

# Passenger operator Schedule 4

PR18 Stakeholder event 27<sup>th</sup> November 2015

#### Session purpose

- An opportunity to learn more about the regime and ask questions
- Discuss the purpose of the regimes
- Discuss problems with the existing regime and things that work well
- Hear other people's views
- To help inform your response to our letter



## What are we seeking views on?

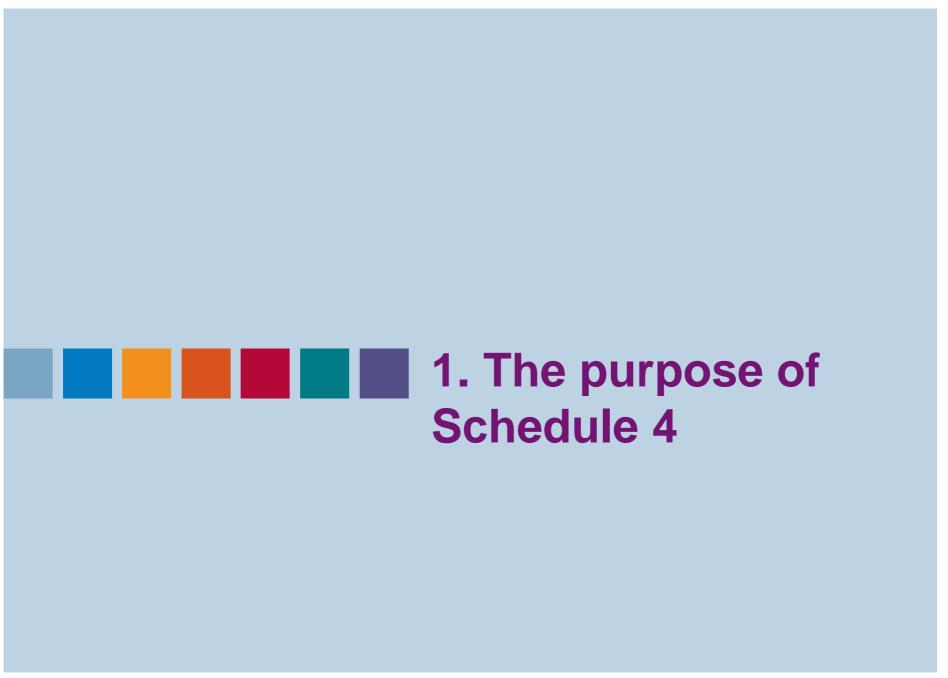
- We would like your views on:
  - The effectiveness of the current regime, including aspects that are working well
  - The scale of any potential problem
  - What the priority areas for improvement should be



#### Structure of the session

Part 1 The purpose of Schedule 4 Compensation for Notification discount franchised operators Liquidated factors Part 2 damages Access Charge Supplement Bespoke Compensation for Type 2 **Sustained Planned** Part 3 damages and 3 possessions Disruption Interaction with outputs Perverse incentives Other aspects Part 4 of Schedule 4 Any other issues







#### Schedule 4 is designed to

- compensate train operators for the long-run revenue impact of planned service disruption attributable to Network Rail
- help align incentives between Network Rail and train operators, so the impact of service disruption on revenue and/ or costs is incurred by the organisation that causes the disruption, rather than the train operator that faces it
- provide appropriate signals so as to drive decision-making in relation to possessions management







## Liquidated damages

- Compensation for franchised operators
- Notification Discount Factors
- Access Charge Supplement



## Compensation for franchised operators

- There are three types of Restrictions of Use:
  - Type 1 receive only formulaic Schedule 4 revenue loss and cost compensation (majority of possessions are of this type)
  - Type 2 and Type 3 receive formulaic compensation but can also claim for actual revenue losses and costs above a materiality threshold

