



Introduction

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OFFICE OF RAIL REGULATION

Agenda

- Part 1 – Schedule 4 in PR13
 - Background (Paul Hadley, ORR)
 - Schedule 4 in PR13 (Rob Mills, ORR)
 - Network Rail's response to First consultation (Richard Wall, ORR)
 - Discussion
- Part 2 – Schedule 4 in a joined up industry
 - Introduction (Rob Mills, ORR)
 - Network Rail's view (Richard Wall, Network Rail)
 - ATOC's view (Jonathan Pugh, ATOC)

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Schedule 4 in PR13

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Consultation responses - General

- Overall, industry supportive of Schedule 4 possessions regime
- Little desire for major overall or reform
- Like liquidated sums nature of regime
- Broadly provides the right incentives to NR for it to plan early and manage possessions effectively
- Does not necessarily incentivise minimising disruption to passengers in all cases, e.g. pattern/number and length/time-of-day of possessions

Specific issues raised

- Whether Sustained Planned Disruption (SPD) threshold is set at an appropriate level
- Whether current notification thresholds are set at a level that correctly aligns incentives
- Impact of Schedule 4 on incentives during extreme weather – ‘emergency’ timetables as against heavily disrupted normal timetables. Trade off between passenger information and Schedule 8 compensation

What we propose to review further (1)

- Re-calculate payment rates and access charge supplements
- Whether the incentives on NR to reduce length of possessions to the optimum level are adequate?
- SPD threshold – set correctly?
- Notification thresholds – set correctly?
- Accuracy level in computing access charge supplements so as to reflect specific conditions faced by train operators

What we propose to review further (2)

- Practical issues around modifying Schedule 4 or replacing it with bespoke regimes – particularly in joint ventures and alliances
- Whether compensation levels should be reduced so all parties are incentivised to work together to minimise disruption
- Whether simple changes can be made to better align incentives during extreme disruption (snow, floods, etc.)
- How well Schedule 4 incentives are transmitted across industry

What we don't propose to review further

- Whether a free possessions allowance should be re-introduced
- Effectiveness of negotiation and enforcement process
- Relaxing financial protections in franchise agreements

Process of updating Schedule 4

- ORR lead?
- NR lead?
- Industry Working Group?
- Did it work well last time?
- How can we improve the process this time?

Schedule 4 in a joined up industry

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Joint ventures and alliances

- Instances where Network Rail and train operators may wish to modify or 'switch-off' Schedule 4
 - Joint venture or alliance
 - Enhancement schemes that benefit train operator (with reasonable 'payback' during franchise)
- Are there currently any practical barriers to bespoke Schedule 4 arrangements?

Incentivising TOCs to minimise disruption from possessions

- Consider ways to move from protecting TOC from the impact of possessions so well that they are almost indifferent as to how many there are and when they are
- Reduce compensation rates to train operators?
- Find ways of allowing TOCs to share in the benefits of 'better' access strategies for Network Rail
- Encourage timetable patterns, especially at fringes of service, that would allow 'non-disruptive' access; e.g. Single Line Working and 2-track railway out of 4

Schedule 4 – background

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Issues to consider

- Restrictions of use undoubtedly cause revenue loss and increased costs, at least in the short term
- At least for enhancements there will often be long term gains
 - West Coast upgrade
 - Reading
 - Electrification
 - Gauge clearance
 - Train lengthening

Previous philosophy, especially CP4

- Improve accuracy and increase size of compensation payable for possessions
 - Reduces franchise risk -> maximise franchise value to DfT
 - Increases incentives on NR to plan early
 - Increases incentives on NR to use possessions efficiently
 - Provides signals to NR
 - Benefits to passengers – PIDD, T-12
- Support financial incentives with regulated targets for network availability
 - PDI-P – 37% improvement
 - PDI-F – no worsenment

Changes to Schedule 4 for CP4 (Passenger)

- Broad structure of regime introduced in CP2 maintained – discounted revenue compensation calculated from NREJT+WACM, etc.
- Separate Part G and Competent Authority provisions ended so all compensation on a single basis
- Significant Restriction of Use (SRoU) arrangements abolished but formulaic bus cost compensation and RoU claim notices introduced
- Over-run provisions in relation to costs
- Sustained Planned Disruption (SPD) concept introduced

Changes to Schedule 4 for CP4 (Freight) #1

- Standardised Service Variation arrangements introduced for all operators
- General focus on cost compensation (but including loss of revenue)
 - Category 1 disruption – Revised Base Service >60 mins schedule variation; >10 miles journey increase; length or weight restrictions
 - Category 2 disruption – *No* Revised Base Service *but* gauge restrictions; additional loco; diesel vice electric
 - Category 3 disruption – No route available; no gauge-cleared route for >60 hours; mode switch; Revised Base Service with additional loco or diesel vice electric; additional route knowledge needed

Changes to Schedule 4 for CP4 (Freight) #2

- Service Variation Sum, *not* due to planned RoUs
 - >5 mile journey increase; more reversals; length / weight / gauge restrictions; additional loco; diesel vice electric; >30 mins schedule variation
- Normal Planned Disruption Sum for Category 1
- Enhanced Planned Disruption Sum for Category 2
- Enhanced Planned Disruption Sum + extra costs for Category 3
- Late Notice Actual Costs, in some cases, in addition to Schedule 8 Late Notice Cancellation Sum
- Amounts have to be claimed, not automatic
- Arrangements do not generally apply to Level 3 rights

Discussion – Schedule 4 in PR13

- Views on our proposed approach
 - What we propose to review further?
 - What we don't propose to review further?
- Views on the process of updating Schedule 4
 - Who takes lead?
 - How it can be improved?

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