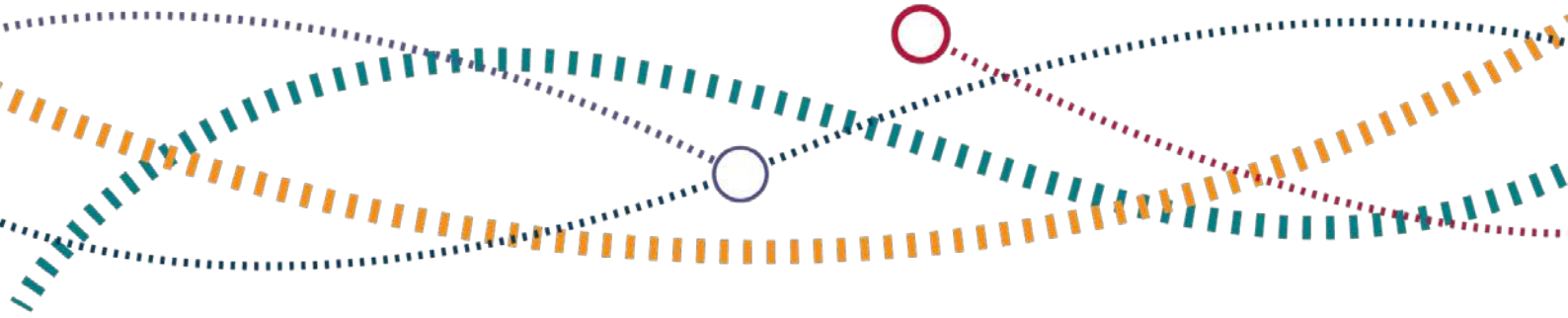
Network Rail’s access charging framework

ORR user guide



Purpose of this document

The purpose of this document is to provide an overview of the main regulated charges that are currently paid by train operators, for accessing the part of the GB rail network that is owned and operated by Network Rail.

In the 2018 periodic review (PR18), we set the regulatory framework for Network Rail for control period 6 (CP6), which runs from 1 April 2019 to 31 March 2024. Through PR18, we established the charging framework and specific charging rules for Network Rail[1]. Within that framework, Network Rail has responsibility for determining the specific charges payable by train operators, for accessing its track and stations.

The decisions we made in PR18, and the resulting changes to Network Rail's charges, are implemented through changes to Schedule 7 of train operators' track access contracts. The most recent changes took effect from 1 April 2019, for the start of CP6.

As part of the next periodic review of Network Rail (PR23), we are reviewing Network Rail's charging framework. This document is intended to provide an accessible reference for industry to assist with engaging with the PR23 process. It summarises some key information on the existing set of regulated charges that are levied by Network Rail on train operators – including the purpose and structure of each charge. It also signposts some other documents and resources that are relevant to Network Rail's charging framework.

The rest of this document presents information for the following charges:

- **Infrastructure cost charges (ICC)**: the fixed track access charge (FTAC); the ICC for freight services[2]; and the ICC for open access services.
- **Variable charges**: the variable usage charge (VUC); electrification asset usage charge (EAUC); and traction electricity charge (EC4T).
- **Station charges:** the station long term charge (LTC); and qualifying expenditure charge (QX).

[1] Our PR18 conclusions on charges and incentives are set out in our 2018 periodic review final determination supplementary document – Overview of charges and incentives decisions, October 2018.

[2] For billing purposes, this is known as the freight-specific charge, or FSC.

It covers the following questions:

- **What is the purpose of this charge?**
- **What costs are recovered through this charge?**
- **Which train operators are subject to this charge?**
- **How is the charge structured?**
- **How is the level of the charge calculated?**

We have published this user guide following our initial consultation on our PR23 access charges review, which was published in July 2021. This guide focuses exclusively on the existing structure of charges for CP6. Our views about how this structure might change in PR23 are set out in our consultation document.

We welcome any comments or feedback on this user guide. Please contact Will Chivers (Will.Chivers@orr.gov.uk), Senior Economist at ORR, if you have any feedback or queries about the information contained here, and we will update the guide where relevant. We will also update this guide more extensively at the end of the PR23 process to reflect any changes we decide to make to the charging framework, in advance of the start of the next control period (CP7).