Type 1	any single Restriction of Use which does not fall within the definition of Type 2 or Type 3
Type 2	<ul><li>(a) a single Restriction of Use of more than 60 consecutive hours (excluding any part of that Restriction of Use which occurs during a Public Holiday); and</li><li>(b) which results in a Service being Disrupted but excluding any Restriction of Use which falls within the definition of Type 3</li></ul>
Type 3	a single Restriction of Use of more than 120 consecutive hours (including any part of that Restriction of Use which occurs during a Public Holiday)



## Compensation for franchised operators

- Compensation payments are made by Network Rail to franchised passenger operators on a formulaic basis. Schedule 4 payments are to compensate for a combination of the following:
  - (a) the effect of possessions on long run fare revenue
  - (b) additional costs incurred when running replacement buses
  - (c) costs or cost savings from a change in train mileage



#### **Notification Discount Factors**

- Network Rail receives a discount on the amount of compensation it pays for early notification of restrictions of use (notification factor)
- There are three levels of notice (notification discount thresholds)

Proportion of Schedule 8 payment rate payable

Average late time multiplier	By New Working Timetable (26 weeks)	By 22 weeks before possession	By Applicable Timetable
4.3 or higher e.g. airports	40%	63%	85%
3.4 to 4.2	45%	65%	85%
2.8 to 3.3	50%	68%	85%
2.7 or less e.g. London commuting	55%	70%	85%



## **Access Charge Supplement**

- Schedule 4 payments to franchised passenger operators are funded through the Access Charge Supplement (ACS) which is paid to Network Rail by franchised passenger train operators in return for receipt of full Schedule 4 compensation
- Open Access Operators may opt into paying the ACS
- The total ACS should reflect the amount Network Rail is expected to pay out in Schedule 4 compensation over the control period – the Schedule 4 regime is designed to be financially neutral provided that Network Rail delivers its baseline plans efficiently

Forecast ACS = Schedule 4 unit cost \* forecast M&R volumes







## Bespoke damages

- Compensation for Type 2 and 3 possessions
- Sustained Planned Disruption



#### Compensation for Type 2 and 3 possessions

#### Franchised operators

 both Type 2 and Type 3 possessions receive formulaic compensation but can also claim for actual revenue losses and costs above a materiality threshold

#### Open Access

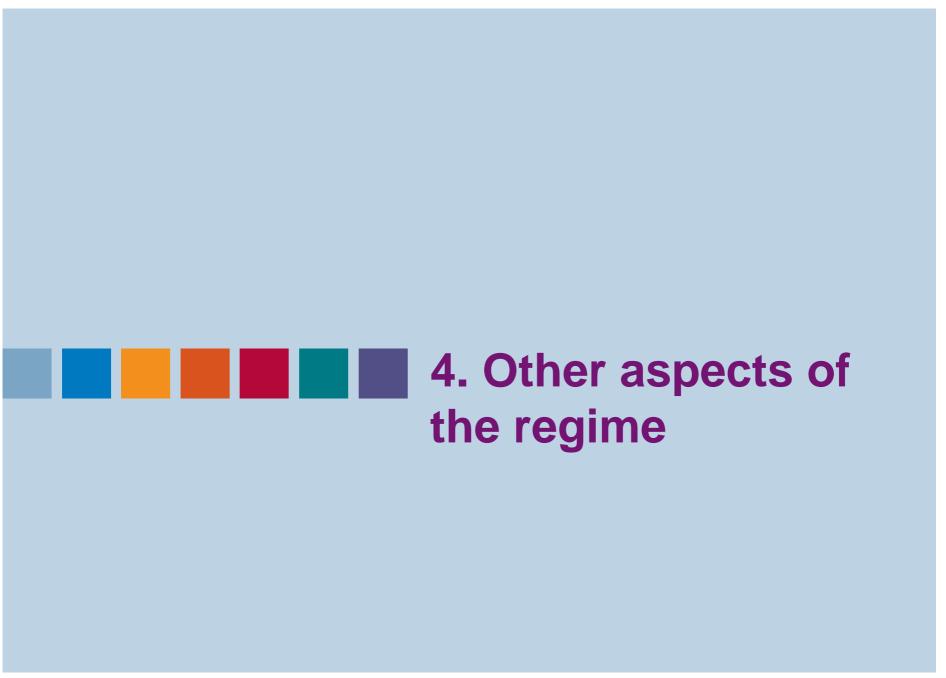
 can claim compensation for Type 3 possessions and Sustained Planned Disruption, but need to pay an Access Charge Supplement to be able to claim compensation for Type 1 and Type 2 possessions



