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DRS response to PR18 Reviews of Schedules 8 of track access contracts

14 January 2016

To:

Joanna Whittington
Director
Railway Markets and Economics
Office of Rail and Road



Please find below the response from Direct Rail Services Ltd to your letter of 13 November 2015 inviting input into the forthcoming reviews of Schedules 4 and 8.

Please note the response below refers to DRS views on Schedule 8 only.

EXECUTIVE SUMMARY

- ❖ DRS believe the existing underlying principles and structure of the Schedule 8 regime is sound and appropriate.
- ❖ Changes made in the regime at the commencement of CP5 have certainly generated a significant focus on performance by all freight operators which is demonstrated by significant improvements across all aspects of the rail freight industry. *(Refer to Appendix 1: National and DRS performance CP4 to CP5.)*
- ❖ Prior to any further changes to the Schedule 8 regime careful consideration of the impact of any change should be considered and ensure such changes result in incentives and not penalties on individual freight operators.
- ❖ DRS as with all other freight operators fully bear the risk of any changes to access charges and any incentive regimes.

- ❖ **Schedule 8**
- ❖ DRS supports the principle of Schedule 8 as:
 - It is well understood by the rail industry
 - It leads to detailed understanding of the causes of delay which enables improvement plans to be put in place
- ❖ DRS does not support the structure of Schedule 8 as:
 - It often provides significant perverse incentives resulting in considerable obstacles to performance improvement. *(Refer to Appendix 2: Schedule 8 Perverse Incentives examples.)*
 - The administration of the regime by Network Rail generates considerable 'conflict of interest' with failings invariably resulting in additional burden placed upon operators (passenger and freight). *(Refer to Appendix 3: Schedule 8 Attribution Accuracy.)*
 - Issues of ownership of the regime and its administrative process require clarity and improved accountability.
 - Considerable levels of inaccuracy exist within Schedule 8 attribution generating a further burden to operators and also bringing into question the validity of published performance measures including those regulatory measures ORR places against Network Rail. *(Refer to Appendix 4: Schedule 8 MFSdD minutes.)*
- ❖ DRS would support consideration of Schedule 8 administration being facilitated by a provider with greater independence and accountability and the introduction of incentives to improve accuracy of attribution.





- ❖ DRS believe consideration should be given to the appropriateness of common benchmarks to take account of impacts upon individual freight operators.
- ❖ Changes made in CP5 have resulted in unintended consequences which are rewarding poor performance and punishing improved performance over the long term. *(Refer to Appendix 5: NR Benchmark minutes in CP4 and CP5.)*
- ❖ The changes to benchmarks and payment rates in CP5 have resulted in a significant swing in payments from freight operators to Network Rail for exactly the same performance levels. However, the impact upon DRS has been proportionately significantly greater, despite DRS having achieved performance improvements above those of any other freight operator. *(Refer to Appendix 6: Freight Dashboards.)*
- ❖ DRS believe CP5 changes to benchmarks and payment rates have served to make rail freight less competitive against road and have increased the barrier to entry for potential new operators. In addition, DRS as the best performing operator at the end of CP4 having achieved greater performance improvements than any other freight operator in CP5 has suffered proportionately greater financial penalty as a direct result of these changes.
- ❖ DRS strongly advocates that benchmarks are considered on a similar basis to passenger operators with calculations made reflecting actual impact of benchmarks and charges on individual operators looking at previous and current control periods to identify real incentives.
- ❖ DRS believe the current regime could be considered in some aspects to be discriminatory and prejudices our businesses due to a disproportionate burden of cost levied against DRS due to the national benchmark arrangements.

Kind regards

Norman Egglestone

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The performance team exists in order to effectively manage fleet delivery, maximise resources and investigate performance with integrity to minimise financial impact on DRS.

