

Rail Delivery Group

REVIEW OF CHARGES

Current and potential alternative states of the world

May 2015

Purpose

- The purpose of this report is to present the output of Phase 2a of RDG's Review of Charges work programme
- The following slides set out:
 - Background to Phase 2 of RDG's Review of Charges
 - The process that we have followed to develop a description of the current state of the world and a set of potential alternative states
 - RDG's view of the current state of the world
 - The set of potential alternative states of the world

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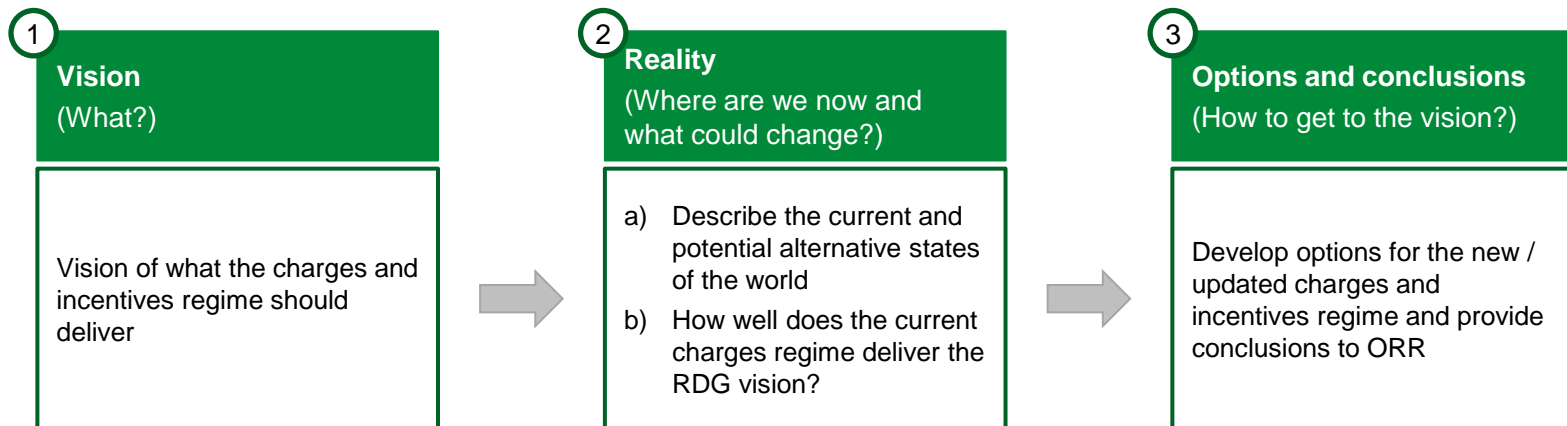
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Background | What is the RDG Review of Charges?

- The Rail Delivery Group (RDG) Contractual and Regulatory Reform workstream is carrying out a review of the charges and incentives regime for the use of Network Rail's infrastructure
- This project began in spring 2014 and is expected to be completed by the end of 2015
- Overall, RDG's 'Review of Charges' considers how the charges and incentives regime should operate under several alternative 'states of the world' (or scenarios) for the industry
- Once completed, our review should allow the industry to constructively inform the Office of Rail and Road's (ORR's) next periodic review process (the 2018 Periodic Review (PR18)), and future reviews, by presenting the industry's own conclusions on the charges and incentives regime
- The aim is to provide clarity on areas where the industry has shared views and where there are legitimate differences – this will provide an opportunity for the periodic review to focus on the areas where there are genuine differences of views
- ORR is supportive of RDG's work and considers it to be a positive example of the industry working together to improve incentives and value for money

Background | Approach to RDG's Review of Charges

- The analysis and conclusions that are produced as part of RDG's review should reflect the views of RDG members
- Therefore, RDG's Review of Charges draws on expertise from across RDG's membership, which is made up of passenger operator owner groups, freight operators and Network Rail
- As part of RDG's review, we have, and will continue to, undertake workshops and one-to-one meetings with representatives from across RDG to gather the information we require to develop our conclusions
- RDG's Review of Charges comprises of three phases:



Background | Scope of Phase 2

- Phase 2 of RDG's Review of Charges builds on the RDG vision of the charges and incentives regime in the long run, which was completed as part of Phase 1 of the project
- It is a stepping stone to developing options for a new and/or updated charges and incentives regime in later stages of the review
- There are two parts to Phase 2:

Phase 2a

Current and potential alternative states of the world

- **Main features of the current 'state of the world'** in which the charges and incentives regime operates
- **Purpose** of the current state of the world
- Externally-influenced **features that could change** in the future, drivers of **those changes**, and **the likely impact** on the charges and incentives regime
- **Alternative states of the world** against which we could test options for the charges and incentives regime



Phase 2b

How well does the current charges and incentives regime deliver the RDG vision?