Further resources

- Further guidance on the regulatory framework for track access charging in CP6 is available on ORR's website here: https://www.orr.gov.uk/sites/default/files/om/track-access-guidance-charging.pdf.
- Network Rail's CP6 price lists – which set out the specific charges payable by train operators – are available on its website here: https://www.networkrail.co.uk/industry-and-commercial/information-for-operators/cp6-access-charges-2/.

Table 1: Summary of Network Rail's CP6 charges

Charge		Paid by:	Recovers:	Income (£m, 19-20)	Income (£m, 20-21)
ICCs	Fixed track access charge (FTAC)	Passenger operators on concession-style agreements	Remaining income required to meet Network Rail's revenue requirement	1,254	1,279
	ICC for freight services	Freight operators carrying certain commodities	A proportion of fixed network costs	0.5	0.6
	Open access ICC	Open access operators providing new interurban services	A proportion of fixed network costs	0	0
Variable charges	Variable usage charge (VUC)	All operators	Maintenance and renewal costs that vary with traffic	310	250
	Electrification asset usage charge (EAUC)	All operators of electrified services	Maintenance and renewal costs of electrification assets that vary with traffic	22	19
	Traction electricity charge (EC4T)	All operators of electrified services	Cost of supplying electricity for traction	445	428
Stations charges	Station long term charge (LTC)	All passenger operators	Maintenance, renewal and repair costs for stations owned by Network Rail	247	250
	Qualifying Expenditure (QX)	All passenger operators at managed stations	Day-to-day running costs of providing services and amenities at managed stations	90	92
Total				**2,369**	**2,319**

Fixed Track Access Charge

What is the purpose of this charge?

The fixed track access charge (FTAC) recovers a portion of Network Rail's fixed network costs i.e. those which do not vary with use of the network in the short-term.

Fixed network costs are recovered through several sources. A significant proportion of fixed costs is funded through direct network grant payments from funders. Additionally, some fixed costs are recovered from ICCs levied on freight and open access operators, and through Network Rail's 'other single till income' (e.g. property rental and sales).

FTACs are set at the level is required to recover Network Rail's remaining fixed costs, after accounting for income from these sources. This ensures that it can recover the full costs of operating, maintaining and renewing the network, as required by the periodic review settlement (sometimes known as fulfilling Network Rail's 'net revenue requirement').

Who is subject to this charge?

FTAC is paid by operators on concession-style agreements. By this, we mean all operators that are commissioned by funders and other devolved rail authorities to provide passenger services[3]. However, in practice, these agreements generally provide for FTAC to be paid by the funder or commissioning rail authority, which means that operators are held neutral to any changes in FTAC that result from a periodic review.

A full list of operators who pay FTAC is set out in Network Rail's schedule of fixed charges, which is available on its website.

How is the charge structured?

FTAC is paid as a lump-sum annual charge, set at the start of CP6.

In our PR18 final determination, we decided to annually adjust operators' FTAC based on variations in timetabled train miles[4]. This was known as the 'FTAC wash-up mechanism'. It was intended to provide Network Rail with stronger incentives to add traffic to the network during a control period, and to provide operators with an incentive to consider the long-run fixed costs caused by adding new services to the network.

[3] At the start of CP6, most of these operators held franchise agreements with funders. Following the COVID-19 pandemic, these agreements have been suspended.

[4] For example, if an operator's annual timetabled train miles in year 1 of CP6 was 5% higher than forecast, its FTAC for that year would increase by 5%.

We did not introduce this mechanism for the start of CP6. This was due to the May 2018 timetable problems, which created a concern that traffic baselines determined in advance of CP6 might overstate expected traffic, and could lead to unintended payment flows. We then worked with Network Rail and operators from August 2019 to March 2020 to set traffic baselines. However, due to the impact of Covid-19 on traffic baselines, we decided in October 2020 to suspend the mechanism for the remainder of CP6[5].

This means that FTACs continue to be structured as an annual lump-sum payment.

How is the level of the charge calculated?

The basis for the calculation of FTACs is Network Rail's fixed cost model. This model estimates the total fixed costs for each route section on the network. It then allocates traffic-related avoidable fixed costs to train operators who use each route section, based on forecasts of the type of traffic they run[6]. For example, the costs that would be avoided in the long-run by reducing the maximum line speed on a route section are allocated to the highest-speed services that run on that section.

