



Public Accounting and Asset Quality Data: Reporting and Data Requirements for Effective Management and Regulation of Rail Infrastructure

ECMT Committee of Deputies
Group on Railways
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Louis S. Thompson, Principal
Thompson, Galenson and Associates, LLC
301 951-3731 ph 301 951-8978 fax
lthompson@alum.mit.edu

Information the Commission Has (*Effectively*) Told Railways To Develop

- Accounting separation of infrastructure from operations (P&L and Balance Sheets)
- Provide information to show:
 - Infrastructure is financially stable
 - Access charges cover at least marginal cost
 - Access charge mark-ups are efficient and non-discriminatory
 - Condition of and access rules to infrastructure
 - *Infrastructure is efficiently and effectively provided*
- Separate operating accounts between passenger and freight (*social versus commercial desirable to ensure that subsidies are limited to accepted purposes*)
- *Present information in comprehensible and internationally comparable (IAS) format*
- *Make the reports publicly available.*

Organizational Implications of EU Directives

- Only accounting separation of infrastructure mandated, but institutional separation is more effective to meet requirements. Control of access charges and priorities must be separated.
- LOB separation effectively required for freight versus passenger (better for sub-types of passenger as well)
- Holding companies permitted, given full accounting separation
- Social (supported) services must be provided under explicit contract
- EU law silent on ownership

The Commission's Objectives

- Increase efficiency of rail in order to strengthen the rail role in transport
- Promote competition in/for transport markets
- Clarify government financial role (ensure adequate funding goes only to permitted purposes)
- Ensure financial stability of infrastructure provider
- Enhance business focus of rail infrastructure and operators

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But

- The data do not exist, or are not made public, to support management or regulation of required railway structure
- Needed to implement?
 - Basic agreement on models of structure
 - Agreement on data to be developed and published

Status of Railway Compliance in the E.U

| | Is (any) Information Available | Separation of Accounts Clear | Cross Subsidies Transparent | Public Support Transparent |
|--|--------------------------------|------------------------------|-----------------------------|----------------------------|
|--|--------------------------------|------------------------------|-----------------------------|----------------------------|

Operating Enterprises:

| | | | | |
|----------------------|-----------|-----------|-----------|-----------|
| Compliant | 23 | 15 | 4 | 10 |
| Questionable | 5 | 5 | 20 | 12 |
| Non-Compliant | 0 | 8 | 4 | 6 |

Infrastructure Agents:

| | | | | |
|----------------------|-----------|-----------|-----------|-----------|
| Compliant | 17 | 14 | 10 | 10 |
| Questionable | 3 | 2 | 9 | 8 |
| Non-Compliant | 2 | 6 | 3 | 4 |

* Source: ECORYS, "Analysis of the financial situation of railway undertakings in the European Union", 25 January 2006

| Type of Market | Commercial or Social | Type of Competition (if any) | Public and Private Roles | Access Charge Regime |
|------------------------|-----------------------|------------------------------|--|--|
| Infrastructure | Utility or Commercial | None/FOR | Mostly public. Financial objectives differ | Level driven by financial objective, structure by type of market |
| Freight Services | Commercial | IN | Mostly public, moving toward private | Simple (preferably MC), particularly for international |
| Passenger Services | | | | |
| High Speed Rail | Commercial | FOR | Public, could be private | 2 part (or integrated franchise) |
| Conventional Intercity | Commercial (social?) | IN | Public, could be private or franchised | Simple for competition IN the market |
| Rural/regional | Social | FOR | Public, could be franchised | Simple (marginal user) |
| Suburban | Social | FOR | Public, could be franchised | 2 part |
| Metros | Social | FOR | Public, could be franchised | Integrated franchise (or 2-part, or full cost contract) |

Who Uses Data and Why?

| | Reporting Data Types and Users | | | | |
|--------------------------------|------------------------------------|--|---|--|--|
| User Type | Government or Public Accounting | Financial Accounting | Operational and Physical Data (including revenues and safety) | Benchmarking | Detailed Infrastructure Analysis |
| Infrastructure Manager | Use of public funds | Ensure financial viability | Network utilization analysis | For performance comparisons | Ensure appropriate condition, measure marginal costs, calculate mark-ups |
| Freight Operator | | Financial reporting | Only for freight | | |
| Commercial Passenger Operator | | Financial reporting | Only for passenger services | | |
| Social Passenger Operator | Use of Public Funds | For Operator and supporting government | Permit justification of costs and charges | | |
| National and Local Governments | Reconciliation with public funding | Ensure adequate payments for limited purposes | Analysis of potential efficiency and capacity challenges | Comparisons of national railways with others | Analysis of capacity and investment issues |
| Regulators | | Analysis of economic viability and potential monopolistic behavior | Analysis of traffic trends and pricing decisions | Performance comparisons for infrastructure | Analysis of infrastructure access and access charge proposals |
| Investors | | Potential investment decisions in operators | For investment analysis | | |
| Academic Community | Analysis of public finances | Analysis of performance of all services | Economic analysis of system performance and pricing behavior | Analysis of international performance | Economic analysis of marginal costs and of the impact of mark-ups and access charge structures |

Existing Data Examples

| Reporting Type | Example Source | Remarks |
|---|---|---|
| Government or Public Accounting | Government agency budget publications | No common format |
| Financial Accounting | SEC 10K statements (US), Amtrak Annual Report (US), UIC International Railway Statistics, Tables 71 -74, STB "Statistics of Class I Railroads" (US), Annual Reports posted on various websites (see data summary) | UIC Tables 71,72 and 74 have no LOB data. Table 73 provides only summary data on revenues and expenses by LOB (only 5 EU member railways complied in 2003). Annual Reports are consolidated and do not show individual LOB results. |
| Operational and Physical Data (including revenues and safety) | UIC International Railway Statistics, STB "Statistics of Class I Railroads" | STB data more detailed than UIC data |
| Benchmarking | UIC "Lasting Infrastructure Cost Benchmarking" | Utility limited: results and railway identities not public information. Focus is on time series and cross-section comparisons, not detailed relationships between users and costs. |
| Detailed Infrastructure Analysis | Network Statements. | Focus on network characteristics and capacity or investment plans, not on detailed data needed for MC analysis |

- Member railways prepare, publish and post complete data in several languages
- All should adopt IAS-based, LOB reporting
- Expand Network Statements to permit MC analysis and condition reporting
- Commission new study of agreed methods of MC calculation. Iterative process.
- Without these steps, progress will be slowed