DG TREN held a workshop on 15 February 2008 to consult stakeholders on the results of the RAILCALC project. This workshop brought together 55 experts, including infrastructure managers, regulators and ministry officials, to hear a series of presentations and to discuss the results of the RAILCALC project and other ongoing research on infrastructure cost accounting and user charging. The aim of RAILCALC was to analyse existing cost accounting and track access charging systems and to assess these against management and regulatory objectives. The conclusions of the workshop are set out below. At the end of the document there are also links to the presentation slides that were shown at the workshop.

The project found that while some systems satisfy many, if not all, of the criteria imposed by Community legislation, other systems fall short. In particular, there is a wealth of experience and analysis of calculating the marginal costs of infrastructure use, even though these costs account for only around 20% to 30% of the total cost of infrastructure maintenance. To achieve the higher cost recovery rates needed in order to comply with the legal requirements, the project team proposed an approach which had the following main features:

• Activity-based cost accounting (ABC) as set out in a discussion paper, which had been distributed together with the invitation to the meeting. ABC includes incremental costs of maintenance and capacity enhancement. Factor prices are set at replacement or market values, rather than historic costs of the particular infrastructure manager. The cost base only includes cost elements that are strictly necessary for providing infrastructure services.

• The regulatory body or the State and the infrastructure manager agree on a price cap, which is adjusted annually to take account of the difference between inflation and the increase in productivity. Every three or five years the cost level is adjusted. Prices caps require clear and measurable performance agreements with the infrastructure manager, because otherwise they may create a tendency not only to neglect maintenance but also – more seriously - to neglect renewal and network development.

• Auctioning of packages of paths and bilateral negotiations between infrastructure managers and applicants for train paths are two mechanisms for agreeing on charges. Bidding depends very much on paths already allocated to the bidder or his competitor(s).

• The project considers ABC not as an alternative to charging rules, but rather as one of several possible practical ways of implementing them.

• A number of infrastructure managers, including in Italy and Latvia, have implemented ABC and had a positive experience, or have already made some progress towards implementing it.

• ABC is based on incremental costing, i.e. it includes in the cost basis those costs over and above marginal costs of wear and tear. Input prices and amounts are estimated on the basis of value and price forecasts.
• Implementing ABC may take more than two years and may involve changes in management structures and processes. It is therefore desirable to quantify the benefits and costs involved in such a shift.

The following points were raised during the afternoon session:

• Regulators find it difficult to build the cost base on future costs rather than historic costs, because the infrastructure manager may have a vested interest in the costs being high.

• There is still little evidence of how to set scarcity charges at an appropriate level/what constitutes an appropriate level of scarcity charges. The same applies to the auctioning of train paths. Nevertheless, infrastructure managers are encouraged to make more use of such instruments. Auction charges implicitly take scarcity into account, and thus make calculating scarcity costs easy or even unnecessary.

• Auctioning may create conflicts with the legal requirement to have consultation on and publish charges in the network statement several months before the beginning of the timetable period.

• Scarcity charging can entail counterproductive incentives, because the infrastructure manager risks having to reduce the charge after having invested to remove the bottleneck. So, paradoxically, high charges bring bad quality and lower charges bring good quality! Infrastructure managers and railway undertakings alike may find this difficult to accept.

• Apportioning costs to train services presents practical difficulties, in particular where joint costs\(^1\) are involved. Therefore, it may be more appropriate to apportion costs on the basis of service packages.

• The "what the market can bear" rule means that market segments have to be defined according to willingness to pay. Defining market segments and setting mark-ups requires intensive consultation with stakeholders, which may take more than a year. The example of the UK showed that only two out of 13 market segments were actually able to support mark-ups.

• Even where price caps are applied, they may have to be renegotiated during the lifetime of the contract. It will therefore be useful to agree on ranges of values instead of individual values, whereby going outside the range would trigger renegotiation or other consequences.

• Price caps may be combined with stronger incentives, such as bonus payments to attract a higher-than-forecast volume of traffic, or to reduce environmental impacts, or to maintain infrastructure in a better condition than planned.

\(^1\) Where a package of services consists of various subsets and the additional costs for one of those subsets are the same as for the whole package, these are referred to as "joint costs". Since, it is difficult in this case to assign costs to any single subset, it may be more appropriate to assign them to the entire package when calculating the marginal costs of a train service.
• Rail freight may be more sensitive than passenger transport to the charging of mark-ups. Different systems of compensation for public service obligations (including no compensation at all) will have different effects on revenues as well as on the level of compensation. Priority rules can override the effects of differentiated charging of mark-ups.

• It is a concern of regulators to avoid discrimination. ABC does not appear to be more complex for regulators to work with than many other cost accounting systems. Nonetheless, regulation may require cost data to be provided in a particular form and to a particular aggregation level, e.g. 'regulatory accounts'.

• Under EU law the regulatory body is required to supervise negotiations on track access charges between the infrastructure manager and railway undertakings, where such negotiations are permitted under national law. In practice, it may be difficult for the regulator to put such supervision in place, especially in an environment of open competition involving a number of different market segments and operators. Clearly, effectiveness will also depend on the staff capacity of the regulators.

• Article 8 of Directive 2001/14/EC sets the costs of operating the train service as the rule, and mark-ups may only be levied if the market segment can bear it. This presupposes a definition of market segments and an understanding of how demand in a particular segment varies if mark-ups are levied. International freight transport may be defined as one or more market segments. In this respect, there is an urgent need for stronger cooperation between infrastructure managers and regulatory bodies across borders.

• Different cost accounting systems used by infrastructure managers and data confidentiality present obstacles to the effective regulation of international traffic. Regulatory bodies should reinforce cooperation in order to overcome these obstacles.

• A simple harmonisation of cost accounting systems of infrastructure managers may be a prerequisite for enforcing the existing pricing and charging rules for international traffic.

* Disclaimer: The content of these conclusions and the views expressed therein do not commit the Commission nor prejudge the position of the EU and its institutions in their bilateral or multilateral relations with the countries of the region.