- **Features of the ideal regime.** Building on the RDG Vision, set out the agreed features of the ideal regime and identify any legitimate differences of views amongst industry representatives
- **Industry's views on the gaps** between the current and ideal regime
- Extent to which the current charges and incentives regime **aligns with the RDG Vision**

- Whilst the findings from Phase 2a are set out in the following slides, the outputs from Phase 2b are covered in a separate report available at: <http://www.raildeliverygroup.com/what-we-do/our-areas-of-work/reviewofcharges/>

Background | Why we need to develop alternative states of the world

- RDG's conclusions on the charges and incentives regime should remain valid, even if external factors change the environment in which the regime would operate
- Therefore, RDG has **developed a number of alternative states of the world**, in which it can test options for a new and/or updated charges and incentives regime

A state of the world is the environment that the charges and incentives regime operates within. It represents elements of the GB rail industry that are not part of the charges and incentives regime

For example, it could reflect the degree of competition between passenger services or the extent of regional decision making

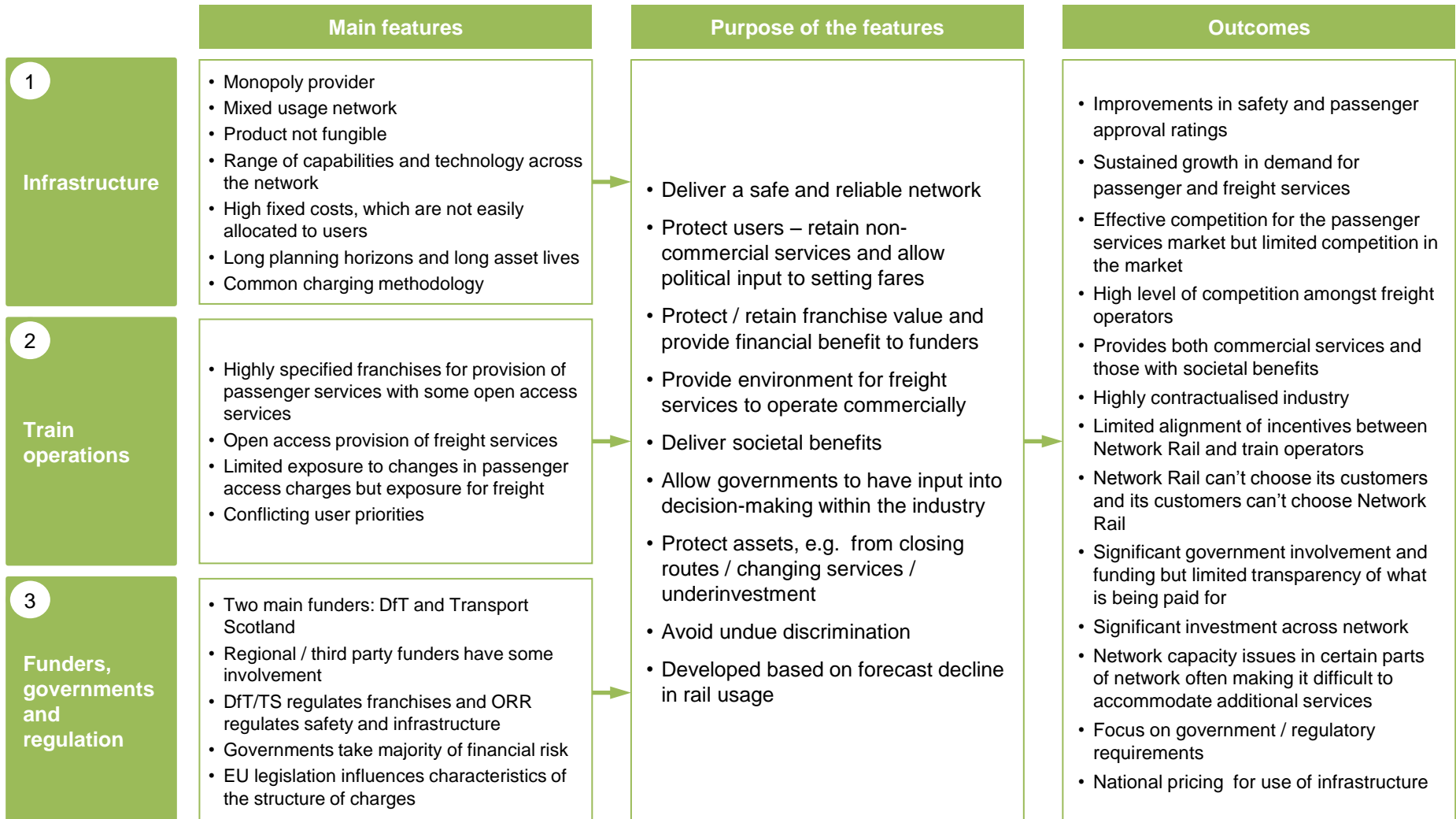
- RDG and ORR are developing their thinking on the future charges and incentives regime, over the next 12 to 18 months
- Therefore, it is desirable for both organisations to use similar states of the world when developing policy conclusions
- ORR has been actively involved in RDG's work to develop the set of alternative states of the world.
 - It plans to use states of the world that are similar to those developed by RDG when it develops its policies on charges and incentives for its next periodic review (PR18)

