

Costs Directly Incurred

ERFA Workshop

John Moore

Economist at ARAFER (France), URGIF/DTF
Chair of the IRG-Rail WG Charges

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1. Context

- A. Legislative framework
- B. Economic background

2. IRG-Rail position

- A. Overview of position papers
- B. Further work to be done

3. Insights on European practices

- A. On European practices
- B. Issues with international comparisons

Context

1

A. Legislative framework

Article 31.3 of Directive 2012/34/EU :

*“Without prejudice to paragraph 4 or 5 of this Article or to Article 32, **the charges for the minimum access package and for access to infrastructure connecting service facilities shall be set at the cost that is directly incurred as a result of operating the train service.***

Before 16 June 2015, the Commission shall adopt measures setting out the modalities for the calculation of the cost that is directly incurred as a result of operating the train. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 62(3).

The infrastructure manager may decide to gradually adapt to those modalities during a period of no more than four years after the entry into force of those implementing acts.”

Articles 3-1 and 6 of Commission Implementing Regulation 2015-909 :

“Direct costs on a network-wide basis shall be calculated as the difference between, on the one hand, the costs for providing the services of the minimum access package and for the access to the infrastructure connecting service facilities and, on the other hand, the non-eligible costs referred to in Article 4. “

*“(…) the infrastructure manager may calculate direct unit costs by means of robustly evidenced **econometric or engineering cost modelling**, provided it can demonstrate to the regulatory body that the direct unit costs include only direct costs incurred by the operation of the train service (…)*”

A. Legislative framework (cont'd)

Article 5-1 of Commission Implementing Regulation 2015-909 :

*“The infrastructure manager shall calculate average direct unit costs for the entire network by dividing the direct costs on a network-wide basis by the total number of **vehicle kilometres, train kilometres** or **gross tonne kilometres** forecasted for or actually operated”*

Article 5-2 of Commission Implementing Regulation 2015-909 :

*“Member States may allow the infrastructure manager to **modulate the average direct unit costs to take into account the different levels of wear and tear** caused to the infrastructure (...)”*

Examples: train speed; traction power of the motorised unit; axle weight and/or axle numbers; etc.

Article 9 of Commission Implementing Regulation 2015-909 :

*“The infrastructure manager shall submit its method of calculation of direct costs and, if applicable, a phasing-in plan to the regulatory body **no later than 3 July 2017.**”*

B. Economic background

The directly incurred costs equate to the economic principle of **marginal costs** (*i.e.* the cost incurred as result of an additional unit of train (or ton) circulating on the track)

As recital 12 of Commission Implementing Regulation 2015-909 underlines, “*It is a well-established economic principle that user **charges based on marginal costs ensure the optimum effective use of available infrastructure capacity***”

However, another well-established economic principle predicts that **marginal cost pricing leads to losses for the monopoly** (in this case, the IM).

→ Ramsey-Boiteux principle : **additional charges should depend on the ability of RUs to bear the mark-ups** (see Article 32.1 of Directive 2012/34/EU)

IRG-Rail Position

2

A. Overview of position papers

The IRG-Rail has published **4 position papers on direct costs** between 2012 and 2014.

A very important topic for the WG Charges.

Positions on the type of costs to be included :

“(...) the “cost that is directly incurred” should be interpreted as “short-run marginal cost” (SRMC), and that short-run marginal cost should be taken to include:

Operating costs (e.g. signalling);

Maintenance costs (e.g. wear and tear repairs);

Renewal costs.

*IRG-Rail underlines that, **by definition, all fixed costs shall be excluded** from the costs considered within Article 7 (3) of Directive 2001/14/EC.”*

*“IRG-Rail considers that **the costs of [these] enhancements should not be included in the “cost that is directly incurred”** mentioned in article 7 (3).”*

A. Overview of position papers

Positions on the calculation and indexation of direct costs :

*“There are **two main approaches for estimating efficient marginal costs**. These are the so-called ‘**bottom-up**’ and ‘**top-down**’ approaches.”*

*“IRG-Rail considers that **in most cases a combination of ‘bottom-up’ and ‘top-down’ benchmarking of costs methodologies would be appropriate.**”*

*“Additionally, IRG-Rail suggests **track access charges should be based on the efficient costs that are likely to be incurred over a defined funding or regulatory period and therefore be consistent with the SRMC principle.**”*

*“IRG-Rail would like to reinforce the view that **any chosen indexation formula should consider efficiency incentives wherever this is appropriate and possible**”*

B. Further work to be done

The 2016 working programme of the WG Charges includes :

- Publishing some **guidelines on the calculation of direct costs (data, econometric modeling, etc.)**
- **Updating the overview document** with recent development with respect to charges in European countries

Note : The working programme, the overview document and all position papers are publicly available through the IRG-Rail website.

Insights on European practices

3

A. On European practices

Some insights on European practices from the overview document:

- **Almost all countries have a charge that reflects the direct costs** (some countries are gradually applying the Commission Implementing Regulation 2015-909)
- **In most countries, charges are set every year**
- **Interesting diversity in the charging units** used across countries (train.km, tonne.km, etc.).
- Some countries apply **modulations to the direct costs** according to the type of service, maximum speed, axle load, the number of axles, etc.
- More information available in the overview document, available from IRG website.

B. Issues with international comparisons

- The overview document from the WG Charges does not contain any indication on the level of charges reflecting direct costs in each country.
- **Any international comparison on the level of charges should be taken with great caution.**

Thank you for your attention!

Contact :

John Moore

john.moore@arafer.fr