This methodology underpins the maximum allocation of fixed costs to each train operator, to be recovered through FTAC. The model then deducts other charges income and third-party income from operators' allocations. Finally, Network Rail deducts network grant funding. The resulting allocations constitute each operators' FTAC.

The methodology is described in more detailed in Network Rail's CP6 conclusions document on its methodology for allocating fixed costs to train operators in Control Period 6 (CP6), and also in Annex 3 of our initial consultation on our PR23 charges review .

[5] In October 2020, we published a letter to industry setting out the basis for this decision.

[6] The fixed costs associated with having a minimum network (i.e. *non-avoidable* costs) are allocated entirely to funders, rather than train operators, and recovered through the network grant.

ICC for freight services

What is the purpose of this charge?

We first introduced a charge paid by freight operators to contribute to Network Rail's fixed cost recovery in PR08. This was called the freight only line (FOL) charge, and was intended to recover the costs of lines that would close if freight services ceased to operate (e.g. branch lines used only by freight traffic).

In PR13, we introduced the Freight Specific Charge (FSC). This was intended to increase the extent to which freight operators contribute to the costs they impose on the rail network, where this is appropriate and consistent with relevant legislation on the application of 'mark-ups'. We considered that this should send better signals to users to enable more efficient use of the network. It also reduces the overall reliance on public funding for the recovery of Network Rail's fixed costs.

In PR18, we combined these two charges into one mark-up for freight services. We now refer to this as the ICC for freight services, though for billing purposes it continues to be referred to as the FSC.

What costs are recovered through this charge?

The ICC for freight services recovers a proportion of Network Rail's fixed costs. It is based on an assessment of what contribution to fixed network costs each freight market segment can bear (as explained in more detail below). It is capped at the total traffic-related avoidable fixed costs that are allocated to freight services by Network Rail's fixed cost model. In practice, the assessment of ability to bear means that existing freight ICCs recover only a small proportion of these traffic-related avoidable fixed costs.

Who is subject to this charge?

This ICC is paid by freight operators for services carrying certain commodities. Network Rail can only levy 'mark-ups' (i.e. charges which recover costs in excess of those directly incurred) on services which can bear those charges[7]. To determine which freight services can bear this charge, we apply a market-can-bear test to assess the likely impact of imposing this charge on different freight services (or "market segments"). This takes account of evidence on how demand for rail freight services from different commodities may change as a result of higher charges; and the extent to which rail freight services

[7] The Railways (Access, Management and Licencing of Railway Undertakings) Regulations (AMRs) 2016, Schedule 3, paragraph 2(3) states that 'the effect of sub-paragraphs (1) and (2) must not be to exclude the use of infrastructure by market segments which can pay at least the cost that is directly incurred as a result of operating the railway service, plus a rate of return which the market can bear.'

compete with other transport modes such as road. For market segments where demand is less sensitive to changes in charges, and which face less competition from other transport modes, their ability to bear a charge is higher.

Based on the outcome of the market-can-bear test conducted during PR18, the ICC is currently levied on freight services carrying the following freight commodities: ESI (Electricity supply industry) coal; iron ore; spent nuclear fuel; and ESI biomass. Each of these commodities are defined as separate market segments. The ICC for ESI coal, spent nuclear fuel and iron ore has been levied since PR13, while an ICC for ESI biomass was introduced for the first time in PR18.

How is the charge structured?

This charge is paid by freight operators based on their usage of the network, as a rate in £ per thousand gross tonne miles (kgtm).

How is the level of the charge calculated?

ICCs are calculated separately for each market segment. As explained above, this is based on an assessment of what each market segment can bear. In PR18:

- For **ESI coal, iron ore, and spent nuclear fuel**, we decided to set the charge at a level that would maintain the overall level of total charges in line with the CP5 exit levels for these commodities. This was based on evidence that suggested that, for these commodities, sensitivity to track access charges had not materially changed.

- For **ESI biomass**, we set the ICC such that there was a less than 10% expected reduction in demand for transporting biomass by rail, as the result of the charge. We also decided to phase-in the ICC for biomass over CP6, such that operators pay 0% of the charge in years 1 and 2 of CP6; 20% of the charge in year 3; 60% of the charge in year 4; and the full charge in year 5 of CP6.

