Quantification of detriment

Introduction

1. This appendix outlines the analysis we have conducted with a view to determining the likely nature and extent of detriment arising from the AEC that we have identified in relation to the leasing of rolling stock. As this appendix sets out, despite extensive investigation, we were unable to identify an appropriate and robust means of measuring this detriment, and so we are unable to conclude whether the detriment arising is small or large.

2. In our report (paragraph 8.23), we conclude that detrimental effects would arise for those leases where either there are no (or very few) alternative fleets available, or where the competitive pressure from alternative used rolling stock and/or new rolling stock is limited. We identify two aspects to the detrimental effects:

   (a) TOCs face a lack of rolling stock alternatives and so cannot choose the fleets that best suit their needs; and

   (b) ROSCOs have the opportunity to increase rentals above competitive levels.[1] We consider each of these two aspects in paragraphs 8 to 11.

The nature of detriment

3. To consider detriment, we need first to take a view on the impact of the AEC. In order to do this, we have compared the existing market, in which the AEC applies, with a hypothetical well-functioning market where the AEC does not exist. We expect that the competitive market rental would be one where TOCs were indifferent to leasing that fleet or the closest substitute fleet, be it new rolling stock or an existing rival fleet. The appropriate rental level will depend on the availability of substitute fleets; if there is an excess of supply over demand then competition could force rentals down, although this could not be sustained indefinitely (for example, rolling stock will be retired at some stage). Ultimately, in the long run, rentals would be constrained, directly or indirectly, by rentals for new rolling stock (taking account of differences in costs and revenue-earning potential, ie the relative utility of rolling stock). This is because, if the demand for rolling stock exceeded supply, the rent for rolling stock would be bid up until the point where new rolling stock could be introduced. This would also be the long-run outcome in a static market, as inevitably old rolling stock will eventually pass the end of its useful life and will need to be retired, creating a shortage of rolling stock unless new rolling stock is introduced. We do not consider that a market outcome where different utility adjusted rentals apply for new and for old rolling stock, for example as a result of regulatory intervention, can be considered a well-functioning market, as TOCs would then want to switch to the comparatively cheaper rolling stock.

4. Against this background, we consider that detriment arises where there are failures in the competitive process, such that rentals can persistently increase above the level which might be established in such a well-functioning market. Therefore, in considering the extent of detriment, we need to distinguish between rental changes which

[1] We include in detriment both increased costs to TOCs as customers, and lower premiums or higher subsidy costs to franchising authorities.

reflect normal market adjustments to changes in supply and demand, and changes which result from failures of competition, resulting in rentals increasing above competitive levels.

5. The ROSCOs generally agreed that detriment should be considered through comparison of the actual market with a hypothetical well-functioning market. HSBC stated that, in a well-functioning market, rentals on existing stock would be constrained by the option of new rolling stock, such that TOCs would be left indifferent as to whether they lease existing or new rolling stock. HSBC asserted that this was how the market functioned at present, but agreed that if this were not the case and rentals were above this level, then consumers may suffer a detriment. Oxera, on behalf of Angel, suggested that the well-functioning market should be defined as the market in the absence of the AEC. It argued that certain characteristics of the business shaped the functioning of the market and so the comparator should still reflect these inherent limitations on market liquidity. However, some of these factors were not specifically identified in the AEC, including: a possible stickiness in demand (ie unwillingness to switch); the infrequent leasing opportunities; the limited interoperability of fleets across the rail network; and the long lifetime of assets and high residual risk. It therefore considered that the relevant comparator should embody these restrictions on liquidity. It suggested that the functioning of the market could alternatively be judged by examining its outcomes in terms of product quality and price, and supplier returns. These issues are addressed in detail in our competitive analysis in Section 6 of the report.

