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By email - John.Larkinson@orr.gov.uk

Dear John

I am writing regarding the proposed changes in Variable Usage Charges (VUC).

As part of the Periodic Review process we have previously outlined Transport Scotland's policy in relation to VUC. This policy position, which relates more widely to all charges, is that they should be fit for purpose and transparent, should help strengthen the alignment of incentives and improve efficiency, should not lead to perverse or unintended consequences and should not create affordability issues for funders. It is also important that Network Rail's costs are visible at a consistent, disaggregated level to ensure that the substantial public investment in Scotland's railways is allocated and spent efficiently.

Transport Scotland has serious concerns about the effect of any increase in VUCs, particularly in relation to freight traffic and charter operators as we look to grow both the rail freight and rail tourism markets. The ORR are aware that in support of the significant challenges that the rail freight sector is facing in Scotland, our rail freight strategy and HLOS have a strong focus on growing new rail freight markets. It is essential that the charges and incentive framework should provide a stable platform to enable and encourage this growth in the rail freight sector. We cannot have a repeat of the issues created for coal traffic in Control Period 5 in any sector of the rail freight market.

To put our concerns in context, we currently have some exciting freight projects developing in Scotland in the timber and food and drink markets. We know that margins are extremely tight in terms of affordability so it is important that any changes in VUCs do not jeopardise the progression of these and future projects and negate the already substantial investment in time and resource that has gone into them.

We understand that you are still working through the legal constraints of a flat cap and that the cap is time limited and will have to be addressed at some point. It is increasingly important therefore, for a number of reasons, that the ORR ensures that Network Rail is set efficiency assumptions that incentivise them to secure realistic and achievable real cost reductions both in terms of overall affordability and efficiency.

I look forward to receiving your assurances on the points made in this letter and to continuing working closely with you and colleagues at the ORR through the Periodic Review.

Yours sincerely,

John Provan

John Provan
Head of Strategy & Funding