

Stagecoach South Western Trains Limited  
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Office of Rail and Road  
One Kemble Street  
LONDON  
WC2B 4AN

29 January 2016

Dear Joanna

### **PR18 Reviews of Schedules 4 and 8 of track access contracts**

Thank you for inviting our input into preparation for reviews of Schedules 4 and 8 of track access contracts. This letter provides the response of Stagecoach South Western Trains Limited (SSWT) to the above consultation.

We have been involved in the RDG work and are overall supportive of its response and do believe that there are many good features of the regimes as stated in the RDG response. We also note that these regimes have links with other elements of the charging structure and therefore should not be considered in isolation. We have a few specific points we wish to highlight in the following paragraphs.

#### Schedule 4

The purpose of the regime should be to incentivise efficient engineering work and compensate train operators for the revenue and cost impact of loss of access to the network. It should also provide appropriate signals, to both train operators and Network Rail, so as to drive the decision-making in relation to performance and possession management and should therefore have integrated rationale with Schedule 8.

Franchised Operators pay an access charge supplement (ACS) to cover the estimated efficient cost to Network Rail of the Schedule 4 regime. These values are pre-determined at the start of the control period, and are linked to Network Rail forecast of volume and output of work. Network Rail should only benefit if the outputs/volumes are achieved more efficiently, and not due to just

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undertaking less work. A way for Network Rail to be incentivised to achieve this would be to link the ACS with the agreed outputs. If these are not achieved, the train operator should receive a rebate.

The current regime does not discourage Network Rail from making late notice changes (after T-12), it may therefore be appropriate to have an additional notification factor to encourage the right behaviours. The regime also only compensates train operators for costs committed or spent for any possessions cancelled and the timetable re-instated. The compensation which does not take into account any revenue losses, and therefore the compensation received by train operators will be understated. A prime example of this was the threatened strikes by Network Rail staff last year where passengers would have made alternative arrangements.

We have undertaken some initial high level analysis and believe that Schedule 4 does not fully capture the effects for of the lag of revenue loss for major possessions. Our analysis suggests that Schedule 4 payments are broadly commensurate with income loss over short possessions, in particular those in the late evening or over a limited number of weekends. We have observed for example, limited revenue effects due to late evening closures, and these losses are covered by the Schedule 4 payments, although the costs of additional drivers to provide the resulting train plan are not compensated for. However major possessions involving repeated weekend closures are likely to cause perceptions of journey times to be worsened in the long run, affecting long term demand. Multiple possessions around a single route over a long period of time can give rise to the perception that possessions at weekends are inevitable. At worst the demand effect could be akin to permanent extended journey times. We would suggest that an approach to understanding long term lagged demand impact is considered for major or repeated possessions.

The regime needs to ensure that the parties are incentivised to work together in declaring amended timetables for bad weather for example – the primary concern in the event of bad weather should be the impact on passengers, and implementing arrangements that best balance the needs of passengers and the operational capabilities of the railway.

### Schedule 8

The purpose of the regime should be to incentivise good/improved performance from the monopoly supplier and provide compensation for when it does not. It should be noted that customer expectations have increased, and benchmarks/targets and compensation need to reflect this. With passengers becoming more aware of available compensation for disrupted journeys, as evidenced by the Which? Super Complaint Schedule 8 needs to take this into account in the calculation of compensation. Performance has always been the main driver of passenger satisfaction and the regime therefore needs to remain at the heart of the contractual framework.

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Schedule 8 should also provide appropriate signals, to both train operators and Network Rail, so as to drive the decision-making in relation to performance management.

The regime needs to work at all levels of performance. In recognition of the fact that at certain levels of lateness and cancellations Schedule 8 compensation begins to under-compensate, Sustained Poor Performance part of the regime was introduced. The current process of calculating relevant losses and providing related evidence is time consuming for both the party producing the claim, and for Network Rail in reviewing it. The revenue loss element will always be the most difficult to prove and therefore becomes contentious with the negotiations taking up both management and legal resources, and can take a long time to agree. From our understanding, there have been a number of claims made which still have not been agreed after many many months, and therefore is a disincentive and cost to the industry. We support the inclusion of a Sustained Poor Performance regime, but feel that it should be made formulaic based on a multiplier of the payment rate.

Currently the payment rates used in both Schedules 4 and 8 are indexed year on year by RPI only, yet passenger numbers and revenue continue to grow above inflation. It would therefore seem appropriate that the payment rates are indexed by an additional factor to take into account this growth.

We believe both Schedules 4 and 8 should encourage joint working so that decisions which best reflect end users needs are made.

We look forward to working with ORR and the rest of the industry to take this workstream forward.

Yours sincerely,

A handwritten signature in black ink that reads "G. Ormandy".

**Gabrielle Ormandy**  
**Track Access Manager**  
**Stagecoach South Western Trains Limited**

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