6. The DfT disagreed with our characterization of a well-functioning market, and hence our view of detriment. It argued that it was inappropriate to adopt a well-functioning market comparator which assumed that there was a ready supply of alternative rolling stock and that new rolling stock would also be available. It said that choice would always be restricted by the inherent characteristics of the industry, and the practicalities and costs of providing excess rolling stock or investing in new rolling stock. The DfT considered that the sustainable comparator market would be one in which the ROSCOs' asset values would be fixed and would not vary according to developments in supply and demand in the market and the cost of leasing new rolling stock. It believed that appropriate lease pricing in the relevant comparator market should be defined by the ROSCOs' ability to recover their risk adjusted WACC over the asset life, and the asset values (and hence comparator rentals) should not change except to the extent that investment has been recovered or to reflect any additional investment. An implication of this would be that any cost reductions, such as falling financing costs, that were not passed through to lower rentals would constitute a detriment. The DfT also provided supporting analysis in order to demonstrate that at lease renewal the ROSCOs had not passed on to the TOCs the benefit of the fall in interest rates since the most recent ROSCO purchase/privatization, even though the market for the supply of new vehicles had appeared to reflect that reduction. It also provided evidence from other sectors where the fall in risk and interest costs had been passed back to the customer as a result of competition.

7. Our view on the appropriate characterization of a well-functioning market is explained in paragraphs 4.28 to 4.30 and 6.5 to 6.13 of the report.

Aspects of detriment

Lack of choice

8. A lack of choice arising from the AEC means that TOCs have a restricted range of options. The potential set of choices in a well-functioning market would be wider than

actually occurs at present, because limitations on the TOCs' ability to exercise choice prevent them from opting for other (potentially preferable) alternative fleets of rolling stock.

9. There is no clear way of defining the number of relevant alternatives a TOC would face in a well-functioning market. However, our analysis of substitutability (Appendix 4.1) identifies the number of instances where there were no alternatives, or only one alternative, expressed as a percentage of the number of instances we considered. This analysis on its own does not tell us in which of those cases optimal outcomes were achieved despite the lack of choice (because we cannot say with any certainty whether a TOC would have chosen something different).

Higher rentals

10. This aspect of detriment arises from rentals being higher than they would be in a well-functioning market, leading to a higher cost to customers (including taxpayers in this context). In this case our AEC implies that rentals for existing rolling stock could rise above the level we would expect to see in a well-functioning market because of a lack of opportunity or incentive for TOCs to exercise choice.

11. There is a difficulty in comparing observed market rentals with the rental levels which would reflect TOCs' views of the utility of different fleets compared to the rentals and utility of new rolling stock. A well-functioning market should clear according to the normal rules of the competitive interaction of supply and demand, and the outcome should in effect provide a reflection of the relative utility of different fleets. Therefore, in theory we could try to mimic these outcomes by estimating the utility of various fleets and comparing these to rentals for new rolling stock (if the market is characterized by excess demand such that rentals can be expected to rise to the limiting constraint provided by the threat of substitution from new rolling stock). However, the utility difference between fleets is extremely complex to identify and measure. While TOCs need to take a view on the relative value for money offered by different fleets, their implicit expectations of utility will be based on future, subjective predictions. The utility of a particular fleet will vary depending on the context in which rolling stock is used by the TOC. For example, the scope for increasing passenger demand through the introduction of new or alternative existing rolling stock depends on the type of rail services being operated by the TOC and the nature of demand for those services. Additionally, the constraint on rentals provided by new rolling stock may work indirectly through the potential for substitution from alternative existing rolling stock. We do not have reliable information that will allow us to make these comparisons.

Methods to infer the scale of detriment

12. In the absence of the necessary information to conduct a comparison of actual rentals and rentals in a notional well-functioning market on a fleet-by-fleet basis, we have considered a number of alternative methods to infer the scale of the financial detriment. These are detailed below. However, we find that none of these measures closely corresponds to our concept of detriment.

Quantitative estimates of the impact of competition

13. In Appendix 6.2 we examined econometrically how rentals were affected by the number of ROSCOs considered by franchise bidders. Based on these results, we estimated how much lower rentals would have been if, in all cases, at the most recent lease renewal, all three ROSCOs were potential competitors. This analysis does not establish whether the lower rentals would be fully or only partly at a

competitive level. In addition, this approach may reflect temporary surpluses of particular classes of rolling stock, as well as market power as a result of a limited number of competing ROSCOs at that point in time. As a result, this analysis may not fully reflect a long-run sustainable market outcome.

