

RDG PR18 Route-level regulation, Charges & Incentives and Outputs Framework working group

Note of meeting held on 13 December 2017 at ORR's offices

Attendees: Phillippa Andell (Network Rail), Lynn Armstrong (ORR- item 6), Toby Patrick Bailey (Network Rail), Alexandra Bobocica (ORR- item 1 to 5), Dan Boyde (NTF), Emily Bulman (ORR- item 6 to 8), Chris Clarke (Transport Scotland), Guy Dangerfield (Transport Focus), Bill Davidson (RDG- Chair), Lindsay Durham (Freightliner), Russell Evans (First Group), Stuart Freer (Southeastern), Yasmine Ghozzi (ORR), Nicholas Hall (ORR- item 4 and 8), Chris Hemsley (ORR- item 1 to 4), Carl Kent (GBRf), Calvin Lloyd (Network Rail), Lanita Massi (East Midlands Trains), Richard McClean (Arriva), Samantha McClelland Hodgson (ORR- item 8), Dan Moore (DfT), Steve Price (RDG), Caitlin Scarlett (Network Rail), Peter Swatridge (Network Rail), John Thomas (RDG) and Tom Wood (RDG).

Agenda Item	Lead
1. Update on Volume incentive working paper 6	ORR
2. Update on working paper 7 on aligning incentives and collaborative working	ORR
3. Presentation on the DfT strategic vision	DfT
4. Update on responses to the infrastructure cost charges (ICCs) consultation and the MCB test	ORR
5. Discussion of FOC concerns about publication of draft price lists in April 2018	All
6. Presentation on the performance measures to be included in CP6	Transport Focus
7. Transport select committee inquiry	RDG
8. Update on the Overall PR18 policy framework	ORR

General update

1. ORR gave an update on the high-level timetable for PR18 and upcoming publications:

- a. by 19 December 2017, ORR will publish a consultation on Schedule 4, setting out the implications of its research into passenger awareness of disruption, and proposals for reviewing notification discount factors in Schedule 4 of the franchised passenger operator's contracts;
 - b. on 14 December 2017, ORR will publish a letter to Industry on the financial framework. The letter will set out ORR's views on high-level strategic issues, and proposals on the approach to determining the revenue requirement for each of Network Rail's routes, and for the System Operator (SO) for each year of CP6. The letter will explain significant issues resulting from Network Rail's reclassification as a public sector arm's length body at the start of CP5; and
 - c. in January 2018, ORR will publish its conclusion document on the overall framework for PR18.
2. ORR received Network Rail's December 2017 strategic business plan submission, including its strategic plans for each route and for the SO. As part of ORR's assessment of the business plans, it is expecting the routes and the SO to demonstrate that they have understood their stakeholders' priorities and have considered these in their plans. Where they do not plan to address a stakeholder priority, ORR expects Network Rail to explain why. ORR will commission consultants to seek stakeholders' views on how they found each of the route/the SO's engagement, to get their understanding of engagement.

ORR update on Volume Incentive working paper 6

3. ORR provided an update on its working paper 6 (on the volume incentive), published on 30 November. The paper considered the option of removing the financial payment element of the volume incentive, while continuing to record volume growth relative to a baseline in CP6.

ORR update on its working paper 7 on aligning incentives and collaborative working

4. ORR provided an update on its working paper 7 (on aligning incentives and collaborative working), published on 30 November. ORR highlighted that stakeholders did not consider REBS has been effective in driving the desired behaviors in CP5. The focus of the paper is on collaboration between operators and Network Rail routes, and understanding the type of cost efficiency that could result from collaboration. The paper considers the merits of moving away from a 'one size fits all' REBS-style approach to a more flexible and bespoke approach to collaboration, making more use of mechanisms developed and led by industry.

Presentation on the Department of Transport (DfT) Strategic Vision

5. DfT gave an overview of its strategic vision document published 29 November, which outlines how the structure of the rail industry has been evolving in recent years, as well as growth in infrastructure, and steps DfT is taking to deliver

passenger objectives. It highlighted that there were a number of detailed points in the strategy, but discussed four key aspects of the strategy in more detail:

- a. the creation of joint Network Rail and train operator teams running both track and train operations under an alliance structure. This relates to ORR's recent working paper on aligning incentives and collaborative working,
 - b. re-opening closed lines and opening new routes to support housing growth and development policy,
 - c. improving customer experience and passenger service through the roll out of smart ticketing and a review of rail ticketing; and
 - d. improving skills and encouraging diversity and training and development in the rail workforce as well as working towards a more productive and innovative rail sector.
6. The group discussed setting up a working group encompassing representatives from RDG, train and freight operators, representative bodies and DfT to discuss the details of DfT Strategic Vision.

