

Buy back mechanism for access options

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Background

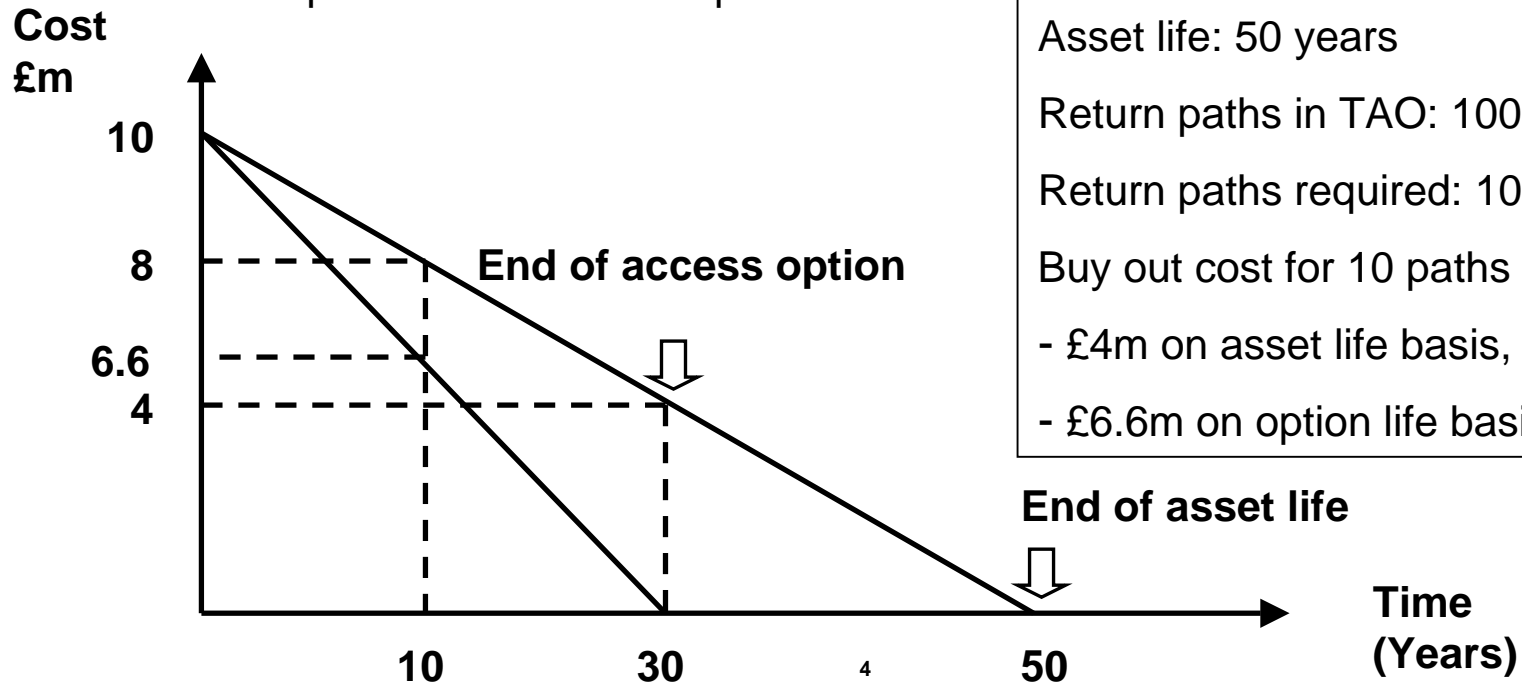
- Why do we need a buy back mechanism?
 - Award of long term rights could limit the development of the new rail services in the future
 - However long term rights may be needed to facilitate investment in the network
- Objectives of a buy back mechanism:
 - the rights holder is adequately compensated if they are required to surrender rights;
 - any associated costs are reasonable and do not prevent more beneficial users of the network from buying out access rights;
 - the mechanism is simple and transparent which in turn will enable predictability both on the part of the access option holder (AOH) and the party seeking to purchase any associated rights.
- Objectives are not necessarily complementary

Key principles

- Would apply to all access options of longer than 10 years
- Would not be carried through into a TAA when specific rights are reflected across from a TAO
- Could only be triggered after 10 years
- Could only be triggered where there was additional benefit from alternative use
- Link to investment cost
 - All options over 10 years need to be linked to large scale long term investment
- Link to option duration
 - Compensation per path declines over duration of option
- Assume equal value per path

Proposed approach to compensation

- Compensation based on decline in asset value over duration of the option
- We propose to consult on two options:
 - Compensation based on asset life
 - Compensation based on option duration



Investment cost £100m
TAO term: 30 years
Asset life: 50 years
Return paths in TAO: 100
Return paths required: 10
Buy out cost for 10 paths in year 10
- £4m on asset life basis,
- £6.6m on option life basis

Further considerations

- Duration of rights to be compensated:
 - For entire option (preferred option) or only for period required by new user
- Size of relevant investment (case-by-case). Need to consider:
 - Link between investment and option
 - Degree to which investment is committed
- Payment of compensation
 - Lump sum NR -> AOH, Annual Applicant -> NR (preferred option)
 - Lump sum NR - > AOH, Lump sum Applicant -> NR
 - Annual NR -> AOH, Lump sum Applicant -> NR