Please note: In developing the set of potential alternative states of the world, we have not made any judgements on the desirability of each alternative state of the world

Background | Approach to Phase 2b

- The outputs of Phase 2a have primarily been informed by two workshops with members of the RDG Review of Charges Executive Group
- To develop the description of the current state and alternative states of the world, the workshops took the following steps:
 - Articulate the features, purpose, and outcomes of the current state of the world
 - Consider the drivers of changes within the current state of the world
 - Consider the effect of those drivers on the current state of the world
 - Determine which changes to the current state of the world are likely to have the most significant effect on the choice of charges and incentives regime
 - Group complementary changes to the current state of the world into alternative scenarios or states of the world
- Each step of this process is set out more detail in Annex 3

Current state of the world | Summary



Alternative states of the world | Assumptions

- In selecting the alternative states of the world, we considered the following:
 - More than one state of the world can co-exist on the network, e.g. there could be more on-rail competition for intercity services but more heavily specified franchises for commuter/local services
 - We avoided 'cluttering' the alternative states of the world so that they were not overly specific
 - We considered changes that were complementary, e.g. more regional decision making is likely to require a different approach to funding
- The first three alternative states of the world are focused on different approaches to passenger service delivery, e.g. different degrees of on-rail competition, franchise protection and franchise specification
- The remaining states of the world reflect specific changes to other parts of the industry, e.g. approach to capacity allocation or approach to industry funding, which can be considered separately or in conjunction with other states of the world
- A summary of the alternative states of the world is presented on the next slide

Alternative states of the world | Summary

Feature	Summary of current state	How will the current feature change?	Alternative states of the world						
			1. A more dynamic railway	2. On-rail comp. via flexible franchising	3. More highly specified franchises	4. Freight protection / subsidy	5. Beneficiary pays for capability	6. Change in approach to capacity allocation	7. More regional decision making
On-rail competition	Limited competition in the market for passenger rail services	Increase in on-rail competition	✓	✓					
Franchise protection	Significant protection from changes to access charges	More / less protection	✓ (less)		✓ (more)				
Franchise flexibility	Limited flexibility due to highly specified franchise requirements	More / less flexibility	✓ (more)	✓ (more)	✓ (less)				
Freight protection	Limited protection from changes in access charges but indirect subsidies	More protection and / or direct subsidy				✓			
Availability of network capacity	Some capacity issues across network but surplus capacity elsewhere	Increase in network capacity (HS2 or technology driven)						[✓]	
Approach to infrastructure funding	Funded by track access charges, 'lump sum' grants from governments and Network Rail's commercial income	Beneficiary pays for new network capability	✓				✓		✓
Approach to allocating network capacity	Administrative approach, reflecting historic rights, rather than overall benefits of use	More analytical approach to allocation, e.g. responsive to changes in demand	✓					✓	
Regional decision-making	Two main funders / specifiers (DfT and Transport Scotland), one infrastructure and safety regulator (ORR)	Greater regional decision making							✓

Please note: the symbol [✓] reflects that we will consider Alternative State of the World 6 with, and without, increased network capacity

Annexes

Annex 1: Further descriptions of current state of the world

Current state of the world | Infrastructure

Main features

Structure	<ul style="list-style-type: none"> • Single monopoly provider owns and operates whole network , with some exceptions, e.g. Heathrow Express • Separated from train operations but with some bespoke risk sharing arrangements with suppliers and train operators • Mixed usage network, i.e. passenger (high-speed and commuter) and freight so it is difficult to take possession of the network • Safety and performance driven • Product isn't fungible • Range of capabilities and technology across the network, e.g. some parts are still Victorian, whereas other parts have (European Rail Traffic Management System) ERTMS • Central planning function but considerable decision making at routes • Limited capacity in certain areas of the network, e.g. into London, but surplus capacity in others • Highly contractualised • Long planning horizons and long life assets
Operations	<ul style="list-style-type: none"> • Infrastructure manager allocates network capacity to operators but it is based on existing timetable, i.e. reflects franchise specifications with remaining capacity allocated to other operators (e.g. freight and open access) • Train path planning / timetabling has limited flexibility
Maintenance & renewals	<ul style="list-style-type: none"> • Network Rail maintains and renews the network. It delivers the majority of its maintenance work in-house but uses contractors to deliver the majority of its renewals work • Complex supply chain with constrained resources / limited competition and high barriers to entry, e.g. limited signalling resources. This constrains the volume of work that Network Rail is able to deliver
Investments	<ul style="list-style-type: none"> • Governments (DfT/TS) set out investment that they want Network Rail to deliver every five years via the HLOSs. • Network Rail delivers enhancements, using contractors
Financial	<ul style="list-style-type: none"> • Network Rail is a company limited by guarantee in the public sector (since 1 September 2014) with members instead of shareholders • Network Rail recovers costs through track access charges, direct government grants and commercial property income with circa. 60% from grant. It also borrows from government • High fixed costs and high fixed revenue • Charges determined every five years by regulator