## **Sustained Planned Disruption**

- The Sustained Planned Disruption (SPD) mechanism is designed to protect passenger train operators from instances where there is severe disruption caused by possessions over a sustained period
- Additional compensation for SPD is triggered when the impact of severe disruption crosses a pre-defined level (in terms of revenue lost and increased costs) at which point train operators may claim additional revenue/ cost compensation above that covered by the liquidated sums payable under Schedule 4







#### Other aspects of the regime

- The interaction with regulated outputs
  - Network Rail also has performance targets set by ORR and Government
- Perverse incentives
  - We are interested to know your views on where the incentives created by the regime promote behaviours that are not aligned with the outcomes we want from the industry
  - Stakeholders may want to comment on any perverse incentives and unintended consequences of the regime (together with any evidence that you are able to provide)
- Any other issues







#### **Next steps**

- Slides from today will go on our website <u>www.orr.gov.uk</u>
- Your responses to letter by Friday 15<sup>th</sup> January 2016
- We will publish responses on our website
- We will use this to work on priorities, assessment framework and generate and assess options





# Passenger operator Schedule 8

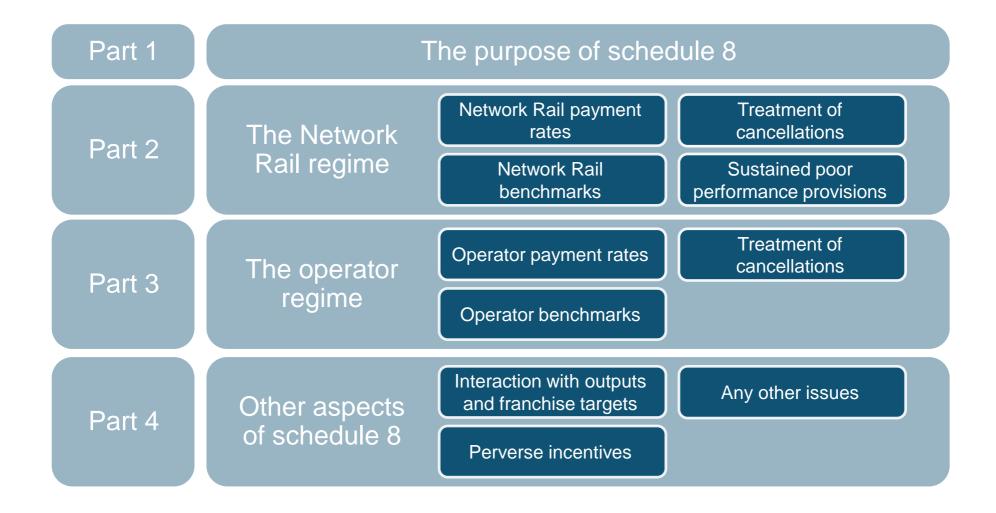
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#### Session purpose

