
The Prospects of Pricing, Funding, and Competition in the German Railway Sector

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6 October 2006

Idealized framework for subsidies and regulation

I. Politics

- chooses a combination of network size and subsidies
- incentivizes infrastructure provider via contract (LuFV)

II. Regulator

- finds efficient cost of infrastructure
- subtracts subsidies
- and determines access charges that will cover the remaining costs
- chooses appropriate incentive regulation

III. Regulator secures non-discriminating practices (particularly in case of integration):

- terms of network access
- non-discriminatory price differentiation
- investment / maintenance decision
- train operations

Contested terrain I.

Politics: How large network and subsidies?

Position 1: Cut costs!

„Scarcity of money must finally bring about a cut-down of the network“

Position 2: More traffic on the rails!

„A bad state of infrastructure must finally bring about an increase of funds“

Contested terrain I.

Politics: How large network and subsidies?

Position 1: Cut costs!

„Scarcity of money must finally bring about a cut-down of the network“

And: access charges might well be increased to reduce deficits

Position 2: More traffic on the rails!

„A bad state of infrastructure must finally bring about an increase of funds“

And: do not raise access charges instead

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Regulator's job
(see last slide)

Position 2: More traffic on the rails!

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And: do not raise access charges instead

Regulator's
sympathy
(see next slide)

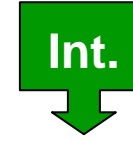
Contested terrain II.

Infrastructure manager: what are efficient costs?

Problems:



- Inefficient use of funds
(low effort, internal misuse)



- Diversion of funds
- Discriminatory use of funds

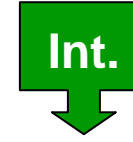
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- **Incentives to market slots**
 - high if charges and costs are considered fixed
 - low if there is room to influence charges and costs
 - danger of discrimination

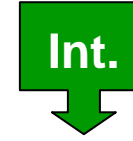
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Remedies:

- Try to find out efficient costs:
Outsourcing, benchmarks, access to information
- Fixed-price regulation (price cap plus LuFV for a period of time)
- Encourage slot marketing

Help from:

Independent TOCs, „public property inc.“ (EI Eigentum)

Contested terrain III.

Markets: How assure non-discrimination?

Basic issues:

- Structure of access charges: efficient price differentiation should be feasible, but non-discriminatory
- Railway slot allocation
- Train operations in case of interruptions (penalty systems)
- Investment / Disinvestment decisions
- Maintenance policies

Any means to reduce distortions in regional traffic procurements?

Future developments

- **Integration / separation issue: ?**
- **Actual degree of competition will vary with it**
- **Funding: fairly large swings up and down will continue (above the 2.5 bn EUR)**
- **Regulation:**
 - **Non-discriminatory access and pricing: considerable improvements ahead! Development of a more coherent system.**
 - **Efficient cost pricing: slow progress. Informational role of BNetzA! Development and propagation of new ideas for regulating prices.**