Current state of the world | Passenger services

Main features

Structure	<ul style="list-style-type: none">• Almost all passenger services provided by franchised operators with some open access provision on East Coast Main Line• Circa 20 franchised passenger operators, nearly completely geographically separated, providing highly specified services across the network• Open competition for franchises, run by DfT and Transport Scotland – franchises run for between 5 and 15 years• Commercial and non-commercial services bundled together in franchises• Economic regulation by DfT and Transport Scotland, e.g. franchise specification and fares. ORR is the safety regulator
Operations	<ul style="list-style-type: none">• Limited on-rail competition, except in limited areas of the network, e.g. some competition for intercity services on East Coast Main Line between Virgin Trains East Coast, Hull Trains and Grand Central• Franchised operators have limited flexibility in timetabling, as this is largely specified in their franchise arrangements• Provides both intercity and commuter/local services – makes timetabling difficult as there are conflicting priorities• Franchises have limited ability to choose rolling stock (often specified in franchise)• Focus of customers is on reliability, ride quality and journey time• Complex ticketing, e.g. off-peak/peak, advanced/walk-up, different operators, many different offers available
Financial	<ul style="list-style-type: none">• Train operators are commercial organisations funded by debt and equity• Significant proportion of franchised operators revenue received from fares. Some franchised operators receive revenue from government subsidies, whilst other franchises pay premiums to government• Franchised operators pay variable and fixed track access charges for use of infrastructure• Franchisees protected from risks considered to be outside of their control, e.g. changes to Network Rail's track access charges; some revenue risk; GDP risk; inflation risk• Open access operators are fully exposed to changes in access charges but only pay variable charges• Limited transparency of funding, i.e. it is not clear which services are subsidised and which are not• Franchises do not own rolling stock – it is leased from a small number of rolling stock companies• Some train operator revenue is directly attributable. The remainder is allocated via ORCATS, which is updated quarterly based on survey data

Current state of the world | Freight services

Main features	
Structure	<ul style="list-style-type: none">• Four main operators, with some smaller operators, that provide freight services across the network – these services aren't geographically separated• High levels of competition amongst rail freight operators and other modes of transport (especially roads)• Open access operators with no franchise contracts
Operations	<ul style="list-style-type: none">• Freight operators are responsible for the day-to-day running of services and have the ability to drive long term strategy for the industry• Freight operators hold pre-booked train paths but compete with passenger train movements on the network. Most paths are requested at relatively short notice• Freight operators have 'go anywhere' rights across the network• Start point and destination are important but the route that the operator takes is less important• Freight operators are directly responsive to customer demand and there is not a specified set of services to run• Performance for freight is more than just Public Performance Measure (PPM) and Cancellation and significant lateness (CaSL) – freight customers are often more flexible with time but are highly price sensitive• Average freight train speed is approximately 22 mph, which mainly the result of the mixed usage network• Freight operations are 24/7, which can conflict with Network Rail taking overnight possession of the network
Financial	<ul style="list-style-type: none">• Train operators are commercial organisations funded by debt and equity• Revenue can be volatile as it is directly related to demand for freight services• Freight operators pay variable track access charges for use of the network and are fully exposed to changes in these charges• Freight operators are not directly protected from changes to Network Rail's track access charges but operators receive indirect subsidies for using the network as they do not pay for all of the fixed infrastructure costs resulting from freight usage• Freight operators own majority of their rolling stock

