- Even if ABC has been shown to work in other sectors, it may not be so easy to implement for rail infrastructure management. A related question concerns the costs of implementing this methodology.
- It is clear that ABC is one of the available methods to reach specific goals. The aim should be to define these goals and leave the decision of the actual method to the IM according to the specific situation and business plan.
Additional comments and remarks

- Short-Run Marginal-Cost pricing is indeed often difficult to carry out in practice.
- Using slot auctions as a means of making the most of Willingness-To-Pay could disturb railway performance.
- Charging principles, although important, are typically overshadowed by concerns on charging levels.
Additional comments and remarks

The discussion paper lacks some important information:

- There is no discussion on the link between charges and the quality of infrastructure.
- No real best practices (with examples) are actually presented.
- How Activity-Based-Costing works in practice is not presented.
- The concepts Life-Cycle Costs and Willingness-To-Pay are not very well developed in the text.
- The actual risks of overpricing in the current system should be clarified.
Additional comments and remarks

The diagram showing present and proposed practices is currently not very well explained.
Conclusions

The outcome of the RailCalc study should be recommendations and guidelines rather than a new legislative proposal.

= CER therefore welcomes the conclusion by the consultants that their suggestions are already allowed for by the current directive.
Thank you!