

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

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### Summary of key response points:

Northern Rail is supportive of the RDG response, and urges ORR to consider the work that RDG carried out in this area as part of this piece of work.

Northern Rail welcomes that the ORR is prioritising its work in this area.

Review of charges needs to be linked into Sch 4 & 8 consultation; we do not believe these can be dealt with in isolation.

PR18 should include the development of a clear and better understanding of the purpose of the regime and each of its elements.

Whilst charges serve as an incentive to the industry behaviours also need to be factored into ORR's thinking when evaluating changes to the charging regime.

Northern Rail is supportive of the development of the infrastructure costs package.

ORR must take cognisance of the fact that changes to charging regimes cost the industry significant sums to implement.

### Summary of consultation questions

Chapter 1 Questions	Response
Q1. How much does Network Rail's structure of charges matter today?	<b>Charges are important as they provide price signals to the industry and can affect the way that operators and Network Rail work together</b>

Q2. What issues could a new structure address?	<b>A new structure could be more transparent and simpler to understand. It would be helpful to have a clear understanding of the purpose of each charge and incentives regime. For example capacity charge is not well understood and there is little clarity on its purpose</b>
Q3. Can you provide examples of behaviours that would change within your organisation or elsewhere in the rail industry with an improved structure of charges?	We are supportive of RDGs response

<b>Chapter 2 Questions</b>	<b>Response</b>
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?	<p><b>We believe that this approach was extremely useful as it provided a way of looking at outcomes that may change as a result of changes to the environment that charges operate within.</b></p> <p><b>We would support ORR's use of states of the world in this work stream</b></p>
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?	<p><b>The gaps identified by ORR are high level and we believe further work is required in this area so the industry can clearly understand the issues that need to be addressed.</b></p> <p><b>It may be helpful for ORR to consider the work that RDG undertook in this area, and consider the over arching gaps from RDGs assessment</b></p>
Q6. Do the assessment criteria accurately reflect the main factors we should consider for assessing the impact of options?	<p><b>A single approach to charging methodology across the network is important</b></p> <p><b>Competition should be promoted when there is real benefit to the end user</b></p> <p><b>ORR needs to balance cost savings in the short term against longer term efficiency</b></p>

<b>Chapter 3 Questions</b>	<b>Response</b>
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<p>Q7: To what extent do the packages of options represent the key strategic choices available to improve the existing charging structure?</p>	<p><b>We are pleased to see that ORR is considering a wide range of options as part of PR18 process. We would urge ORR to consider the wider impacts of these regimes and not consider them in isolation. For example the Sch 4 and 8 regime should be considered alongside ORR’s review of charges</b></p>
<p>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?</p>	<p><b>We support the RDG response</b></p>

<b>Chapter 4 Questions</b>	<b>Response</b>
<p>Q9. We welcome your views on our proposal to prioritise further development of the infrastructure costs package.</p>	<p><b>Northern welcomes ORR’s decision to develop this package of charges, as we believe it would help the industry better understands its drivers of fixed costs.</b></p> <p><b>This package is likely to deliver different outcomes in alternative ‘states of the world’ and the benefits of each package would be dependent on how they are implemented</b></p>
<p>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?</p>	<p><b>We support the RDG response</b></p>
<p>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?</p>	<p><b>The use of this package has the potential to send more informative price signals to operators and funders, and a package of this nature is widely supported.</b></p>

<b>Chapter 5 Questions</b>	<b>Response</b>
<p>Q12. We welcome your views on our proposal not to prioritise further development of options based on the value of capacity.</p>	<p><b>We have no further comments to make given this package is not being taken forward</b></p>

Q13. What costs and benefits do you see with the value-based capacity package? Do you think our draft <a href="#">impact assessment</a> is missing any significant impacts, or has misrepresented any impacts?	<b>We support the RDG response</b>
Q14. Would you expect a better understanding of costs to be an essential precursor to value-based charges?	<b>We would wish to see a regime that provides clarity over cost drivers in order to understand the value of network capacity</b>
Q15. To what extent do you think the benefits of this package can be realised through more information alone, without passing that into charges?	<b>In order to realise the benefits from such a package we believe that information and behaviours play a key role and the ORR needs to achieve a balance between behaviours and information coupled with the changes to the charging mechanism</b>

<b>Chapter 6 Questions</b>	<b>Response</b>
We welcome your views on our proposal to develop the package of improvements to current short-run charges further.	<b>We support the RDG response and the RDG work that has been carried out in this area</b>
Q16. What options would you expect to see in a long list of improvements to Network Rail's short-run variable charges?	<b>We would expect ORR to review the capacity charge mechanism as we believe this mechanism is not well understood within the industry and it appears to be quite complex.</b>
Q17. What options do you see as a priority for this package?	<b>Reform of capacity charge. We do not believe there is any value in reforming EC4T for VTAC</b>
Q18. What costs and benefits do you see with this package?	<b>It is important that any changes deliver significant benefits that outweigh the costs of implanting these changes to the charging regime</b>

<b>Chapter 7 Questions</b>	<b>Response</b>
We would welcome comments on how charges might apply to open access in future. In particular, we would welcome comments	

on:	
Q19. whether open access operators should face charges implemented under the infrastructure costs package;	<b>If open access operators wish to have greater access to the Network then we would wish to see a charging regime that reflects this. It would be helpful to understand how ORR intends to use the outputs of the CMA analysis on competition in passenger rail services in order to inform this piece of work</b>
Q20. what forms of adjustments to charges might be appropriate for open access operators, relative to franchised operators;	<b>It may be appropriate for open access operators to pay a proportion of FTAC in return for greater access to the network. If this mechanism were to be introduced this would need to be considered in parallel with the Non primarily abstractive test that open access operators are currently subject to</b>
Q21. how current incumbent open access operators should be treated; and	
Q23. Would you like to see either of the complexity options developed further?	
Q24. Are there other options you would like assessed to reduce complexity?	
Q25. What costs and benefits would you expect with these complexity options?	

<b>Chapter 8 Questions</b>	<b>Response</b>
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?	<b>We would wish to see clear evidence that the changes would significantly outweigh any financial burden of implementing the changes</b>  <b>ORR needs to take into account the franchising process when considering its options around charging review reform</b>

<p>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>	<p><b>The current options are described at a high level and as ORR develops its thinking on its proposals we would wish to understand the impact on different types of train operators</b></p> <p><b>We believe that ORR needs to do further work in this area</b></p>
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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](mailto:Orr.Structureofcharges@orr.gsi.gov.uk).