Current state of the world | Funders, governments and regulation

Main features

Structure	<ul style="list-style-type: none">• Separate governments in England & Wales (DfT) and Scotland (Transport Scotland) have significant roles in rail provision across Great Britain, with Welsh Government having an increasing role• Passenger Transport Executives are involved in some decision making• Franchises are regulated by funders through their franchise agreements• Single economic regulator (ORR) for GB rail infrastructure• DfT and Transport Scotland are the economic regulators for franchised rail operations• There is a single safety regulator for GB rail, including TfL and HS1• EU legislation influences characteristics of the structure of charges and of industry
Operations	<ul style="list-style-type: none">• DfT and Transport Scotland are franchising authorities• DfT, TS and Welsh Government have responsibility for day-to-day management of franchises• DfT and TS set out high-level outputs it requires from infrastructure manager every five years and ORR set funding and more detailed output requirements• ORR has an appeals role in situations where capacity allocation decisions cannot be agreed between Network Rail and its customers• Day-to-day involvement with Network Rail is through ORR• Rolling programme of refranchising
Financial	<ul style="list-style-type: none">• DfT and TS provide direct grants to Network Rail and also subsidise some franchised operators• Network Rail borrows from DfT• Welsh government provides funding for some schemes as a third party funder• PTEs also provide some funding for certain schemes

Annex 2: Further descriptions of alternative states of the world

Alternative states of the world | 1. A more dynamic railway

The key features of this state of the world are ...

- **More on-rail competition** between passenger operators, i.e. increased provision of passenger services by open access operators.
- **Low franchise protection** from changes in access charges, i.e. franchisees are on risk for changes to a wider range of Network Rail's access charges.
- Increased **franchise flexibility** as a result of less highly specified franchise agreements, i.e. franchisees have more freedom to adjust service provision, e.g. in reaction to changes in patterns of demand.
- **Beneficiary pays** approach to fixed costs, i.e. government no longer provides funding of infrastructure via a 'lump sum' direct network grant and instead directs funding to specific projects or to cover specific industry costs.
- Decisions on **allocation of network capacity** are no longer based largely around the rights reflected in the existing timetable. Instead, allocation may reflect other factors, such as the overall benefits of use.

We have selected this alternative state of the world because...

- It brings together a number of changes to the current state of the world that would result in a more dynamic railway, i.e. one that can better respond to customer demand and where there is competition between operators (franchised and/or open access). We consider some of the individual changes as separate alternative states of the world.
- Whilst this may not be a high likelihood scenario across the whole network, both the European Commission and ORR have the view that on-rail competition can deliver real benefits for passengers. We consider that this state of the world is more likely for the provision of intercity services, than on local/commuter services.
- To deliver more on-rail competition, we think that governments will need to procure passenger services differently, i.e. that franchisees have more flexibility in the way they deliver services but also take more risk in relation to changes to Network Rail's access charges. We also think that more on-rail competition will require the industry to think differently about how it allocates network capacity and how the governments fund infrastructure costs.

Alternative states of the world | 2. On-rail competition via more flexible franchising

The key features of this state of the world are ...

- **More on-rail competition** between franchised passenger operators or from more open access as a result of fewer services being franchised on certain parts of the network.
- **Increased franchise flexibility** as a result of less highly specified franchise agreements, i.e. franchisees have more freedom to adjust service provision, e.g. in reaction to changes in patterns of demand.

We have selected this alternative state of the world because...

- An increase in on-rail competition, either between franchised operators or via an increase in open access operations, and increased franchise flexibility, could increase the scope for charges and incentives to have an impact on decision making.
- An increase in franchise flexibility may only cover some services within the franchise and so may not result in the removal of franchise protections, in respect of charges, for all services specified within the franchise agreement, i.e. there could be a core set of services that are highly specified and over which, franchisees are protected from changes to charges. This change could have an impact on the optimal structure of charges and incentives.
- Whilst State of the World 1 already includes an increase in on-rail competition and flexible franchising, it also includes less franchise protection, a different approach to funding and a change in approach to capacity allocation. All these changes may not happen at the same time, and so we think that there is merit at looking at franchise flexibility and on-rail competition separately.
- However, where franchises have to compete against other operators, this may reduce franchise value for funders.

Alternative states of the world | 3. More highly specified franchises

The key features of this state of the world are ...

- **Greater franchise protection** from changes in the charges and incentives regime, i.e. franchisees are protected from the financial effects of more elements of Network Rail's charges and incentives regime, e.g. the Possessions Regime, Performance Regime and Electric Current for Traction charge.
- **Reduced franchise flexibility** as a result of more highly specified franchise agreements, such as a management contract, i.e. franchisees have very little freedom to adjust service provision, e.g. in reaction to changes in patterns of demand.

We have selected this alternative state of the world because...

- We think that this is an increasingly likely scenario, particularly for local/commuter services. These types of arrangements are already in place in some parts of the network, e.g. concessions for Crossrail and London Overground and Thameslink management contract.
- Where train operators are not affected by changes to the charges and incentives regime, and cannot react to the signals and incentives that they seek to provide, we need to consider the way in which the 'ideal' regime should be designed to reflect this issue.