The specific ICC rates paid for services transporting these commodities is set out in Network Rail's track usage price list, which is available on its website.

ICCs for open access services

What is the purpose of this charge?

In PR18, we introduced a policy whereby new open access services operating on some parts of the network would potentially be liable to pay a new charge, where they can bear this (the 'open access ICC'). This policy aimed to facilitate increased on-rail competition between passenger services over the longer-term, by allowing open access operators to benefit from potentially greater access to the network, while requiring that they contribute towards Network Rail's recovery of fixed costs where they are able to do so.

What costs are recovered through this charge?

The ICC for open access services recovers a proportion of Network Rail's fixed costs. As with the ICC for freight services, the charge is based on an assessment of what contribution to fixed network costs open access services can bear. It is capped at the total traffic-related avoidable fixed costs that are allocated to open access services by Network Rail's fixed cost model. In practice, the assessment of ability to bear means that existing ICC does not fully recover these traffic-related avoidable fixed costs.

Who is subject to this charge?

In PR18, we defined two market segments for open access services: 'interurban' and all other services. This was based on analysis showing that interurban services have a materially greater ability to bear an ICC than other open access services[8].

We decided to levy an ICC on services operating in the interurban market segment, as our analysis indicated that other services would not be able to bear such a charge. We levied the ICC on new interurban services only, in order to protect the existing level of competition provided by existing OAOs. This also reflected the fact that currently operating services were granted access based on our previous access policy, before we set out our intention to review the charges levied on OAOs as part of PR18[9]. However if an existing operator proposes significant variations to their services during CP6, and that service fall within the interurban market segment, these services are then subject to an ICC.

[8] We defined a service as falling within the interurban market segment if: (i) at least one of the stations served has average annual entries / exits above 15 million passengers per year, or the station served is within two miles of a station meeting that demand threshold; (ii) at least one other station served has average annual entries/exits above 10 million passengers per year or it is within two miles of a station meeting that demand threshold; and (iii) two of the stations served meeting these thresholds are at least 40 miles apart.

[9] Grand Central and Hull Trains currently operate services in the interurban market segment but are exempt from paying ICCs on these services, as they were operating before ICCs were introduced.

As a new open access service, First Rail's London to Edinburgh service (branded as Lumo), which launched in October 2021, is liable to pay this ICC.

How is the charge structured?

The charge is levied on open access services as a flat rate of £4 per train mile (in 2017/18 prices).

For services which operate partly (but not fully) in the interurban market segment, the rate is adjusted accordingly. For example, for a 200-mile journey, if 100 miles falls into the interurban market segment, and the remaining 100 miles is in the other segment, then the overall charge for the service would be half of the full ICC rate per train mile[10].

How is the level of the charge calculated?

The level of the ICC is based on an assessment of what new interurban services could bear. To do this, we undertook some work in PR18 to estimate what level of charge would be likely to deter the operation of new services in this market segment. This work drew on data on open access revenues, as well as estimates of the costs of these services, to estimate operators' net operating profit for a range of different services. These estimates were then used to model the maximum level of charge that could be levied, without deterring an unconstrained operator from operating a service.

This analysis suggested that interurban services could bear an ICC of £6-£7 per train mile. However, there was significant variation in estimated ability to bear, even among interurban services.

In setting the ICC, we took account of the above analysis, as well as changes to other charges paid by open access operators in CP6. Given that it was the first time we had undertaken this exercise, we also considered that it was appropriate to take a conservative approach to setting the charge. On this basis, we set the ICC at a lower level of £4 per train mile. We also decided to phase-in this ICC over the first five years of the operation of relevant services, according to the profile set out in Table 2.

Table 2: Phase-in arrangements for new entrants operating interurban services

Year of operation of new entrant	Year 1	Year 2	Year 3	Year 4	Year 5
% of ICC set at periodic review prior to start of operations	0%	0%	25%	50%	100%

[10] Alternatively, the ICC can be billed as separately by different service codes within a given service. It is up to the operator and Network Rail to work together to agree the relevant service codes for any services liable to pay this ICC.

Variable Usage Charge

What is the purpose of this charge?