14. This approach is detailed in Annex 1 to this appendix.

Profitability analysis

15. Detriment can sometimes be inferred from profitability, on the assumption that prices in excess of competitive levels feed through directly into profits in excess of the appropriate cost of capital. However, profitability results need to reflect a long-run outcome across the industry. We are not convinced that asset values used in the profitability calculations necessarily reflect the functioning of long-term competition. It has not been feasible to use a DRC method for valuing assets, while valuations based on historic cost do not necessarily demonstrate a failure of competition or provide a meaningful measure of an associated detriment. Implicitly, these profitability calculations compare profitability to a market where asset values do not adjust in response to changes in supply and demand; rather, they take as a comparator a well-functioning market where asset values are fixed. In contrast, we would expect that asset values in a sustainable comparator market might vary, for example in response to the constraints on market rentals offered by new rolling stock.

16. In the rolling stock market, there are also very significant practical difficulties in conducting a profitability analysis, as a result of:

(a) the long-term nature of the assets meaning that current returns may not be representative of lifetime returns;

(b) the absence of any second-hand market to provide a benchmark for valuing existing rolling stock; and

(c) the fact that for each MOLA fleet there has only been one competitive determination of rentals which has spanned only a small proportion of the asset's life, and where it is unclear to what extent rentals would have adjusted to a long-term competitive level.

17. Given these issues, we do not consider that an analysis of profitability can be considered a reliable measure of the extent to which rentals are higher than they should be.

18. Nevertheless we attempted two different approaches to infer detriment from the profitability analyses. These are set out in Annex 2 to this appendix, together with an explanation as to why they do not reliably indicate detriment. We also discuss a third method based on comparing rentals for MOLA rolling stock with rentals for new rolling stock, although there is a lack of data available to support this analysis.

19. The DfT in its response to our provisional findings also undertook an analysis of detriment, based on the profitability results published in our provisional findings. This is discussed in Annex 3 to this appendix.

Conclusions on the quantification of detriment

20. The discussions above indicate that all these methods of considering the scale of detriment relating to rental levels have substantial conceptual and/or practical flaws.

We stress that the degree of uncertainty around the figures shown in Annexes 1 and 2, under all the approaches, is very high, and that conceptually there are factors which mean that the results could either be underestimates or overestimates of the true detriment.

21. We are aware that assessments of detriment based on analysis of past pricing and conduct may not be a good indicator of levels of detriment in the future, especially given changing market conditions. It is also our judgement from all the evidence available that ROSCOs do not appear to have taken full advantage of the opportunities to increase rentals at lease renewal which may be indicated by the market power they derive from the features we have identified in this market (see paragraph 6.225).

22. The absence of choice, while not itself representing an additional financial cost, represents an additional aspect of detriment.

Quantitative estimates of the impact of competition

1. This annex uses the econometric analysis of competition (see Appendix 6.2) to indicate a possible measure of higher rentals paid as a result of a lack of choices for TOCs in the provision of rolling stock, and so a possible lack of competition.

2. Our econometric analysis examined how lease rentals changed according to the number of ROSCOs, which owned competing fleets that were considered by franchise bidders. We found that an additional competing ROSCO has a 6 per cent effect on reducing lease rentals. Taking into account the confidence interval (so that we can be 90 per cent certain of what the effect is), we found a range of 0.5 to 11.7 per cent reduction in lease rentals for each additional ROSCO. The coefficient of 6 per cent is the central estimate of the price effect for the true relationship between the number of ROSCOs considered and price change, but the confidence interval around the estimated coefficient takes into account the error margins that are built into the estimation process.

3. We applied these coefficients to estimate how far prices would have fallen had there been more competition on those leases on which we found a lack of competition (alternative ROSCOs).

4. The calculation of detriment is based on an assumption that there is effective competition where there are three ROSCOs, ie the rental changes agreed in this case represent a competitive benchmark. It then applies a 6 per cent price reduction to those leases where there was one alternative ROSCO and double this to a 12 per cent price reduction to those leases where there were no alternative ROSCOs (to cover two alternative ROSCOs). This produces an estimate of detriment of £31 million a year (with a range of £2–£60 million a year) from these leases.

5. The assessment has a number of important limitations:

   (a) It assumes that three ROSCOs are required to create a fully competitive outcome, and that there is no further competitive benefit to be realized from competition from further ROSCOs. If more ROSCOs are required for a competitive outcome, our calculation would underestimate the size of the detriment.

   (b) Our econometric analysis only examines changes in price not price levels. This analysis assumes that a ‘competitive’ price change is one that leads to a ‘competitive’ price level. If prices had not yet reached the competitive level due to stickiness in prices, such that it takes several negotiations before the truly competitive price level is reached, then we would be underestimating the level of detriment.