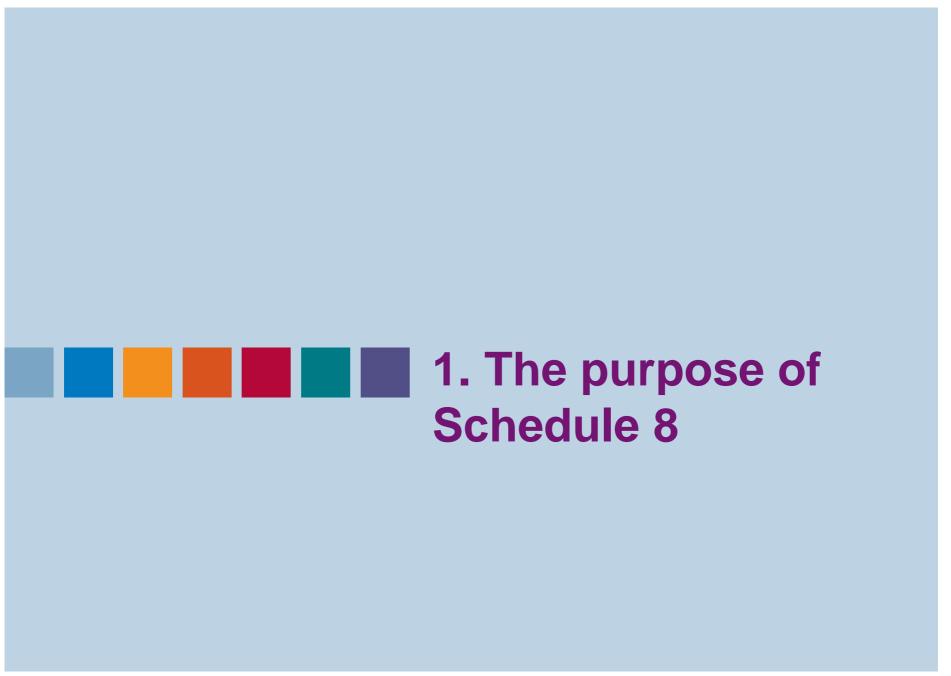
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#### Structure of the session





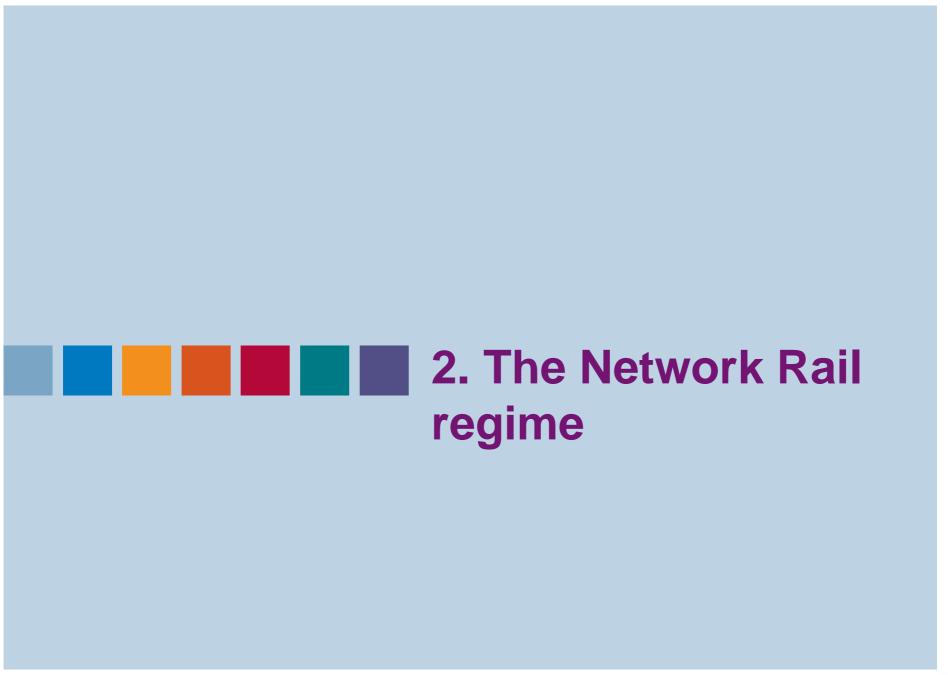




#### Schedule 8 is designed to:

- compensate train operators for the long-run revenue impact of unplanned service disruption attributable to Network Rail and other train operators
- help align incentives between Network Rail and train operators, so the impact of service disruption on revenue and/ or costs is incurred by the organisation that causes the disruption, rather than the train operator that faces it
- provide appropriate signals so as to drive decision-making in relation to performance management







