

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

Note of meeting held on 19 February 2018 at RDG's offices

Attendees: Phillippa Andell (Network Rail), Siobhan Carty (ORR), Gordon Cole (ORR, agenda item 2), Dan Boyde (NTF), Lindsay Durham (Freightliner), Russell Evans (First Group), Yasmine Ghozzi (ORR), Carl Hetherington (ORR, agenda item 2 and 3), Rebecca Holding (Abellio), Darren Horley (Virgin Trains), Richard McClean (Arriva), Mark Molyneux (RDG) Dan Moore (DfT), Nigel Oatway (DB Cargo), Deren Olgun (ORR, agenda item 6), Steve Price (RDG), Alan Smart (TfL), Peter Swatridge (Network Rail), John Thomas (RDG), Brian Tomlinson (Network Rail), Jenni Wilkes (Virgin Trains) and Tom Wood (RDG).

Item 1: Update on ORR conclusions regarding the Overall Framework for PR18

1. Siobhán Carty (ORR) gave an update on ORR's conclusions regarding the Overall Framework for regulating Network Rail in CP6, which was published in late January 2018.
2. Siobhán highlighted four particular areas that ORR was considering further, including with stakeholders:
 - a. ORR regulation of Network Rail's central functions. This would need to reflect and build on Network Rail's internal governance, in particular the relationship between the routes, the System Operator (SO) and other central functions (including Infrastructure Projects (IP) and Safety, Technical & Engineering (STE));
 - b. ORR's approach to monitoring and reporting on the routes'/the SO's performance over CP6. ORR will publish some further thinking in this area over late summer/early autumn 2018;
 - c. The role of Network Rail's licence in CP6; and
 - d. A process for managing change in CP6 regarding the routes'/the SO's settlement. ORR will publish a working paper that provides further detail on ORR's thinking for managing change in CP6 in March 2018.
3. Attendees discussed the importance of ensuring that industry had sufficient transparency of Network Rail's internal governance. They pointed to the FNPO route and the Network Rail property business unit as examples of where further clarity was required about relationships between Network Rail's different businesses. They suggested that Network Rail should present its thinking in this area at a future Working Group meeting.

- Attendees also discussed the scope of ORR's forthcoming working paper on change control, and its timings.

ACTION 1 – RDG/Network Rail to consider scope for forthcoming discussion on Network Rail's internal governance

Item 2: Update on ORR's consultation on its approach to assessing Network Rail's efficiency and financial performance in CP6

- Gordon Cole (ORR) provided an update on ORR's efficiency and financial performance publication, which was being consulted upon (until 14 March 2018). The consultation considered how ORR could improve its approach to assessing Network Rail's efficiency and financial performance in CP6. Gordon explained that ORR would like to put greater emphasis on reviewing and reporting on how routes have delivered efficiency improvements, as well as more assessment of unit costs, cost drivers and productivity measures over time and across routes.
- Attendees generally agreed that it was important to measure Network Rail's efficiency and wider financial performance over time in a richer way that focused on explaining the reasons for variances, instead of focusing on a single measure. This was because a single measure, may dilute the understanding of Network Rail routes' different activities and approaches, and could be meaningless.
- There was a question about how the SO's efficiency measure(s) could be designed to reflect its impact on customers.

Item 3: Update on the potential to change how access charges are indexed from RPI to CPI and what the implications would be for train operators.

- Carl Hetherington (ORR) provided an update on ORR's thinking about how the indexation of access charges could be changed from RPI to CPI for CP6. Carl explained that this would be presented as part of ORR's forthcoming 'minded-to' proposals on a number of financial issues for CP6. He stressed that ORR was particularly interested in 'real world' examples of the possible implications of such a move.
- An attendee queried the extent to which some access agreements, for example connection agreements, would be affected by a move from RPI to CPI indexation. Another attendee also highlighted that such a move could lead to a risk that Network Rail is under-funded for its activities over CP6, but Carl confirmed that was not the case.

Item 4: Network Rail's review of standards

- Brian Tomlinson (Safety, Technical & Engineering, Network Rail) presented Network Rail's work to review and update industry's technical standards, and to make them more transparent. The work aims to encourage the industry to challenge its standards and is looking at how it could incentivise the industry to identify where

standards are driving unnecessary cost and complexity. Network Rail aims to complete this process by March 2018.

11. Attendees expressed concern that operators were not engaged with as part of this exercise, despite many of the standards having performance and cost implications for operator (e.g. standards relating to rolling stock).
12. Attendees also expressed concern that some of the standards, including those affecting operators, are only available on subscription service.

ACTION 2 – Network Rail agreed to consider this issue and to return to the Working Group to update it on this work in a few months.

Item 5: ORR’s survey of stakeholders on their engagement on the Strategic Business Plans

13. Siobhán Carty (ORR) gave an update on ORR’s work to assess the quality of Network Rail routes’/the SO’s SBP stakeholder engagement. Siobhán explained that this would include a targeted survey of the routes’/the SO’s stakeholders to secure their views on the quality of the engagement. This was being undertaken by Steer Davies Gleave (SDG) on ORR’s behalf.
14. Attendees were generally supportive of ORR’s approach. They suggested that the Working Group attendees could be the main contact point/representatives for their organisations in the SDG surveys.
15. Attendees also discussed how this work would/could inform the CP6 approach. Siobhán explained that ORR wanted to do an annual assessment of the routes’/the SO’s engagement over CP6.
16. Siobhán also discussed ORR’s current consultation that invited stakeholders to provide views on its Network Rail’s SBPs, which closes on 6 March 2018.

Item 6: Recalibration of charges and incentives

17. Deren Olgun (ORR) set out the approach to the recalibration of charges and incentives for PR18. Attendees were generally supportive of the approach.
18. Some attendees asked if the contact information for the recalibration leads for each charge and incentive could be published. Deren agreed to investigate this possibility, but noted that it was subject to the agreement of the individuals involved.

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19. An attendee highlighted that there were a number of PR18 consultation/initiatives in progress, and requested that ORR set this out to the group.

ACTION 3 – ORR took an action to set out the timescales for ORR current and forthcoming consultations to the Working Group. This is provided below

Next meeting

The next scheduled meeting will be on 19 March and 16 April at 10:30am.

Action 3: ORR current and forthcoming consultations (as of late February 2018)

Policy-related consultations

Document	Publication	Closing date for comments
Invitation to comment on Network Rail's SBPs	13 February	6 March
Consultation on our approach for assessing Network Rail's efficiency and wider financial performance in CP6	31 January	14 March
Consultation on proposals for the PR18 financial framework (previously known as "minded to" decisions on financial framework, this includes RPI/CPI)	Early March	Likely to be four weeks
Working Paper on change control	March	4-6 weeks after publication
Draft determination	12 June	31 August

Implementation related consultations

Document	Publication	Closing date for comments
Letter seeking views on contingency arrangement in the event of a delay to periodic review implementation (arrangement as per PR08 and PR13)	March/April	TBC
Consultation on implementing PR18 (on contractual drafting)	Around 12 July	TBC
Consultation on changes to network licence	TBC – June or July	TBC