The VUC is a charge designed to recover the operating, maintenance and renewal costs that vary with marginal changes in traffic[11]. It does not reflect the costs of providing or changing the capability or capacity of the network.

It is intended to provide incentives for operators to: (1) use more track friendly vehicles; and (2) only operate services where the additional benefit is greater than the marginal costs imposed on the infrastructure.

What costs are recovered through this charge?

The VUC recovers costs relating to three types of activity: track, civil engineering and signalling. Track wear and tear costs make up approximately 85% of the expenditure that is recovered through this charge. Whilst civil and signalling costs make up around 10% and 5% of the charge respectively[12].

Who is subject to this charge?

The VUC is paid by all operators who run services on the network i.e., passenger operators on concession-style agreements, freight operators, open access operators and charter operators.

How is the charge structured?

The VUC is disaggregated by vehicle class and, in the case of freight services, also by commodity. Typically, heavier and faster vehicles incur a higher VUC, reflecting the relatively higher levels of damage that they cause to the network[13]. The rates are averaged across the network as a whole, resulting in a single price for each permutation of vehicle type and commodity across the network.

Passenger and freight VUCs are specified, respectively, on a pence per vehicle mile and pound per thousand gross tonne mile (kgtm) basis.

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[11] In practice, rail infrastructure operating costs are widely understood not to vary materially with traffic, and the charge was set in CP4 to recover variable maintenance and renewal costs only.

[12] For more details, see Network Rail's consultation on variable charges and station charges in CP6, and a PR13 report by SERCO ("VTISM Analysis to Inform the Allocation of Variable Usage Costs to Individual Vehicles").

[13] Note that both vehicle characteristics and the commodity carried contribute to the effective vehicle weight that has to be supported by the infrastructure.

How is the level of the charge calculated?

The methodology for calculating VUC rates is based on a combination of: (1) forecasts of maintenance and renewal expenditure as a function of changes in traffic; (2) periodic review forecasts of maintenance and renewal expenditure over the next control period; and (3) engineering models used to calculate the relative amount of infrastructure damage caused by different types of vehicle.

A calculator is available on Network Rail's website which can be used to determine the charge applicable for a specific type of vehicle and commodity by inputting all of the relevant characteristics.

In PR18, we reviewed our capping and phasing-in policy to limit the increase in VUC that freight and charter operators would otherwise experience in CP6[14]. Total forecast variable charges (including VUC, EAUC and EC4T) were held constant in real terms for years 1 and 2 of CP6, relative to the final year of CP5. Since two of the variable charges levied in CP5 (the capacity charge and the coal spillage charge) were removed for CP6, this necessitated an increase in the VUC charge in year 1 to offset the fall in total non-VUC variable charges.

In the remaining three years of CP6, the VUC for each individual vehicle will be based on a straight-line transition to full cost reflectivity by the end of CP7 (i.e. reaching the uncapped charges level).

[14] Freight and charter operators were forecasted to incur material increases in their (uncapped) total variable charges in CP6. The policy does not apply to passenger operators on concession-style agreements nor to open access passenger operators. Operators on concession-style agreements are 'held harmless' by their contracts and open access passenger operators were not forecast to incur a material increase in their total variable charges in CP6.

Electrification Asset Usage Charge (EAUC)

What is the purpose of this charge?

The purpose of the electrification asset usage charge (EAUC) is to recover the variable costs (costs that vary with changes in the level of electrified traffic) of maintaining and renewing electrification assets. It is a separate charge to the VUC because it is only levied on services powered by electric traction.

What costs are recovered through this charge?

Network Rail's electrification assets comprise the AC and DC overhead lines, the DC conductor rail (third rail) systems, and the supporting distribution infrastructure. These assets are used by trains to draw traction electricity. A proportion of the costs of maintaining and renewing these assets are considered to vary with respect to network usage (this is determined by engineering judgement). It is these costs which the EAUC recovers.

Who is subject to this charge?

The charge is paid by all operators of electrified services (i.e. passenger operators on concession-style agreements, freight operators, open access operators and charter operators).

How is the charge structured?

There are six EAUC rates in total: specifically, a DC and AC rate for passenger, freight and charter operators. The charge is levied on a pence per electrified vehicle mile basis for passenger and charter traffic, and a pound per electrified thousand gross tonne miles (kgtm) basis for freight traffic.

