20 April 2006

Chris Stewart
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Copy : **Pierre Abignano**
Commercial Manager – Airports
Glasgow Prestwick Airport Ltd
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Dear Chris

APPLICATION BY FIRST SCOTRAIL LIMITED
UNDER SECTION 17 OF THE RAILWAYS ACT 1993

Thank you for the opportunity to comment on Glasgow Prestwick Airport Limited's ("Prestwick") representations; we have attached a copy of these representations marked up with our detailed comments. In addition, we have made general comments below.

Firstly, we are concerned that a further issue seems to have been raised at the meeting we had in your offices, and in your recently issued questions to Prestwick. In this meeting Prestwick suggested that the balance sheet value they have accrued for the station, which is based on the long run value of the revenue share agreement terminated by ScotRail Railways Limited, should be considered as a factor. We fail to see the relevance of this to the determination of Access Charges. This value was not based on an expectation of income derived from any published policy of ORR, but on an unregulated commercial contract which contained a termination provision. The view that the airport operator took of this risk in their accounts should be irrelevant to the process of setting Access Charges.

The only relevant published guidance by ORR on Station Access Charges was the Fair Deal document. Indeed, both parties have relied on it in their submissions. The dispute between us relates to interpretation of the guidance with regard to the treatment of capital and renewal costs of the station.

Our original submission was based on the premise, which we believe is clearly supported by the Fair Deal document, that where asset owners make an investment in a station they are entitled to a return on that investment. We concluded in our submission that the original small investment by the airport was made because of the benefits of the Station to the airport. We believe that the airport operator of the time took a different view of the station value to that of the current owner. Certainly, given the efforts they made to get the station funded, they cannot have held the view expressed by the current management that the airport would be better off without the station.

The Fair Deal document makes it clear that full replacement of the station is only to be funded at the time that investment occurs. First ScotRail has taken the current maintenance and repair costs and added ½% of the agreed full replacement cost as its estimate of the ongoing maintenance and renewal obligations at the current station. We believe the sum we have arrived at by this rather crude calculation does, in our experience of running stations, provide a reasonable sum for such costs. However, we would welcome a more thorough investigation of the costs of ongoing replacement. The full replacement of stations is not a normal event. The normal experience is ongoing partial replacement and refurbishment of individual assets at a station because they are life expired or no longer fit for purpose, rather than wholesale replacement.

We wish to point out that while you told us at the meeting that your thinking had moved on from the Fair Deal document, it was the published advice when both the airport was purchased and when our Rail Franchise Agreement was signed. In paragraph 9 of the Fair Deal document's Summary and Purpose Section, ORR commit that "the Regulator will keep these guidelines under review and will revise and re-issue them as appropriate". It was therefore reasonable for both parties to rely on it. Based on your comments at the meeting, there is no clear single agreed replacement policy currently available.

We therefore still believe that our original Section 17 proposal represents a reasonable offer to the Station Facility Owner and is, if anything, generous when compared to ORR published policy.

Yours sincerely,

Mike Price
Head of Contracts