   (c) There is an implicit assumption that there are up to two more alternative ROSCOs, not just more new rolling stock alternatives.

   (d) The analysis is based on the reliability of the econometric estimates, which is driven by the reliability of the capital expenditure adjustments and the assessment of the number of alternatives considered.

   (e) The calculations exclude leases which incorporated short-term lease premiums. If there were some element of market power that influenced the size of short-term premiums (see paragraph 6.34), then we would be underestimating the level of detriment to some extent.

(f) The calculations apply only to MOLA rolling stock, and so do not include any adverse effects on post-MOLA rolling stock which has been re-leased or is due to be re-leased. This might also increase the size of detriment.

(g) The analysis attributes rental reductions to competition even where these reductions are substantial falls in response to a temporary surplus of rolling stock. Because rentals that result may then not be sustainable in the long term, the coefficients may overestimate the effects of competition on price relative to a long-run well-functioning market. Consequently this suggests that the estimates of detriment are likely to overstate the true detriment.

Profitability analysis and measures of detriment

Introduction

1. As outlined in the main body of this appendix, we consider that a profitability analysis based on historic MOLA asset values is unlikely to provide a meaningful estimate of detriment in this case. Nonetheless, we performed two analyses to try and shed some light on possible detriment. We also undertook an alternative method of estimating detriment using changes in the rental levels of the first lease of new rolling stock.

2. First, we set out the limitations in estimating detriment using profitability, both for ROSCOs and more generally. We then attempt to estimate detriment using three methods—margins, truncated IRRs and comparison with changes in capital lease rentals for new rolling stock. Finally, in each section we interpret the results and set out the biases and limitations of our analysis.

3. The first two methods are based on historic asset prices and assumptions on remaining life rentals, which may not be appropriate for the purposes of comparing detriment relative to a well-functioning market, for reasons explained in paragraphs 6.185 to 6.200. The third method is based on current prices, but contains a large number of sensitive assumptions and estimates, giving only limited validity to the result.

Issues and limitations with using profitability analysis to estimate detriment

4. Conceptually, the idea behind this approach is that in so far as ROSCOs are able to set higher prices than would apply in a well-functioning market, this would be reflected in higher profits (assuming the lack of competition was not reflected in reduced efficiency). As competition through, for example, new entry would drive profits down to normal levels, profits in excess of the WACC would indicate a lack of competition and the scale of the profits would indicate the size of the detriment.

5. This raises two conceptual concerns. First, the market for rolling stock is very young, with most rolling stock having experienced just one competitive re-leasing event, and so the extent to which the market can be expected to have adjusted to a level where the results give a clear reflection of the extent of competition is uncertain. Second, the model assumes that competition in a well-functioning market arises from similar rolling stock, for example through competitive entry in similar used rolling stock. If instead the well-functioning market is believed to be competitively constrained ultimately by new rolling stock, then there may be potential for prices to adjust for existing stock in the presence of scarcity without this necessarily representing a failure of competition.

6. As we mentioned in our profitability analysis, there are also a number of issues which affect the accuracy of our results. These include assumptions inherent in the data (such as a 30-year economic life for rolling stock), the short period for which the market has been operating (meaning we cannot assess profitability over an economic cycle, or over the lifetime of the assets), the lack of comparator market data, different data sets between the ROSCOs, and the lack of reliable data on asset values. Each of these has the potential to over- or understate detriment.

7. In particular, our inability to derive accurate asset values for MOLA stock severely limits the confidence we can have in the accuracy of our profitability analysis, or any

detriment calculations using this analysis. This is because any results are extremely sensitive to asset values used.

Approach to estimating detriment using profitability

8. The following sections set out two methods of estimating detriment based on our profitability analysis and financial information received from the parties. The ROSCOs acknowledged the difficulties in conducting the analysis but HSBC and Angel both argued that the DRC based analyses they had submitted were conceptually appropriate for the purposes of measuring detriment. Both argued that these analyses demonstrated no evidence of excess profits for each of them. These analyses are described in Appendix 6.3. As noted in paragraph 6.188, we did not have the necessary information required for a generally applicable DRC-based analysis of the ROSCOs' profitability.

Estimating detriment using margins

9. We found that there was active competition in the procurement and initial lease of post-MOLA stock, leading to an initial rental (and thus margin) which was competitively determined. We therefore use post-MOLA margins as a comparator when estimating MOLA detriment.