Update on responses to the infrastructure cost charges (ICCs) consultation and the MCB test

7. ORR provided a high-level update on the infrastructure cost charges (ICCs) consultation responses –ORR had received 24 responses to date (with potentially more to come).
8. ORR highlighted that one of the issues respondents had raised is around the potential implications of ORR's ICC proposals on access policy in CP6. Some respondents argued that there is currently uncertainty around how ORR's access policy might change, and this is making it difficult to comment on its charging proposals.
9. ORR explained that given the emerging findings of the passenger market can bear analysis, and lack of progress, to date, on DfT's public service obligation (PSO) levy proposals, it would appear at this stage that the charging reforms would only support very limited changes to access policy and do not support the removal of not primarily abstractive test (NPA).
10. DfT said that it would conclude on its PSO levy consultation early next year.

Discussion of FOC concerns about publication of draft price lists in April 2018

11. Freight operators expressed concerns about Network Rail publication of draft price lists in April 2018. These price lists would not reflect capping decisions by ORR (in relation to the variable usage charge VUC), or any efficiency assumptions relating to Network Rail's operating maintenance and renewals (OMR) costs (which would be set out in the draft determination). Freight operators were concerned that the publication of the draft price lists will cause uncertainty and concern customers.

12. Freight operators queried whether the draft price lists could be published alongside the draft determination in June 2018.
13. Network Rail highlighted that the publication of draft price lists that late in the process would reduce opportunities for stakeholders to review the rates, provide feedback and identify any issues.
14. ORR and Network Rail both emphasized the benefits of publishing these price lists early in terms of transparency and stakeholder opportunities to engage. They also emphasized that the publication should be transparent (rather than just sharing price lists with operators).
15. Freight operators acknowledged that it would be useful to understand changes resulting from the removal of caps put in place in PR13, and Network Rail confirmed that this would be included in the proposed draft price lists in April 2017.
16. The group discussed how caveats could be included alongside the price lists, to clarify to customers how changes resulting from ORR's draft determination could change the prices included on these price lists (to give them certainty), while still allowing industry to have early sight of the price lists.

Presentation on the performance measures to be included on CP6

17. Transport Focus presented slides on passenger priorities and its views on the performance measures to be included on CP6 scorecards. It highlighted the strong correlation between punctuality and level of passenger satisfaction. It proposed to have the 'right time, all stations' metric on all route scorecards (along with other metrics); the metric should be used as a consistent measure of performance in all scorecards. It expressed its concern that without on time on scorecards, this would not be sufficiently considered to be focused on passengers.
18. It was noted that National Task Force (NTF) supports a direction of travel to on time on scorecards, but that concerns has been raised about misaligned incentives between on time being on scorecards and franchise targets. DfT said it is reviewing all franchise agreements within two years and would make changes unless to do so would significantly affect customers/ passengers. DfT emphasized that it does not want franchise agreements to be a main constraint but it also needs to recognise practical issues around changing franchises.
19. More widely, it was suggested that Network Rail's routes had not engaged sufficiently with their stakeholders in developing their scorecards. Concerns were expressed over the range of different proposed scorecards (e.g. route scorecards, customer scorecards, comparability scorecards).

ACTION – RDG took an action to arrange a separate industry session on scorecards on 15 January for Network Rail to present the relationship between different scorecards, and what the structure would be on scorecards and performance measures. The

Final version

outcome of the session will be reported to the wider group including DfT and ORR. *Post meeting note – this discussion will now take place at NTF on 17 January.*

Transport select committee inquiry

20. RDG asked attendees to respond by correspondence to the draft industry for the transport select committee inquiry by Monday 18 December.

Update on the Overall PR18 policy framework

21. ORR presented slides on its latest thinking on the overall framework, as it relates to both managing change and to monitoring and enforcement. It was suggested that in addition to changes affecting routes and the SO, changes related to the technical authority at Network Rail may also be important to customers and should be included within the scope of the managing change framework. It was observed that the proposed 'East Coast partnership' would likely require significant use of the change control process.

Next meeting

The next scheduled meeting will be on 19 February 2018.