RDG PR18 System Operator working group

Note of meeting held on 23 June 2016 at RDG's offices

Attendees: Garry White, Chair (Network Rail), Peter Graham (Freightliner), Nigel Jones (DB Cargo), Richard McClean (Arriva), Graeme Hampshire (Stagecoach), Andie Wylie (First Group), Joanna Walker (Abellio), Martin Baynham-Knight (Keolis), Guy Woodroffe (RSSB), Matthew Lutz (Network Rail) (by phone), Chris Hemsley (ORR), Siobhán Carty (ORR), Raminta Brazinskaite (ORR-note taker)

Apologies/not present: Jonathan Pugh (Network Rail), Chris Peaker (Go Ahead), Roger Cobbe (Arriva), Tom Norris (Abellio)

Introduction

1. This note summarises the main points of discussion at the meeting. It is not intended to represent the position of RDG or other attendees of the working group. Its purpose is to record key points to inform ORR's policy development and to provide transparency to interested stakeholders not present at the meeting.

2. The focus of the meeting was to discuss ORR's initial ideas for the regulatory framework for the system operator (SO), as set out in its June 2016 working paper 3.

3. ORR began the meeting by summarising its work to date on this topic and explaining its next steps (i.e. a consultation in November 2016 that sets out firm proposals). ORR then outlined the main aspects of its proposals (namely, the approach to the regulation of the SO functions; the design of possible outputs; the treatment of SO costs; and the approach to monitoring of and enforcement against the SO), pausing for discussion after each aspect to allow for discussion among the group.

4. The group agreed that its focus should be to help narrow down options on the regulatory framework for the system operator. This is to ensure that there are firm proposals put on the table on how to support and regulate the system operator function.

General points and actions from the last meeting

5. The group was content about the contents of the summary note of the first meeting of this group (on 26 May 2016), though Garry White invited the members to provide any final comments on it in the coming days. [No further comments were received.]

6. It was noted that Jonathan Pugh would cover the Scottish perspective at these meetings (where he attends) and feedback to Transport Scotland as necessary.

7. ORR agreed to share with Garry White a DfT contact that oversees the system operation project from the perspective of the department.

8. It was agreed that the group would continue to provide input to this project after it has submitted its response to the PR18 Initial Consultation Document and the working papers. ORR offered to provide some proposed dates that would work well for its timing.

9. It was stressed that the group (and ORR) should avoid using the term 'the central system operator' and instead should refer to the functions as 'the national system operator'. It was suggested that this better reflects that function's coordinating role with the routes.

10. It was noted that it is important to define the boundary of responsibility between the national system operator and the routes, and the role of Rail Operating Centres (ROCs), which some routes share, could blur the boundaries between the routes. Similarly, it was suggested that we need to consider the scenario in which the routes and the system operator disagree on an appropriate course of action.

Approach to the regulation of the system operator functions

11. Members of the group raised the following points with regards to the high-level regulatory framework for the system operator:

- The regulatory framework for the system operator should not preclude Network Rail from moving its functions to the routes. This would mean that there would need to be a regulatory process for managing a change(s).

- There is a clear set of the system operation functions that Network Rail is responsible for. The focus of PR18 should be to improve the functioning of these functions. Functions that sit outside the control of Network Rail should not be ignored, but any issues associated with them would need to be addressed through other channels and (possibly) through longer timescales (i.e. not PR18).

- There is a question about safety and standard setting and how these functions relate to the system operator. One member of the group said that these functions currently sit with the technical authority, which is separate to the system operator function. However, the system operator uses them as an input to its activities.

- In order to have a more focused approach to the regulation of the system operator functions, there needs to be a good understanding of which functions Network Rail (as the system operator) is responsible and accountable for.

- The definition of the network is very important for capacity planning and allocation. It was necessary to understand if this takes account of aspects such as the geographical limitations of Network Rail's network and/or stations and depots, which are fundamental to how capacity is used on the network, as well as in accommodating additional infrastructure. It was suggested that HS2 is a good example of where other factors need to be considered such as Euston platform capacity to fully realise additional capacity to be delivered by this project.