How is the level of the charge calculated?

To calculate the specific EAUC rates, Network Rail first estimates the annual average cost of the maintenance and renewal costs of electrification assets. It then estimates the proportion of these costs that vary with traffic, and allocates these proportions to different operator types based on historic shares of network usage to produce a total AC/DC variable cost that needs to be recovered from operators. Network Rail then combines this with a forecast of electrified traffic by operator, split into AC and DC, to calculate the rate per vehicle mile / per kgtm that is required to recover these costs on average.

Traction Electricity Charge (EC4T)

What is the purpose of this charge?

The traction electricity (also known as electric current for traction or EC4T) charge recovers the cost of electricity supplied by Network Rail to power trains.

Who is subject to this charge?

The EC4T charge is paid by all operators who use electricity supplied by Network Rail to power their electrified trains i.e., passenger operators on concession-style agreements, freight operators, open access operators and charter operators.

How is the charge structured?

This charge is calculated based on one of the following three approaches:

(a) **metered** consumption (based on readings taken from meters on trains);

(b) **modelled** consumption (based on estimated consumption, subject to an end of year volume reconciliation exercise); or

(c) **partial fleet metering, or PFM** (which extrapolates metered consumption from metered trains to estimate consumption for un-metered trains).

At present, around two-thirds of EC4T consumption on the network is metered, while one-third is modelled. PFM is not currently used by any operator.

At the end of each financial year, all parties using the modelled consumption approach (including both operators and Network Rail) participate in a volume reconciliation exercise (also referred to as the **volume 'wash-up'**), which compares total modelled consumption against total actual consumption across given sub-networks known as electricity supply tariff areas (ESTAs). This results in additional payments by Network Rail to operators if actual consumption is below total modelled consumption, or by operators to Network Rail in the opposite case.

The end of year volume reconciliation process includes a **loss incentive mechanism**, which aims to incentivise Network Rail to reduce transmission losses on the network. This mechanism operates by allocating to Network Rail an additional amount of consumption in each ESTA, entirely independent of Network Rail's own consumption, in proportion to transmission losses on that part of the network. The effect of this mechanism is to reduce

the amount of total wash-up consumption that is allocated to operators, and hence to reduce the size of any wash-up payments, whichever direction they flow in.

At the end of each financial year, Network Rail and all operators using electric traction also participate in a **cost reconciliation** exercise (also referred to as the **cost 'wash-up'**) which compares the cost per kWh charged by Network Rail with the cost per kWh paid by Network Rail to electricity suppliers. This also results in additional payments between Network Rail and operators.

How is the level of the charge calculated?

Modelled consumption is calculated by multiplying an estimated consumption rate by total electrified mileage in each rail period. Consumption rates are derived from theoretical and empirical relationships between consumption, vehicle characteristics and typical operating characteristics[15]. The EC4T charge is then obtained by multiplying the modelled consumption by the cost per kWh paid by Network Rail[16].

Metered consumption is charged on the basis of consumption recorded by on-train meters. Metered regenerated energy (where energy generated through braking is returned to the grid) is netted off the recorded energy consumption. Then a mark-up[17] is charged on the metered consumption net of regenerated energy to recover estimated transmission losses. The EC4T charge is then obtained by multiplying the net energy consumption (uplifted by the transmission losses mark-up) by the cost per kWh paid by Network Rail.

[15] Consumption rates are published on the Traction Electricity Modelled Consumption Rates List and calculated using this methodology.

[16] For more details, see the Traction Electricity Rules.

[17] The mark-up values for each ESTA are contained in Appendix 3 of the Traction Electricity Rules.

Station Long Term Charge

What is the purpose of this charge?

Network Rail is the ultimate owner of most stations on the mainline network. This means that it is responsible for the upkeep of those stations and certain assets within them. The station long term charge (LTC) allows Network Rail to recover the cost of this upkeep.

What costs are recovered through this charge?

The cost of maintaining, repairing and renewing: operational property assets (e.g. station buildings, platforms, canopies), passenger information systems (e.g. information screens, public address systems) and security systems (e.g. CCTV). When calculating the LTC, the last two elements are grouped together and labelled Station Information and Security Systems (SISS).

Who is subject to this charge?