#### The Network Rail regime

- Network Rail payment rates
- Network Rail benchmarks
- The treatment of cancellations within the Network Rail regime
- Sustained Poor Performance provisions



#### **Network Rail payment rates**

- The Network Rail payment rates are calculated at a service group level and are intended to reflect long-run revenue losses arising from poor performance
- They are informed by PDFH estimates of the impact of changes in journey time on passenger demand
  - The calculation methodology assumes that the long-run revenue impact of changes in lateness is a multiple of the long-run revenue impact of changes in Generalised Journey Time (the multiple accounts for the unplanned nature of lateness)



#### **Network Rail benchmarks**

- The Network Rail benchmarks are calculated at a service group level by averaging performance over the re-calibration period. A performance improvement trajectory is applied to the benchmarks to align with the delivery of the regulated outputs on performance
- Performance is measured in terms of Average Minutes Late (AML) which is a passenger weighted measure of lateness



# The treatment of cancellations in the Network Rail regime

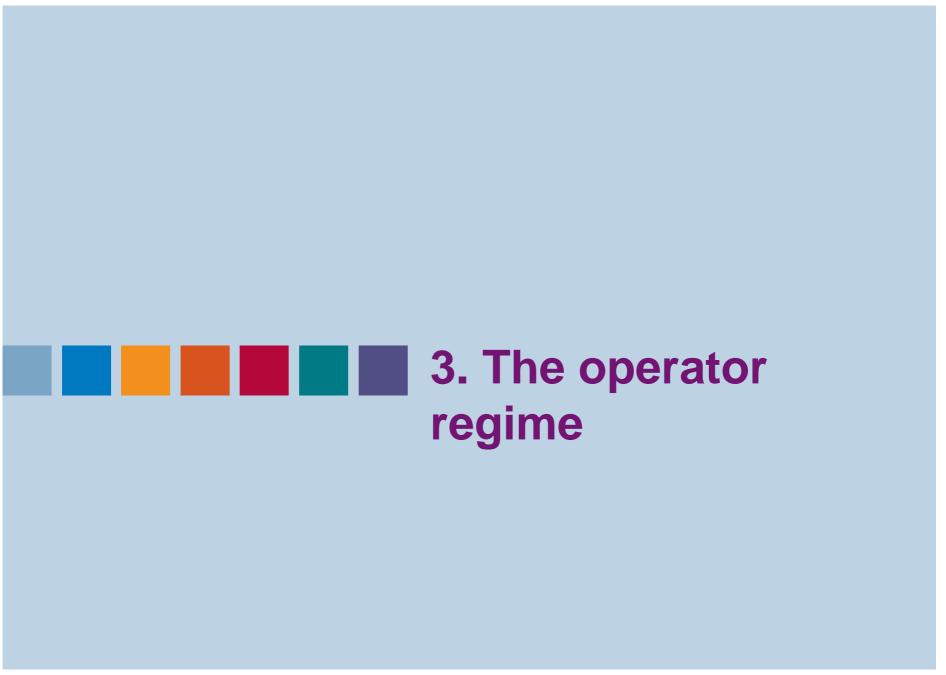
- For each service group, a cancellation is taken to be worth a specified number of "Cancellation minutes".
- The number of cancellation minutes that a cancellation is worth for a particular service group is a function of the delay multiplier and the service interval for that service group
- Cancellation minutes are used to convert individual cancellations into "Deemed Minutes Late" so they can be incorporated into Network Rail's outturn performance against its benchmark



## Sustained poor performance provisions

■ If Network Rail's performance is more than 10% worse than benchmark then operators can claim for Relevant Losses in excess of those already compensated for by the formulaic regime