Alternative states of the world | 4. Freight protection / subsidy

The key features of this state of the world are ...

- **More financial protection or a direct subsidy** for freight operators provided by governments.
- This could either be:
 - a) Protection from changes to Network Rail's access charges; and/or
 - b) Direct subsidy from government to freight operators to reflect the positive externalities / societal benefits of freight.

We have selected this alternative state of the world because...

- There are on-going discussions between freight operators and the governments to seek a more stable charges and incentives regime for freight operators.
- As discussions on freight funding are on-going, we think that it is important to consider the impact on the charges and incentives regime of any changes to the financial protection of freight operators.

Alternative states of the world | 5. Beneficiary pays for network capability

The key features of this state of the world are ...

- Governments no longer provide a lump sum Network Grant directly to Network Rail to fund a mix of new and existing network capability.
- Instead, **funding is directed to specific projects**, potentially via the users that benefit most from those schemes (e.g. franchised operators or regional funders). Alternatively, funding is provided directly to Network Rail but for **specific elements of existing capability**, e.g. governments explicitly fund historic financing costs, or the societal benefits of enhancements to the rail network.

We have selected this alternative state of the world because...

- The current approach to infrastructure funding, i.e. significant direct grants to Network Rail, results in a lack of clarity over what the governments are paying for. Further pressure on public finances is likely to drive changes in the way that the governments provide funding to the rail industry, particularly for enhancements.
- Governments are actively considering how they can better understand what their funding is paying for and what it delivers.
- In this state of the world we think that there will be a much greater focus of how Network Rail recovers its fixed costs (for new and existing capability).

Alternative states of the world | 6. Change in approach to allocation of network capacity

The key features of this state of the world are ...

- Decisions on allocation of network capacity are no longer based largely around the rights reflected in the existing timetable. Instead, allocation may reflect other factors, such as the overall benefits (both railway revenues and societal benefits) generated by a particular use of a train path, e.g. intercity, commuter, freight, possession for maintenance. Or, capacity allocation may respond more quickly to changes in patterns of demand.
- In practice, a more analytical approach would be taken to allocating train paths, compared to the current state of the world.
- A change in approach to allocating network capacity should be considered in two states of the world:
 - a) Current capacity / capability remains; and
 - b) A significant increase in capacity, resulting from the outputs of the 'Digital Railway' and/or a major enhancement project such as High Speed 2.

We have selected this alternative state of the world because...

- A change in the way that network capacity is allocated could have a significant impact on the role of the charges and incentives regime.
- We consider that changes in the approach to allocating network capacity are partly endogenous, i.e. changes in the charges and incentives regime could drive changes in capacity allocation. However, it is unlikely that changes to capacity allocation will take place without changes implemented by governments and Network Rail, e.g. changes in the way franchises are let.
- **Capacity allocation / access rights is an issue that is being considered in other RDG workstreams. Overall, we considered that we should reflect a change in approach to capacity allocation in our states of the world, although there was a mix of views about what that change might actually be. In Phase 3 of RDG's Review of Charges, we will review the need for this state of the world to ensure that we are not duplicating work being undertaken elsewhere in RDG**

Alternative states of the world | 7. Regional decision making

The key features of this state of the world are ...

- More responsibility for **decision making (funding, policy, operational) at a regional level**. For example, with the provision of local passenger service being procured and funded by regional bodies, e.g. Passenger Transport Executives
- Governments **no longer provide lump sum grants directly to Network Rail** to fund a mix of new and existing capability. Instead, funding is directed to specific projects, potentially via the users that benefit most from those schemes (e.g. franchised operators or regional funders), or funding is provided directly to Network Rail but for specific elements of existing capability

We have selected this alternative state of the world because...

- The Welsh Government and Transport for London have an increasing role in the funding and specifying passenger rail services
- On-going discussions between governments and regional bodies about increased decision making at a regional level
- With greater regional decision making, we consider that it would be necessary for governments to change the way they fund rail infrastructure, i.e. move away from lump sum grants

Annex 3: Approach to developing the alternative states of the world

We considered a wide range of factors that could drive changes to the current state of the world over the next 15 years ...