Any train operator that uses a station for which Network Rail has maintenance, repair and renewal (MRR) responsibilities will contribute to the LTC.

How is the charge structured?

There are two types of LTC which apply depending on the type of station:

- **Franchised stations:** stations that Network Rail has leased to a train operator running under a public service contract. This operator is typically – but not always – the principal operator serving the station. In this case, Network Rail is the landlord and the train operator is the station facility owner (SFO). The SFO assumes responsibility for the day-to-day management of the station.

- **Managed stations:** these are some of the busiest and largest stations on the network which Network Rail directly manages day-to-day. Network Rail is both the landlord and SFO at these stations[18].

Network Rail levies the LTC on the SFO at franchised stations. The SFO is, in turn, entitled to recover appropriate proportions of the charge from station beneficiaries. At managed stations, Network Rail directly recovers the LTC from beneficiaries. ORR

[18] There are currently 20 managed stations: Birmingham New Street, Bristol Temple Meads, Clapham Junction, Edinburgh Waverley, Glasgow Central, Guildford, Leeds, Liverpool Lime Street, London Bridge, London Cannon Street, London Charing Cross, London Euston, London King's Cross, London Liverpool Street, London Paddington, London St Pancras International, London Victoria, London Waterloo, Manchester Piccadilly and Reading.

regulates the total LTC payable by the relevant SFO. Both are a type of fixed charge, paid annually as a lump-sum.

How is the level of the charge calculated?

To calculate the franchised stations LTC, Network Rail forecasts total operational property and SISS MRR expenditure at a route level for the next control period.

- For the operational property element, stations are grouped into several categories based on passenger usage. Total route-level expenditure is allocated to those station categories in line with each category's share of the relevant route's long-term average renewal expenditure. The resulting cost for each station category is then allocated equally to every station within that category[19].

- For the SISS element, total route-level expenditure is allocated to individual franchised stations in line with each station's share of the relevant route's annual average SISS renewal cost over 35 years.

The sum of a station's allocated operational property and SISS MRR costs is its LTC. SFOs can recover a proportion of the LTC from other operators that call at the station, in line with each operator's share of vehicle departures from the station[20].

For managed stations, expenditure forecasts are made for each individual station separately. Another difference is that operational property MRR and SISS renewals costs are recovered over a longer horizon than the upcoming control period (SISS maintenance costs are still forecast for the upcoming control period). This enables the 'lumpier' renewals activity costs to be spread over time. Like franchised stations, total expenditure per station is recovered in line with each operator's share of vehicle departures from the station.

[19] Individual franchised station LTCs are not designed to fully reflect the specific spend at each station within a control period. They instead represent the proportion of the MRR expenditure for the portfolio of stations that would be spent on each station in the long run. It is therefore unlikely that LTC revenue will equal MRR expenditure at that station over the five-year control period.

[20] This is updated annually based on two sample periods in the previous year.

Qualifying Expenditure

What is the purpose of this charge?

The qualifying expenditure (QX) is designed to recover the day-to-day running and operation costs of stations.

What costs are recovered through this charge?

The QX recovers various types of costs, ranging from station cleaning costs, the provision of utilities, light maintenance work and the employment of customer service agents at stations.

Who is subject to this charge?

The QX applies at both franchised and managed stations, and is levied by the station facility owner (SFO) on all train operators that call at the station in question.

How is the charge structured?

There are two elements of the charge:

- The **fixed element** of the QX forms most of the revenue that SFOs receive from the charge, covering direct operations costs such as cleaning, light maintenance, station staff and utilities; and
- The **management fee** element of the QX charge covers central support costs (such as facilities management and information systems; corporate communications; and legal, planning and regulation), and includes a profit element.

Only the management fee element of the QX for managed stations (i.e. where Network Rail is the SFO) is regulated by ORR.

How is the level of the charge calculated?

The level of the fixed element of the QX is determined for each station by negotiation between the SFO and the train operators that use the station. For managed stations specifically, Network Rail submits its plans for the station for review and scrutiny by those operators. The QX is then determined for a five-year period, to align with a control period. The profit element of the management fee is levied as a percentage of the fixed element[21].

[21] For managed stations only, in CP6, the management fee was set at 7.26% of the fixed QX, with a profit element of 6% and a central costs element of 1.26%.

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