10. We converted the difference between MOLA and post-MOLA margins into IRRs, set up a discounted cash flow model over the remaining life of the MOLA stock and compared the annual rental required to produce these IRRs with the annual rental required to produce an IRR at WACC. The difference between these annual rentals would represent an estimate of detriment.[2]

11. Although we assumed an effective tax rate of 30 per cent for both MOLA and post-MOLA stock in our provisional findings, subsequent work showed the effective tax rate of post-MOLA stock to be approximately zero[3] (owing to the significant capital allowances) and of MOLA stock to range between 0 and 60 per cent depending on the age of the stock at privatization. This meant that, for younger MOLA stock, the difference between post-MOLA and MOLA margins narrowed, and for the older MOLA stock (of which there were fewer vehicles) the difference widened.

12. The results showed a negative detriment for ROSCO A (since under the updated tax work MOLA margins were lower than for post-MOLA rolling stock). The detriment for ROSCO B was positive and in the low tens of millions of pounds ([✂]. The results for ROSCO C produced a detriment between that of the other two ROSCOs.

Issues and limitations with margin analysis

13. The use of margin analysis based on historic asset values provides no convincing evidence of the scale of detriment if competitive rentals are taken to be determined by reference to a constraint from the rentals for new rolling stock.

14. Furthermore, the fact that the detriment was found to be concentrated in one company, and that another had negative average detriment, was unexpected and

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[2]For Angel, we used an IRR calculated by OXERA and compared this with our WACC.
[3]The effective tax rate over the life of post-MOLA stock depends on assumptions over rental levels, margin and expected life. We also assumed that tax losses could be utilized immediately against group profits.

surprising in that if higher profits resulted from a lack of competition in the market, this effect would be expected to apply to all the ROSCOs.

Estimating detriment using truncated IRRs

15. We also attempted to estimate detriment by calculating a truncated IRR for each ROSCO's MOLA fleets for the period 2002 to 2007, based on accounting data supplied to us by the ROSCOs. This analysis models the returns each ROSCO would have made if it had purchased its MOLA fleets at net book value (NBV) on 31 December 2002 and sold them at NBV on 31 December 2007.

16. As a cross-check, we ran a similar analysis for post-MOLA stock. We then reduced the MOLA EBITDA to the amount where the IRR would be equal to the post-MOLA returns.

17. We took tax into account in our model. For MOLA stock we assumed that the average tax rate was 30 per cent.[4] For post-MOLA stock we assumed that a 25 per cent capital allowance was available on all new stock.

18. The results of our analysis showed a negative detriment for ROSCO A, and in contrast to the results for the margin analysis, a small positive detriment for ROSCO B and a larger positive detriment for ROSCO C.

Issues and limitations with truncated IRRs

19. As noted above, the use of historic asset values (in this case book values) in an IRR analysis provides no convincing evidence of detriment if the true competitive rental is taken to be determined with respect to a utility-adjusted new-build equivalent rental.

20. The fact that the detriment was found to be concentrated in one company was surprising. Because we would expect a detriment to arise in respect of all the ROSCOs, it indicates a risk that the results are driven in part by company-specific data issues such as depreciation policy.

Estimating detriment using rental levels for new rolling stock

21. A further method of estimating detriment can be undertaken by examining changes in rentals since privatization for new rolling stock at first lease. If initial MOLA rentals were set according to indifference pricing (and we accept that this indifference pricing still holds), then changes in MOLA rentals should track changes in the initial rentals of new rolling stock. We would also expect MOLA stock to fall relative to the initial rental of new rolling stock because of the increasing utility differential as the MOLA fleets age.

22. In the pricing approaches appendix (Appendix 4.3) we found that the average capital rental for post-MOLA stock on first lease had fallen by approximately 20 per cent since privatization (although this is derived from visual inspection of the prices of a very small number of dissimilar rolling stock orders). This reduction arose from two opposing effects—an increase in the purchase price of new trains and a decrease in the cost of funds.

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[4]As noted above, the effective tax rate of MOLA fleets is likely to vary between 0 and 60 per cent depending on the age of individual fleets. Given the age profile of the entire MOLA stock, an average tax rate of 30 per cent appears reasonable.