Political

- May 2015 General Election
- More diverse franchises
- Franchise specification and protection
- Fewer, larger franchises
- Changes in EU legislation
- More contribution from beneficiaries of enhancements
- UK leaving EU
- High Speed 2

Economic

- Economic cycle – boom and bust
- Significant reduction in government funding
- Step change in oil prices

Social

- Significant safety incident
- Change in working habits of users, e.g. flexible working
- Restriction/control of movement

Technology

- Digital railway – increase capacity
- Smarter ticketing – more traceability
- Driver only trains and similar innovations drive industrial action

Legal / Regulatory

- Change to contractual framework
- Move to rolling periodic review
- Fewer guaranteed access rights
- Separate Scottish regulator
- Separate infrastructure manager for Scotland

Environmental

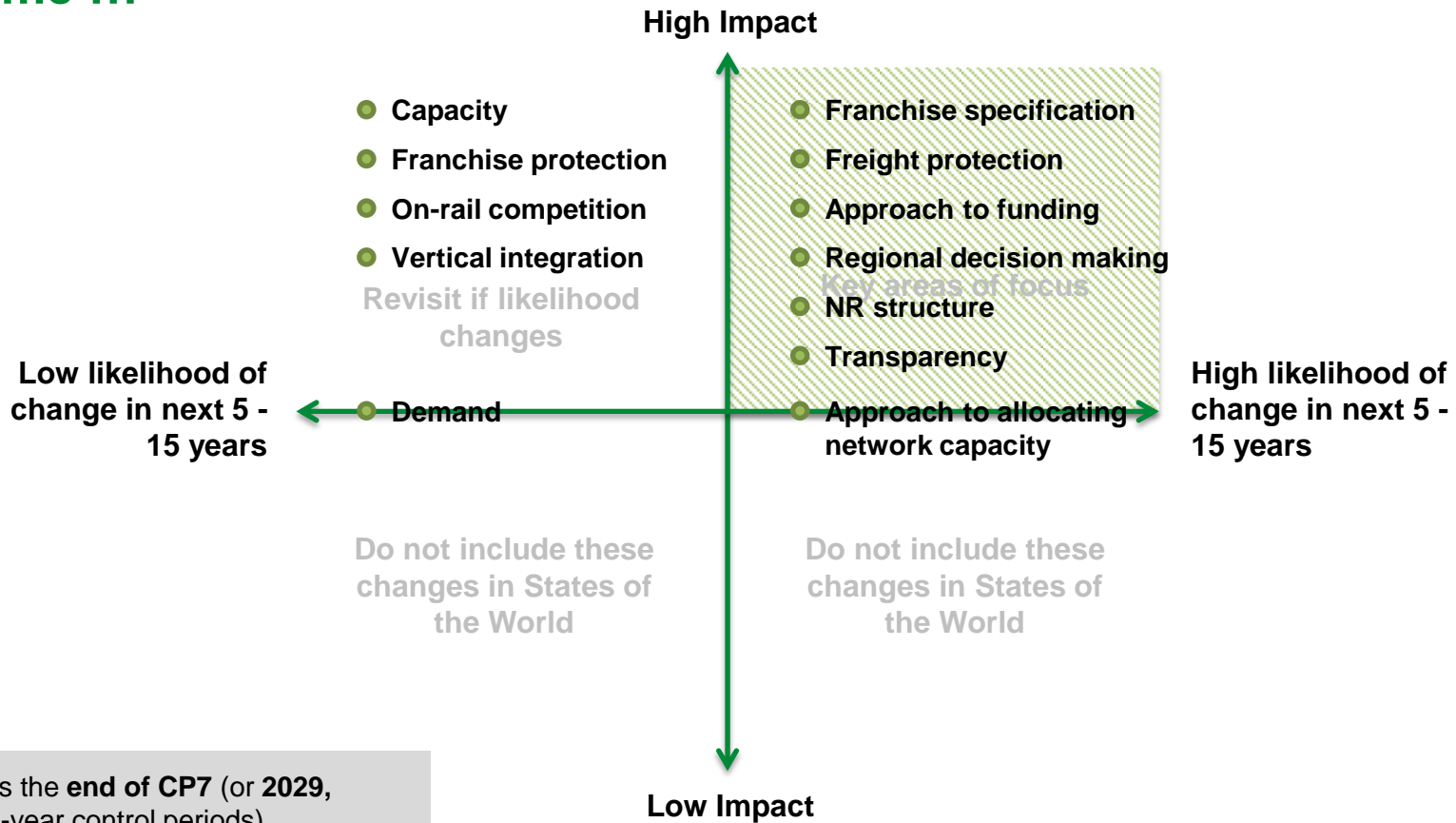
- Less focus on environmental benefits of rail
- Reduced demand for coal
- Weather patterns / climate change

However, some of these drivers were more significant than others ...

- We considered the most significant drivers of change to the current state of the world to be:
 - Political
 - Legal / Regulatory
 - Technology
- We then described the characteristics of the current state of the world that were likely to be affected by these key drivers
- We agreed that there were a relatively small number of potential changes (13) to the current state of the world that could have an impact on the charges and incentives regime
- On the following slide, we show these changes in terms of likelihood and potential impact on the choice of charges and incentives regime

Rail Delivery Group

We considered each of the 13 changes that we identified in terms of likelihood and potential impact on the charges and incentives regime ...



