

Response to consultation: Network Charges – A consultation on how charges can improve efficiency

Full name: Chris MacRae
Job title: Manager – Rail Freight Policy (and Head of Policy – Scotland)
Organisation: Freight Transport Association
Email: ✕
Contact address: Hermes House, St John’s Road, Tunbridge Wells, TN4 9UZ
Telephone number: ✕

Instructions for Responding to the Consultation

We would appreciate it if long responses had a summary of the key response points.

Summary of key response points:

- The structure and content of any charges review needs to promote rail freight if Government aspirations for growth as embedded in the NR Freight Market Study are to be achieved.
- Charges need to not discriminate against different market sectors on the basis of perceptions of what different market segments can bear in respect of price elasticity as deeming certain segments “captive” to rail and charging mark-ups as per EU Directive sends negative signals to potential customers in other sectors considering modal shift investment in rail as well as existing customers looking at continuing use of rail.
- There needs to be a drive to increase cost efficiency in rail infrastructure provision and ensure that is passed on via FOCs to end customers to ensure cost reductions to enable rail to compete with road freight.

Summary of consultation questions

Chapter 1 Questions	Response
Q1. How much does Network Rail’s structure of charges matter today?	It matters fundamentally to freight for the reasons stated above in our summary of key points.
Q2. What issues could a new structure address?	From a freight perspective, increased certainty and stability of charging beyond 5 yearly reviews would allow FOCs and their customers to plan their businesses with a greater degree of certainty.
Q3. Can you provide examples of behaviours that would change within your	As per question 2 above and the issues in our summary around charging market segments what it is deemed they can bear if “captive” to rail and effects on perceptions in other sectors as a result.

organisation or elsewhere in the rail industry with an improved structure of charges?	
---	--

Chapter 2 Questions	Response
Q4. To what extent does the use of scenarios, in the form of the RDG 'states of the world', help to understand the likely effectiveness of future charging structures?	It is useful in evaluating different scenarios.
Q5. Are the high-level gaps (in Figure 4) a good starting point for developing solutions? Would you have expected to see any other high-level gaps and, if so, what are they?	Yes, the point about certainty moving from one Control Period to another is particularly relevant for freight users.
Q6. Do the assessment criteria accurately reflect the main factors we should consider for assessing the impact of options?	Yes.

Chapter 3 Questions	Response
Q7: To what extent do the packages of options represent the key strategic choices available to improve the existing charging structure?	Potentially yes, but there is an issue with freight and the fact that it's operation is wholly a private sector activity as opposed to passenger that is largely a state-specified activity privately delivered but in many cases with subsidy profile and on a short-run basis via the franchising process.
Q8. Would you expect the infrastructure costs package to deliver more benefits than the value-based capacity package at this stage and, if so, why?	There would need to be an agreed definition of societal values consistent with other CBA techniques and in the case of freight with mode shift benefit values of the grants regime.

Chapter 4 Questions	Response
----------------------------	-----------------

Q9. We welcome your views on our proposal to prioritise further development of the infrastructure costs package.	The drive for further cost reflectivity needs to take account of the fact that rail freight is a private sector activity and the effect that will have on freight customer use of rail.
Q10. What costs and benefits do you see with the infrastructure costs package? Do you think our draft impact assessment is missing any significant impacts or has misrepresented any impacts?	There could be a significant time and management cost in gathering the necessary information.
Q11. To what extent do you think the benefits of this package can be realised through more information, rather than through the use of charges?	Potentially, if parties had the right information to allow the correct choices to be made.

Chapter 5 Questions	Response
Q12. We welcome your views on our proposal not to prioritise further development of options based on the value of capacity.	Our comments in Question 8 would refer to this.
Q13. What costs and benefits do you see with the value-based capacity package? Do you think our draft impact assessment is missing any significant impacts, or has misrepresented any impacts?	Our comments in Question 8 would refer to this.
Q14. Would you expect a better understanding of costs to be an essential precursor to value-based charges?	Our comments in Question 8 would refer to this.

<p>Q15. To what extent do you think the benefits of this package can be realised through more information alone, without passing that into charges?</p>	<p>Our comments in Question 8 would refer to this.</p>
---	--

Chapter 6 Questions	Response
<p>We welcome your views on our proposal to develop the package of improvements to current short-run charges further.</p>	
<p>Q16. What options would you expect to see in a long list of improvements to Network Rail's short-run variable charges?</p>	<p>Avoidance of changes to short-run charges at Control Period ends / beginnings causing market price shocks for freight.</p>
<p>Q17. What options do you see as a priority for this package?</p>	<p>As above.</p>
<p>Q18. What costs and benefits do you see with this package?</p>	<p>We would have a concern about geographic disaggregation of charging having a pass – through effect to freight customers that would increase the economic peripherality of geographically peripheral areas such as the North of England, Scotland, and specifically Scotland north of the central belt.</p>

Chapter 7 Questions	Response
<p>We would welcome comments on how charges might apply to open access in future. In particular, we would welcome comments on:</p>	
<p>Q19. whether open access operators should face charges implemented under the infrastructure costs package;</p>	<p>This is a matter for the passengers sector rather than FTA.</p>
<p>Q20. what forms of adjustments to charges might be appropriate for open access operators, relative to franchised operators;</p>	<p>This is a matter for the passengers sector rather than FTA.</p>

Q21. how current incumbent open access operators should be treated; and	This is a matter for the passengers sector rather than FTA.
Q23. Would you like to see either of the complexity options developed further?	This is a matter for the passengers sector rather than FTA.
Q24. Are there other options you would like assessed to reduce complexity?	This is a matter for the passengers sector rather than FTA.
Q25. What costs and benefits would you expect with these complexity options?	This is a matter for the passengers sector rather than FTA.

Chapter 8 Questions	Response
Q26. In chapter 8, we started to highlight issues associated with implementation of a new charging structure and potential actions to alleviate negative impacts. Do you have any views on options for implementing a new structure and what would be the impacts of these options?	For freight there is risk in any changes of potentially confusing the market and customers.
Q27. We understand the structure of charges has the potential to impact different groups in different ways. In developing the options in this consultation (particularly in the draft impact assessments), have we drawn out the implications for different groups? Please explain your response.	<p>We would repeat again the Summary of our key response points:</p> <ul style="list-style-type: none"> - The structure and content of any charges review needs to promote rail freight if Government aspirations for growth as embedded in the NR Freight Market Study are to be achieved. - Charges need to not discriminate against different market sectors on the basis of perceptions of what different market segments can bear in respect of price elasticity as deeming certain segments “captive” to rail and charging mark-ups as per EU Directive sends negative signals to potential customers in other sectors considering modal shift investment in rail as well as existing customers looking at continuing use of rail. - There needs to be a drive to increase cost efficiency in rail infrastructure provision and ensure that is passed on via FOCs to end customers to ensure cost reductions to enable rail to compete with road freight.

If there is anything else regarding the current structure of charges that you would like to feedback to the Office of Rail and Road, please include this in your response.

How to respond

We would like your views so please get in touch by responding to this consultation by **4 March 2016**. You might find it useful to use this pro forma to record your responses. Please send responses to: Orr.Structureofcharges@orr.gsi.gov.uk.