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7th March 2016

Dear Sir/Madam,

Network Charges – Consultation on how charges can improve efficiency

Thank you for the opportunity to respond to the recent consultation on 'how network charges can improve efficiency'.

The comments below are based on the consultation document and the recent ORR stakeholder event that Virgin Trains East Coast (VTEC) attended on 12th February 2016. This response does not seek to address all the individual questions raised in the document but tries to emphasise on the high level issues.

VTEC welcomes the approach taken by the ORR for early engagement with stakeholders on discussions with respect to network charges in order to prepare for the next periodic review of Network Rail in early 2016. It is important to have an effective charging mechanism which helps drive network costs down and improves cost reflectivity. However, the current structure does not seem to have any influence on driving costs down or encourage greater interaction between Network Rail and train operators to improve network capacity. This is going to be a key challenge for the ORR and NR to bridge this gap.

Infrastructure Costs

It is noted in the consultation that there is a low degree of understanding about the drivers of infrastructure costs. Thus, having more and better information on network costs by location across the network is a positive step forward and will improve transparency about where costs are incurred and inform decisions about network enhancements. As Network Rail is not always incentivised to spend money in the right areas, if network costs are better understood it would help train operators to better understand Network Rail's costs at a national level and incentivise the industry to work together.

With regard to long-run incremental costs, it could be misleading that the cost of maintaining / operating a route should directly reflect itself in the cost of access. Many secondary rail routes will have higher fixed costs because of outdated equipment and operating methods. However, those routes tend to have fewer services /higher fares.



Fixed Charge / Network Grant

It is unclear how passing through more charges to train operators would help align incentives between Network Rail and train operators and optimise use of existing infrastructure. Having a larger fixed charge paid by train operators will not change Network Rail's behaviour in relation to the management of infrastructure assets. Train operators do not have sufficient knowledge of Network Rail's assets base to challenge Network Rail on all aspects of its management of infrastructure assets.

Improvements Package

We are supportive of ORR's proposal to continue working on options within the package of improvements to Network Rail's short-run variable charges particularly the Capacity Charge. However, access charges cannot be assessed in isolation from other financial regimes e.g. Schedules 4 and 8. It is important to show clearly how each individual proposal connects and interacts with other incentive regimes. For example, the interaction of capacity charge and the performance regime needs to be integrated in such a way that NR is encouraged to optimise the use of the network and accommodate growth.

A number of current charging mechanisms are complex and difficult to understand. Therefore, it is important to ensure that the mechanism is kept practical, simple and transparent.

Some joint working identifying and agreeing the priorities for the next control period based on better information, and better allocation of funds based on the criticality of the route, would at least mean investment would be made at the right locations.

We also believe that competing train operators should pay the same rate for the same path on key routes such as the East Coast Main Line, allowing a more level playing field for competition in the market. We note at Friday's industry hearing (4th March) that representatives from both First Group and Alliance Rail wanted to make a higher contribution to industry costs than the current charging regime allows. This is encouraging and should be developed further.

I hope this input is useful. We look forward to working with the ORR and the rest of the industry to take this workstream forward.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Phil Dawson".

Phil Dawson
Regulation & Track Access Manager