



Freight operator Schedule 4

PR18 Stakeholder event
27th 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
Part 2	Category 1 and 2 possessions
Part 3	Category 3 possessions
Part 4	Other aspects of Schedule 4



1. The purpose of Schedule 4

Schedule 4 is designed to

- compensate train operators for 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



2. Category 1 and 2 possessions

Compensation

■ How it is calculated?

- The Schedule 4 freight regime provides only cost compensation
- Three levels of compensation depending on the notification and degree of disruption and higher payments made for late notice possessions

Possessions notified <u>before</u> 12 weeks before the date the service is planned to depart from its origin	Possessions notified <u>after</u> 12 weeks before the date the service is planned to depart from its origin
Category 1 compensation £300 per service	Service variation £596 per service
Category 2 compensation £800 per service	Late notice (service is cancelled) £1,566 per service

2012/13 prices

Category 1

Possessions notified <u>before</u> 12 weeks before the date the service is planned to depart from its origin	Possessions notified <u>after</u> 12 weeks before the date the service is planned to depart from its origin
<p>Category 1 compensation - £300 per service</p> <ul style="list-style-type: none"> <input type="checkbox"/> Additional end to end journey distance greater than 10 miles <input type="checkbox"/> Planned departure time from Origin differs by more than 60 minutes <input type="checkbox"/> Planned arrival time at Destination differs by more than 60 minutes <input type="checkbox"/> More demanding length or weight restrictions imposed 	<p>Service variation - £596 per service</p> <ul style="list-style-type: none"> <input type="checkbox"/> Additional end to end journey distance is greater than five miles <input type="checkbox"/> The addition of at least one Planned reversing movement <input type="checkbox"/> More demanding length, weight or gauge restrictions imposed <input type="checkbox"/> The use of at least one additional locomotive <input type="checkbox"/> The use of diesel instead of an electric locomotive is required <input type="checkbox"/> Planned departure time from Origin differs by more than 30 minutes <input type="checkbox"/> Planned arrival time at Destination differs by more than 30 minutes <input type="checkbox"/> The service is treated as a train operator variation request

Category 2

<p>Possessions notified <u>before</u> 12 weeks before the date the service is planned to depart from its origin</p>	<p>Possessions notified <u>after</u> 12 weeks before the date the service is planned to depart from its origin</p>
<p>Category 2 compensation - £800 per service</p> <ul style="list-style-type: none"> <input type="checkbox"/> The affected service is cancelled <input type="checkbox"/> More demanding gauge restrictions <input type="checkbox"/> The use of at least one additional locomotive is required <input type="checkbox"/> The use of a diesel locomotive as a substitute for an electric locomotive is required 	<p>Late Notice - £1,566 per service</p> <ul style="list-style-type: none"> <input type="checkbox"/> The service is cancelled



3. Category 3 possessions

Category 3

- Category 3 - possibility of actual costs/losses in addition to liquidated damages
 - Access from Origin or to Destination is blocked (including where a suitable gauge cleared route is not available for longer than 60 hours)
 - Any of the freight conveyed on the service has to be transported by other means
 - The use of at least one additional locomotive is required
 - The use of a diesel locomotive as a substitute for an electric locomotive is required



4. Other aspects of the regime

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

Next steps

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



Freight and charter operator Schedule 8

PR18 Stakeholder event
November 2015

Session purpose

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- Discuss the purpose of the regime
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Structure of the session

Part 1	The purpose of schedule 8		
Part 2	The Network Rail regime	Network Rail payment rates	Treatment of cancellations
		Network Rail benchmarks	
Part 3	The operator regime	Operator payment rates	
		Operator benchmarks	
Part 4	Other aspects of schedule 8	Liability caps	Perverse incentives
		Interaction with outputs and franchise targets	Any other issues



1. The purpose of Schedule 8

Schedule 8 is designed to:

- compensate operators for the financial 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



2. The Network Rail regime

The Network Rail regime

- Network Rail payment rates
- Network Rail benchmarks
- The treatment of cancellations within the Network Rail regime

Network Rail payment rates

- Network Rail payment rates are the same for all freight operators and services.
- Similarly, they are the same for all charter operators and services.
- They are intended to reflect the financial impact of delay.

Network Rail benchmarks

- The Network Rail benchmark is the same for all freight operators and services. It is based on Network Rail's delay minute target for the control period, adjusted to account for Network Rail attributable delay minutes that aren't captured in the Train Running Systems TOPS (TRUST).
- The Network Rail benchmark is also the same for all charter operators and services. It is calculated on the basis of average historical performance.

The treatment of cancellations in the Network Rail regime

- For freight operators, Network Rail makes compensation payments for each cancellation it makes.
- If the rate of cancellations of freight operator services exceeds the “cancellation threshold” then compensation is paid at a higher rate.
- The cancellation threshold is based on the historic “normal” rate of cancellations. For CP5 this was set at 0.41% of scheduled services.
- Similarly, Network Rail compensates charter operators for cancellations.



3. The operator regime

The operator regime

- Operator payment rates
- Operator benchmark

Operator payment rates and the star model

- Freight and charter operator payment rates are the same across all freight and charter operators and services.
- They are calculated by taking the Network Rail payment rates (for passenger operators) and weighting them by the amount of third party freight operator delay affecting each service group.

Operator benchmarks

- Freight and charter operator benchmarks are calculated at the beginning of the control period on the basis of average historic performance.
- They are adjusted over the control period to reflect changes in traffic on the network.



4. Other aspects of schedule 8

Other aspects of the regime

- Liability caps
- The interaction with regulated outputs and franchise targets
- Perverse incentives
- Any other issues

Liability caps

- The regime has a number of liability caps including incident liability caps and annual liability caps for freight operators.
- Both freight operators and, separately, charter operators may choose to select from a menu of options to pay an access charge supplement for a cap on the amount they are required to pay in relation to a single incident.
- The incident caps available to freight operators range from 1,000 to 10,000 minutes per incident. The access charge supplement they must pay is £0.1041 per mile for the minimum cap and £0.0007 per mile for the maximum cap.
- For charter operators the incident caps available range from 93 to 5,000 minutes per incident and the access charge supplement they must pay for these caps range from £1.30 per mile to £0.14 per mile.
- There are reciprocal caps on the maximum annual Schedule 8 liability freight operators and Network Rail can face in relation to a particular track access contract. These are usually agreed by Network Rail and freight operators, and approved by us.

Other aspects of the regime

■ Interaction with outputs/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, e.g. the Freight Delivery Metric.

■ Perverse incentives and unintended consequences

- 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).

■ Other aspects of the regime

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



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