- For the long-term planning process, the definition of the network needs to be broader. It needs to be based on the wider industry view. From Network Rail's perspective, there are limitations to the extent Network Rail can help determine the strategic development of the network.

- Currently, the Network Statement defines Network Rail's infrastructure and its connectivity facilities, but it is not delivered by the system operator team(s). This belongs to another Network Rail team.

The design of a system operator settlement: outputs

12. The group raised the following points with regards to the possible regulatory outputs for the system operator:

- The system operator's outputs could focus only on national performance or could be more granular, for example only capturing freight, cross-country and inter-route services/inter-city routes.

- Industry needs to improve its understanding of capacity (i.e. what spare capacity is available on the network and what is the quality of that capacity). This information would also help to drive investment decisions where they are needed the most. Some operators discussed the possible analogies with their approach of using train utilisation.

- ORR has commissioned some work to look at ways to measure rail capacity, which it expects to publish this autumn. It was noted that it would be good if this work could develop some capacity-related metrics that indicate the relative performance (i.e. capacity-related) of the system operator.

- In CP1, the industry lost its ability to negotiate extra trains because of schedules 4 and 8. This resulted in risk-averse behaviour of adding extra trains to the network. As passenger numbers increased, this also led to other perverse behaviour, such as increasing dwell times.

- There are some measures that are influenced by both the performance of the system operator and the infrastructure/route manager. For example, delay could be caused by a poor quality of the timetable for which the system operator is responsible; or it could be caused by poor operation on the day for which routes are responsible. This distinction would need to be captured in any regulatory output.

- The current volume incentive is not sufficiently effective to accommodate industry's growth. Its effectiveness is also impacted by the industry's limited knowledge about spare capacity on the network.

- It was suggested that PR18 should particularly focus on the network capacity and Network Rail's capability. For example, to improve the train planning rules (TPRs), network data and the quality of the timetables that are being produced. These have a knock on impact on train operators, e.g. as to how many train planners they need to have. One operator cited as an example that it had to hire additional train planners because services/capacity were not allocated effectively in the first place.

- Possession planning needs to be improved and this could be picked up by the system operator.

- It is for the system operator to provide information that allows train operators to explore their commercial opportunities.

The design of a system operator settlement: revenue requirements and incentives

13. The group discussed the following points in relation to revenue requirements and incentives:

- Network Rail's efficiency has been declining. Incentives need to be improved in terms of how Network Rail manages its expenditure. This includes ensuring that Network Rail takes cost-effective decisions, including decisions on capital expenditure.

- For transparency reasons, it is important to understand the costs of the system operator. This would also help to better demonstrate the 'value added' by the system operator. However, it was suggested that a lot of time should not be spent on trying to estimate efficient expenditure / the RAB of the system operator as its costs are relatively low compared with other components of the Network Rail expenditure.

- It is important to ensure that the system operator activities are protected in terms of the funding allocated to it. This is to avoid situations where funding from the system operator is moved to other business units (e.g. routes) to

cover other priorities, Where funding is moved, this may need a clear explanation or rationale for it and could be captured through the regulatory reporting framework.

- There are a number of different ways the system operator could be funded. It was suggested that the approach of being funded through the routes (instead of having separate specific funding) could incentivise the system operator's commercial behaviour and reflect the fact that the system operator is a service provider to the routes. However, the routes are not the only customer of the system operator; for example, in terms of the timetable production, TOCs interact and use the services provided by the system operator. As such, TOCs could potentially play a role in funding the system operator directly, though it was noted that their ability to improve the service they received was limited.

The design of a system operator settlement: monitoring and enforcement

14. On monitoring and enforcement, it was suggested that there needs to be a mechanism to solve any disputes between the system operator and the routes, as well as for the routes to challenge the system operator.

Future meetings

15. The question was raised about 'franchise specification' and why ORR has allocated this activity to system operation in its working paper 2 and conclusions note to the August 2015 consultation. It was agreed that this will be picked up at the next meeting.

16. The next meeting is on 7 July 2016. The purpose of that meeting is to discuss Working Paper 2 on system operation issues and opportunities.