#### The operator regime

Operator payment rates and the star model

Operator benchmarks

■ The treatment of cancellations within the operator regime



#### Operator payment rates and the star model

- Passenger operator payment rates are calculated at a service group level and they reflect the modelled financial impact of delays and cancellations, caused by that service group, on other operators
  - The passenger operator payment rates are calculated for each service group by modelling the impact of that service group's performance on other service groups. Those impacts are then combined with the Network Rail payment rates for each of the impacted service groups, to give the modelled total financial impact of lateness caused by that service group. The modelled financial impact per minute of lateness caused by a given service group is the operator payment rate for that service group.
- This apportioning of delay and lateness, to arrive at the operator payment rates, and Network Rail's role as a "clearing house" in receiving and paying out payments in relation to the operator regime, is know as the "star model"



#### **Operator benchmarks**

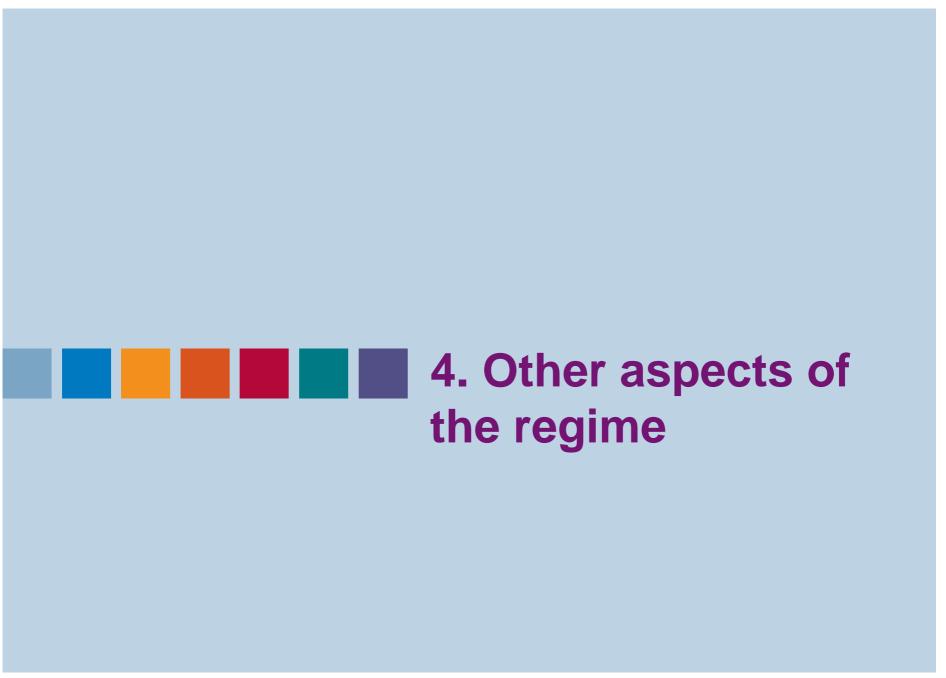
Operator benchmarks are set on the basis of average performance in the re-calibration period. They are set on the basis of delays the operator causes to itself



# The treatment of cancellations in the operator regime

- When an operator cancels one of its own trains, that cancellation is converted into a number of "Deemed Minutes Late" so that it can be incorporated into the operator's performance against its benchmark.
- This calculation is done on the same basis as in the Network Rail regime by taking each cancellation to be equivalent to the "Cancellation Minutes" specified for that service group.







#### Other aspects of the regime

- The interaction with regulated outputs and franchise targets
  - Network Rail is financed for Schedule 8 on the assumption that it performs at benchmark
  - Network Rail also has performance targets set by ORR and Government.
  - Franchised operators have separate performance requirements set by their relevant franchise authorities

#### Perverse incentives

 Stakeholders may want to comment on any perverse incentives and unintended consequences of the regime (together with any evidence that you are able to provide)

#### Any other issues

 This is an opportunity to discuss anything that doesn't easily fall into the categories already considered







#### Next steps

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