

Mrs Louise Ellman MP  
Chair, Transport Select Committee  
House of Commons  
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30th June 2014

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Dear Louise,

When I appeared before the Transport Select Committee on June 9th I undertook to write to update you on progress of the Northern Hub and in particular the Ordsall Chord and freight access charges. I also wanted to provide some context to my comments about our work with the Airports Commission.

### **Northern Hub**

- 1.1 The Northern Hub is a £600m programme of targeted upgrades to the railway in the North of England. Scheduled to complete by 2018, it will allow up hundreds more trains to run each day and provide space for millions more passengers a year. It will deliver over £4bn worth of wider economic benefits to the region and potentially 20,000 to 30,000 new jobs.
- 1.2 The Ordsall Chord remains on programme for completion by December 2016 and the public inquiry for the Transport and Works Act Order concluded last month. We are now awaiting the inspector's report and recommendation to be issued to the Secretary of State for his determination. Assuming a positive decision made by the end of the year, we can still achieve our planned timescales.
- 1.3 Work has started on the projects at Huyton and Roby and Manchester Airport, and is on time. We have formed an alliance with our delivery partners to make best use of resources, share risk and align agendas to achieve our milestones.
- 1.4 We have identified scope and budgets for all the remaining interventions to be completed by December 2016. Achieving prompt completion of the approvals process is crucial to delivering the projects on time.
- 1.5 Although some costs have increased, we are working closely with the Department for Transport to agree scope and funding for the work at Manchester Piccadilly and Oxford Road. We are keen to finalise these issues to allow us to restart the consents process,

and remain sure of meeting the December 2018 completion date.

- 1.6 We have challenged scope and costs continually during the development of the programme to ensure the agreed outputs remain deliverable in the most economical and timely manner.

### **Freight access charges**

- 2.1 Freight access charges are regulated. Network Rail undertakes technical and financial analysis and makes proposals on charge levels to the ORR. The regulator approves or determines charges, and in some cases leads the design and introduction of new freight access charges.
- 2.2 The underlying basis for all track access charges – whether freight or passenger – is that they must comply with the Railways Infrastructure (Access and Management) Regulations, which implement the First Package of EU Rail Directives. The regulations require access charges to be set at least at the level of the 'cost directly incurred' from operating the train service. Charges may only be higher than this level if it is decided that the train operator can afford to pay more.
- 2.3 As it is generally assumed that freight operators have limited capacity to bear mark-ups compared to franchised passenger operators, the charges Network Rail receives from freight operators are a comparatively small share of the company's current annual revenue (approximately £70m of £6.5bn currently).
- 2.4 Freight charges were also part of the ORR's 2013 Periodic Review, which set charges for Control Period 5 (April 2014 – March 2019). Engineering analysis undertaken in the review revealed that the costs directly incurred on the infrastructure by heavier freight trains was greater than previously assumed and that charges needed to increase to reflect this (in order to comply with the Access and Management Regulations). In addition, ORR decided to implement a new charge for freight operators, the Freight Specific Charge, which is a mark-up to recover additional costs from freight operators for commodities that are assessed as being able to bear these costs. These include coal for the energy supply industry, spent nuclear fuel and iron ore.
- 2.5 As a result, freight charges are increasing in Control Period 5, by 21 per cent overall, in real terms, from the end of Control Period 4 to the end of Control Period 5. Some of the charges are being phased in and capped in Control Period 5 because of the concerns of the impact on the rail freight sector. The efficiency improvements factored into these charges are those determined by the regulator in the 2013 Periodic Review determination.

The table below shows the freight charges for CP3, CP4 and CP5 based on constant traffic levels and in 2012/13 prices.

## 2.6 Freight operator access charge payments to Network Rail (constant traffic)

Charge (£million, 2012/13 prices, 2014/15 traffic levels)	CP3 annual average	CP4 annual average	CP5 annual average	End of CP5 (2018/19)
<i>Cost directly incurred</i>				
Variable usage	95.2	55.2	57.1	60.5
Capacity	4.0	4.0	3.7	4.2
Coal spillage	4.0	1.9	3.0	3.0
Electrification asset usage	na	0.3	0.7	0.7
Traction electricity (consistent prices)	6.2	6.2	6.2	6.2
<i>Mark-ups</i>				
Freight only line	na	3.8	4.0	4.5
Freight specific	na	na	2.7	7.5
<b>Total</b>	<b>109.4</b>	<b>71.5</b>	<b>77.4</b>	<b>86.5</b>

*Note: Control Period 3 (April 2004 – March 2009), Control Period 4 (April 2009 – March 2014), Control Period 5 (April 2014 – March 2019).*

2.7 We are committed to improving efficiency and driving down our costs. This should benefit freight operators in future control periods as these improvements are reflected in access charges. We also recognise that freight operators work in a very competitive environment, in particular in the deep sea and domestic container markets where there is fierce competition with road haulage. We are currently working with freight operators, through the Rail Delivery Group, to develop proposals to establish long-term stability in the structure and level of freight access charges. This will help underpin confidence in the sector and so help underpin the significant growth of freight volumes we anticipate over the next 25 years.

## Stansted and the Airports Commission

3.1 Network Rail is currently working with the Airports Commission to help them fully understand the range of options and constraints in providing effective rail access for the UK's future aviation infrastructure.

3.2 As part of our work with the Commission we have been asked to undertake a study of options for various possible service improvements and new connections on the heavily used West Anglia Route to Stansted Airport. This work will form an integral part of our long term planning for the route.

3.3 The operators of Stansted Airport have put on record their aspiration of a 30 minute journey time to London Liverpool Street. We do not believe that is deliverable, but we are working with the airport and others to see how rail services to and from the airport could be improved.

If you require any more information on any of the subjects mentioned above, please let me know.

Yours sincerely

Mark Carne  
Chief Executive

Cc. Gordon Clarke, Clerk, Transport Select Committee