Access charging framework for use of Network Rail infrastructure: user guide

Infrastructure Cost Charges (ICCs) 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 (for example 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' (The Railways (Access, Management and Licensing of Railway Undertakings) Regulations (AMRs) 2016, Schedule 3, paragraph 2). 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, although 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 freight fixed costs. It is based on an assessment of what contribution to fixed network costs each freight market segment can bear (2.5 for further detail). Currently, the total traffic-related avoidable fixed costs allocated to freight services by Network Rail's fixed cost model determine the upper limit. 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. The Railways (Access, Management and Licensing of Railway Undertakings) Regulations (AMRs) 2016, Schedule 3, paragraph 2(3), states that the effect of charging mark ups '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.'

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 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 PR23, 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 pounds (£) 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.

For PR23, we calculated the ICC rate for ESI coal and iron ore so as to broadly maintain the overall level of track access charges (excluding any EC4T payments) between CP6 and CP7, as we did in PR18. For biomass, we maintained the ICC for biomass traffic in real terms. For spent nuclear fuel, we set the ICC rate to the total level of spent nuclear fuel's avoidable fixed cost. However, due to an error by Network Rail in allocating spent nuclear fuel's total avoidable fixed costs, the rate was set below the level to recover total fixed avoidable costs.

The specific ICC rates paid for services transporting these commodities is set out in Network Rail's track usage price list.