

Will Holman
Head of Incentives and Reform



Members of the Schedules 4 and 8 Freight and Charter Recalibration Working Group

7 March 2023

Dear all,

Methodology and assumptions for PR23 recalibration of freight and charter Schedule 8 regimes

Network Rail is leading on the recalibration of the freight and charter Schedule 8 regimes as part of PR23. At the recalibration working group meeting on 13 January 2023, we agreed to write to members of the recalibration working group to confirm methodology and assumptions for this recalibration. This letter therefore confirms key points of methodology before summarising assumptions in tables. A draft of the letter was made available to the working group for comment, and no disagreement was raised with its contents.

Network Rail now intends to contract consultants to carry out the recalibration work, which will begin in April 2023 and conclude in November 2023 following the publication of ORR's final determination. Network Rail will continue to update the recalibration working group on its progress as the work gets underway, and any unresolved methodology issues will be surfaced in the group.

Recalibration timeframe

We first confirm that the recalibration timeframe (the historical period from which data are taken to recalibrate the regimes) will be 2015-16 to 2019-20. This period has been agreed by members of the working group. It was favoured on the basis of it being a five-year period, which group members felt would help to smooth through volatility, and that avoids the disrupted data that resulted from the COVID-19 pandemic.

Adjusting benchmarks to reflect changes in traffic volumes

The recalibration working group has discussed different approaches for adjusting the FOC benchmark (and the Network Rail Charter benchmark) for changes in traffic volumes. The two broad options were: to maintain the CP6 approach of adjusting

benchmarks up front for expected changes in traffic volumes; or to revert to the CP5 approach of automatically adjusting benchmarks within the control period for changes to traffic volumes. In the absence of a consensus view, we were asked to provide a decision on which approach to follow.

Having considered the arguments, we favour maintaining the CP6 approach. This sets clear benchmarks in place that reflect expected changes in traffic, and avoids any see-sawing that might result from volatility in traffic. We also note that we will be concluding later this year on the option for a wider power to initiate mid-control period recalibration of Schedule 8, which could provide the flexibility to adjust the regime if there is a material change in circumstances. As agreed at the 1 March 2023 meeting of the recalibration working group, the existing congestion factor will be used in this approach, and for other parameters which require the use of a congestion factor.

Summary of approach to recalibration

In the 13 January 2023 working group meeting, Network Rail presented its ‘proposed recalibration approach’ for the regimes. This included summary tables for the proposed recalibration approach for parameters in each of the freight Schedule 8, freight Schedule 4 and charter Schedule 8 regimes. On most parameters there was no disagreement registered with the proposal, so the tables confirm the approach. There was though unresolved discussion on the cancellation threshold, which we will decide and communicate on separately.

Freight Schedule 8

Parameter	Agreed approach	Note
Network Rail Payment Rate	Uplift for inflation	1
FOC Payment Rate	Consultants to recalibrate	
Network Rail Benchmark	Consultants to recalibrate, consistent with NR’s FCaL trajectory	
FOC Benchmark	NR to recalibrate	
Cancellation threshold	<i>Methodology to be determined</i>	2
Cancellation Sum – below threshold	Uplift for inflation	
Cancellation Sum – above threshold	Uplift for inflation	
Prolonged Disruption Amount	Intending to remove this provision, and therefore not to recalibrate	3
Disruption Sum	Uplift for inflation	

Parameter	Agreed approach	Note
Incident caps exposure levels (0% or 30%)	Intending to retain the 0% exposure level but remove the 30% exposure level	4
ICACS	NR to recalibrate, based on over-cap delays, adjusted for expected CP7 traffic levels and a 10% risk premium	
Annual Caps – for operators with 5% market share or more	To be agreed bilaterally	
Annual Caps – for operators with less than 5% market share	Uplift for inflation, adjusted for traffic growth	

Freight Schedule 4

Parameter	Agreed approach	Note
Service Variation Sum	Uplift for inflation	
Late Notice Cancellation Sum	Uplift for inflation	
Normal Planned Disruption Sum	Uplift for inflation	
Enhanced Planned Disruption Sum	Uplift for inflation	

Charter Schedule 8

Parameter	Agreed approach	Note
Network Rail Payment Rate	Uplift for inflation	
Charter Operator Payment Rate	Consultants to recalibrate	
Network Rail Benchmark	NR to recalibrate	
Charter Operator Benchmark	NR to recalibrate	
Joint Cancellation Sum	Uplift for inflation	
Network Rail Cancellation Sum	Uplift for inflation	
Charter Service Variation Sum	Uplift for inflation	
Third Party User Cancellation Minutes	No change	
Incident caps exposure levels (0% or 30%)	Intending to retain the 0% exposure level but remove the 30% exposure level	4

Parameter	Agreed approach	Note
ICACS	NR to recalibrate, based on over-cap delays, adjusted for expected CP7 traffic levels and a 10% risk premium	
Annual Caps	Uplift for inflation, adjusted for traffic growth	

Notes

1. We decided in our [October 2022 Schedule 8 conclusions](#) (paragraphs B.50-B.51) that the respective Network Rail Payment Rates for freight and charter operators would not be subject to a full recalibration using new evidence. Instead the existing rates will be uplifted for inflation.
2. There has been debate within the recalibration working group on the calibration of the cancellation threshold. The group is considering options for this, including whether the threshold should reflect forward-looking information on expected cancellation levels. This matter will be decided and communicated on following further discussion within the group.
3. Network Rail has told us that the prolonged disruption amount (which is an input to the prolonged disruption sum) has not been used for the past nine years. It says that, when a prolonged track closure takes place, with no alternative route available, it now issues a restriction of use and provides short notice possession compensation under Schedule 4. As such, the prolonged disruption provision is no longer used, and the intention is not to recalibrate the prolonged disruption amount in PR23.
4. It was noted at the working group meeting on 13 January 2023 that the option of an alternative incident cap, with a 30% exposure level for delay minutes beyond the cap, has not been taken up by any operator in CP6. The group agreed that, for the benefit of simplifying the regime and its calibration, the cap with a 30% exposure option will not be included in CP7. The only option will therefore be the cap above which operators have 0% exposure.

Yours sincerely,

Will Holman