23. If MOLA rentals move in line with first-lease post-MOLA rentals, then we would expect to observe a similar fall in these rentals. In fact, we saw an average increase in the population of 121 leases of 0.02 per cent.[5] However, this includes rentalized capital expenditure. If this is stripped out then we observed a 2.18 per cent decrease.

24. We also need to take the difference in utility into account. HSBC's work on utility suggested that on average a 30-year old train had approximately 60 per cent of the utility of a new one. If we assume a straight line decline in utility differential, we should see an average fall in rentals attributable to this utility differential of 1.33 per cent for each year that the MOLA fleet is older than equivalent new rolling stock.

25. Using the estimates above, since privatization we would expect to see a difference in relative rentals of 35 per cent (20 per cent plus 1.33 times 11 years). If the actual change is a 2.18 per cent decrease, then we can estimate the midpoint of our range of detriment to be 33 per cent of the total MOLA capital rentals for 2007 (£369 million). The midpoint of our range of pre-tax 2007 detriment is therefore estimated to be £123 million. However, 33 per cent is the fall we would expect to see if all of the leases had been renewed in 2007. Since the MOLA leases were in fact renegotiated throughout the post-privatization period, a better estimate would be considerably lower than £123 million, depending on the timing of lease renegotiations and the changes in new-build prices over time. This resulting range of detriment is therefore very wide, and any attempt to narrow this range would be extremely sensitive to the assumptions on rental trends for new rolling stock and relative utility. This figure also excludes the cost of impairments, which would reduce detriment significantly.

26. There are a number of reasons why this figure is no more than the vaguest of estimates. As outlined in Appendix 4.3, we had considerable difficulty obtaining rental data and making allowance for capital expenditure. The fall in new rentals is dependent on the visual inspection of graphs of only a few leases[6] and where there is no clear trend. The results assume that the initial indifference price was accurate and reflected current tax rates—we cannot say that this assumption holds in either case, and we only have a very general estimate of relative utility and how it declines over time.

[5]Source: Table 5, paragraph 52 of Appendix 4.3.
[6]Figures 4 and 5 of Appendix 4.3.

The DfT's detriment calculations

1. In its response to our provisional findings, the DfT provided an estimate of detriment 'adopting the principal assumptions used by the CC'. This estimate ranges between £30 million and £100 million 'in the first year following MOLA lease renewals'.

2. The DfT reworked the profitability analysis it originally submitted to the ORR, but this time using the CC's figures for asset values and WACC. This produces a range of £26–£98 million. Its methodology was to take the chosen opening asset value (it used purchase price[7] and also our reduced asset value where a 15 per cent sensitivity adjustment has been applied) and to depreciate it, using annuity depreciation, to a 2005 figure. It then produced an IRR using this depreciated figure and the current lease rentals, assuming that these rentals continued to the end of the vehicles' useful economic lives.

3. We note that this analysis does not take into account capital expenditure on MOLA fleets which have led to increased rentals, nor the effect of impairments, nor unrentalized capital expenditure.[8] Annuity depreciation, although probably the best assumption and certainly better than straight line, may not reflect the actual decline in rolling stock values.

4. We also noted a number of differences in the asset values used.[9] The DfT has used a higher purchase value for Angel but a lower purchase price for Stagecoach than we have identified.

5. The DfT then calculated IRRs using these asset values. This produced IRRs of 8.0 to 9.6 per cent using purchase prices and 11.1 to 22.9 per cent using the lower sensitivity asset values. This was then compared with the CC's range for WACC in the period 2002 to 2007 (6.5 to 7.7 per cent). By re-running the IRR analysis, it then determined a 'competitive' rental which would produce an IRR of 6.5 or 7.7 per cent. This 'competitive' rental range is then compared with the actual MOLA rentals to arrive at a detriment range.

6. The same issues on methodology and calculation apply to the DfT's work as apply to our own analysis as identified above. In particular, the DfT's analysis is based on historic asset values. Furthermore, the omission of capital expenditure and impairments overstates the range as a whole.

[7]This is the price paid to acquire the ROSCOs when they were first resold (to Stagecoach, HSBC and RBS) after privatization.
[8]This is acknowledged by the DfT, although it considers that any assessment of the claimed impact of capital expenditure on asset values and rates of return needs to be undertaken extremely carefully, so as to ensure that asset values are not inflated and that the effect of such capital expenditure on asset life is taken into account.
[9]These are set out in Table 1 of Annex 1 of the DfT's submission (p25).