Long-term is the end of CP7 (or 2029, assuming 5-year control periods)

We selected eight changes that we want to reflect in the alternative states of the world (1)

Main features	Reflect in a state of the world?	Explanation
On-rail competition	Yes. (more)	High impact. Greater on-rail competition will increase the importance of how the costs of running and enhancing the network are recovered and how capacity is allocated to users A significant increase in on-rail competition across the whole network, may not be highly likely. However, given the European Commission and ORR views that on-rail competition can deliver real benefits for passengers, we need to reflect a change in this feature in the alternative states of the world
Franchise protection	Yes (both more or less)	High impact. There are already varying degrees of protection against changes in access charges within existing franchise agreements. It is likely that the diversity of protections will increase over time. The impact that the charges and incentives regime has on decision making within the industry will be affected by the level of exposure train operators have to charges and incentives
Franchise flexibility	Yes (both more or less)	High impact. There are currently varying degrees of flexibility within franchise agreements to make changes to service provisions. We have seen an reduction in flexibility in some areas of the network, e.g. Thameslink but there is also some additional flexibility in other areas, e.g. East Coast franchise. A change in franchise flexibility affects franchisees' ability to respond to the price signals and incentives of a regime and so this is an important consideration
Freight protection / subsidy	Yes (more)	High impact. There are on-going discussions between the freight community, Network Rail and governments about the sustainability of rail freight access charges. The result of which could be a different approach to funding for freight operators, e.g. protection from changes in charges or through direct subsidies to cover the positive externalities of freight. A change in freight funding could affect the sensitivity of freight operators to changes in the charges and incentives regime

We selected eight changes that we want to reflect in the alternative states of the world (2)

Main features	Reflect in a state of the world?	Explanation
Capacity, e.g. High Speed 2, technology / Digital Railway	Yes (more)	High impact. A significant increase in network capacity could reduce scarcity and congestion issues on the network. However, changes to the charges and incentives regime may have to be made to facilitate the efficient allocation of additional network capacity
Structural change to NR / regulation of NR	No	Medium impact. A change in Network Rail's structure, e.g. greater devolution or a separate Scottish company, would increase the focus on geographical disaggregation and interface issues. This is an important issue, which we will consider as part of our review but we have not included it as a separate state of the world as we think that it best dealt with as a separate issue
Transparency	No	Medium impact. Whilst greater transparency can be delivered through transparent cost allocation / attribution, we consider that transparency is a partly endogenous feature that can be driven by the charges and incentives regime. Transparency is also one of the judgement criteria in the RDG vision. As such, we do not think that should be included in an alternative state of the world
Demand for rail services	No	High impact. Given that current demand forecasts show a stable upward trend in demand for rail services (passenger and freight), it is unlikely that there will be a significant shift in demand over the next 15 years. As such we have not reflected a change in this feature in our alternative states of the world. For the avoidance of doubt, the current state of the world reflects current forecast growth in passenger and freight volumes
Approach to infrastructure funding	Yes	High impact. If governments change their approach to funding rail infrastructure, e.g. directing funding through beneficiaries of specific enhancement projects or funding specific capability on the network, this could increase the importance of the way in which fixed costs are recovered through the charges and incentives regime

We selected eight changes that we want to reflect in the alternative states of the world (3)

Main features	Reflect in a state of the world?	Explanation
Approach to allocating network capacity	Yes	High impact. A change in the way that network capacity is allocated could have a significant impact on the role of the charges and incentives regime. A change in approach to allocating network capacity may be partly endogenous, i.e. changes in the charges and incentives regime could drive changes in capacity allocation. However, it is unlikely that changes to capacity allocation will take place without changes implemented by governments and Network Rail, e.g. changes in the way franchises are let
Regional decision making	Yes (more)	Medium impact. There are on-going discussions within government about greater regional decision making for rail, e.g. increasing the roles of Welsh Government and regional bodies. With greater regional decision making, we consider that it would be necessary for governments to change the way they fund rail infrastructure, i.e. move away from lump sum grants, which would drive a greater focus on disaggregated costs and charges
Vertical integration	No	Medium impact. A move to a vertically integrated railway could significantly reduce the importance of the charges and incentives regime. However, it is unlikely that there would be a vertically integrated operator on any part of the network (unless it operated as a deep alliance), given current legislation
EU legislation on structure of charges	No	Medium impact. EU legislation influences the characteristics of the structure of charges. Should EU legislation change, e.g. setting a narrow definition of costs directly incurred, this could further restrict ORR's ability to select certain options for the charges and incentives regime. We will monitor changes to the EU legislation throughout our review. However, we have not included a change in this feature in the alternative states of the world because it is difficult to be specific about changes that could take place, and the impact that they could have on the charges and incentives regime

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