



Annex A: Summary of control period 5 charges and contractual incentives framework

December 2016

This document has been published alongside [‘Improving incentives on Network Rail and train operators: A consultation on changes to charges and contractual incentives’](#).

This annex provides a high level description of the charges and incentives in place for control period 5 (CP5).

Table 1 sets out the current charges and contractual incentives, their rationale and approximate scale¹.

Table 1: CP5 charges

Name of charge	Basis for charge	2015-16 Network Rail income ² (£m)
Variable usage charge (VUC)	Recovers maintenance and renewal (M&R) costs that vary with traffic. Should incentivise action that reduces wear and tear caused by trains.	224
Electricity asset usage charge (EAUC)	Recovers M&R costs of electrification assets that vary with traffic.	15
Traction electricity charge (EC4T)	Recovers the costs of providing electricity for traction purposes. Should incentivise operators to make energy savings and Network Rail to manage transmission losses. The incentive is strongest when the	289

¹ Based on Network Rail's income received for 2015-16, the second year of CP5.

² 2015-16 prices taken from Network Rail Regulatory Financial Statements (year ended 31 March 2016). Available [here](#).

Name of charge	Basis for charge	2015-16 Network Rail income ² (£m)
	operator is billed on the basis of metered consumption.	
Capacity charge (CC)	Recovers Network Rail's Schedule 8 costs that vary with traffic. By neutralising Schedule 8 costs to Network Rail for accepting additional traffic, it should remove the disincentive on Network Rail to accommodate additional traffic on to the network (due to performance impacts).	426
Coal spillage charge (CSC)	Recovers the cost of coal spillage from freight operators transporting coal.	1
Station long term charge (SLTC)	Recovers station building and civils maintenance, repair and renewal costs; and station information and security systems (SISS) costs.	156
Qualifying expenditure (QX)	QX covers the cost of the Station Facility Owner's (SFO's) day-to-day running and operation of its stations. It also covers the reasonable costs incurred by the SFO for procuring or providing the services and amenities that all users share. With the exception of the management fee element at managed stations, QX is not regulated.	58
Franchised station lease income	Network Rail's franchised station lease income provides it, as the station owner, a share of the income received by the station operator from commercial activities at the station, such as retail car park income. This income stream is not regulated.	45
Fixed track access charge (FTAC)	Determined on the basis of Network Rail's revenue requirement after taking into account other charges income and other single till income.	367 ³
Freight-only line (FOL)	Recovers fixed costs of freight only lines (but levied uniformly across the network). In	2

³ This is the figure after accounting for the lump-sum Network Grant payment from the governments to Network Rail (£4,282m in the second year of CP5).

Name of charge	Basis for charge	2015-16 Network Rail income ² (£m)
charge	CP5 it was levied only on coal for the electricity supply industry (ESI), spent nuclear fuel, and iron ore freight market segments.	
Freight specific charge (FSC)	Recovers 'freight avoidable costs' - the costs that would be foregone if freight services were to no longer use the network (and are not recovered by other charges). In CP5 it was levied only on the ESI coal, spent nuclear fuel and iron ore freight market segments, and was set below estimated freight avoidable costs.	0 for the first two years of CP5 then the charge rate increasing to 20%, 60% and 100% of the full charge rate over the last three years of CP5

Table 2: CP5 Contractual Incentives

Name of Incentive	Basis for Incentive	2015-16 Network Rail income ⁴ (£m)
Schedule 4	Provides Network Rail with financial incentives to limit the level of service disruption as a result of planned possessions (i.e. restricted use of the network). This reduces train operators' possession-related risks that they cannot control.	-40 (£217m income from net of £257m payments)
Schedule 8	Provides Network Rail with financial incentives to improve performance on the railway. This protects train operators from financial risks related to delay and cancellations caused by Network Rail. It also provides train operators with incentives to limit delay that they cause to other operators.	-106 (£8m income net of £116m payments)

⁴ 2015-16 prices taken from Network Rail Regulatory Financial Statements (year ended 31 March 2016). Available [here](#).

Name of Incentive	Basis for Incentive	2015-16 Network Rail income ⁴ (£m)
Volume incentive	Encourages Network Rail to grow passengers and freight traffic over the control period beyond forecast levels. Should encourage Network Rail to accommodate more traffic on the network, and to help grow passenger revenue.	11
Route-level efficiency benefit sharing mechanism (REBS)	Network Rail's efficiency gains and losses are shared with those train operators that opt into the scheme. A mechanism intended to strengthen the incentive to reduce infrastructure costs. It works by increasing passenger and freight train operators' interest in these costs by exposing them to these costs in each year of the control period.	0.26 (2014-15 figures; Figures for 2015-16 have not been finalised.)

Application of Charges and contractual incentives to operators

Table 3 overleaf sets out which categories of train operators are required to pay each charge.

Table 3: CP5 structure of charges and its application to train operators

	Recovery of short-run variable costs					Recovery of other costs		
	VUC	EAUC	EC4T	CSC	CC	FTAC	FOL charge	FSC
Franchised operators	Yes	Electrified vehicles only			Yes	Yes		
OAO	Yes				Yes			
FOC	Yes		Coal traffic	Yes			Yes (segments)	Yes (segments)

All train operators are eligible to receive compensation under the Schedule 8 regime.

Franchised passenger operators, OAOs and FOCs are all eligible to receive compensation under the Schedule 4 regime, passenger operators are only entitled to compensation for smaller levels of disruption if they pay an access charge supplement (ACS).

Under the track access contract, franchised, open access and freight operators have all been able to participate in or opt out of REBS in CP5.



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at orr.gov.uk

Any enquiries regarding this publication should be sent to us at orr.gov.uk