

Deren Olgun
Principal Economist

09 March 2018

Dear stakeholders,

Final Decision: Proposal to remove the annual adjustment to the freight and charter operator Schedule 8 benchmarks

1. In November 2017 we sent a letter to industry (available [here](#)) setting out our proposal to remove the annual adjustment to freight and charter operator benchmarks. We recommended removing the adjustment on the basis that it would both simplify the regime and improve the signals to operators about the impact of the delay they cause.
2. In that letter, we invited stakeholders to contact us if they believed that there were any issues relating to this decision that we had not already considered.
3. We have now reviewed the responses we received to the letter. We note that operators have concerns with this proposal, and we address those below. However, the responses to our proposal did not highlight any issues that we had not previously considered. As a result, this letter confirms our decision to remove the annual adjustment to the freight and charter operator Schedule 8 benchmarks for CP6.

Operators' concerns

4. Freight and charter operators expressed concerns about the impact that removing the adjustment would have on their Schedule 8 payments given the expected growth in traffic on the network. In particular, if freight and charter operator benchmarks for CP6 are set on the basis of past performance, then removing the annual adjustment will result in operators, on expectation, making Schedule 8 payments in CP6.
5. Operators further argued that removing the adjustment was inconsistent with the approach for setting Network Rail's benchmark in the freight Schedule 8 regime, since the Network Rail benchmark in the freight Schedule 8 regime (being based on Network Rail's regulated performance target) will account for the expected increase in traffic in CP6.

ORR Response

6. While we recognise operators' concerns, we think that they would be better addressed by revisiting the approach to recalibrating the freight operator benchmark, rather than retaining the annual adjustment to the benchmark.
7. Schedule 8 benchmarks should reflect expected performance (thereby ensuring that expected Schedule 8 payments are zero for both Network Rail and operators). This is a position we have made clear in meetings of the Schedule 8 Recalibration Working Group.
8. In June 2017, we concluded that the freight and charter operator benchmark should continue to be based on operators' past performance. We arrived at this conclusion on the assumption that this would provide a reasonable estimate of operators' expected performance in CP6 (and would provide operators with an ongoing incentive to improve their performance).
9. However, if operators consider that the expected increase in traffic means that their performance in CP5 does not reflect their expected performance in CP6, they should consider developing an approach to recalibrating the benchmarks that would account for the expected impact of traffic growth on performance.
10. Consistent with the re-calibration of all other aspects of Schedule 8, we would have to approve any proposed approach to recalibrating freight operator benchmarks.

ORR decision

11. The responses to our proposal did not include any arguments or issues that we had not already considered. As a result, this letter confirms that the freight and charter operator Schedule 8 benchmarks in CP6 should not include an annual adjustment to account for changes in traffic on the network.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Deren Olgun', is written over a light blue circular stamp.

Deren Olgun