



Schedules 4 & 8 purpose and priorities for review

RDG PR18 meeting

27th June 2016

RDG PR18 meeting, 27th June

- ORR presented these slides for the RDG working group on route regulation, charges and incentives on 27th June 2016.
- At the meeting ORR sought RDG's views on policy priorities to inform the PR18 review of schedule 4 & 8.
- **These slides do not represent the final position of ORR.**

Introduction

- Thank you for your thoughtful responses to our stakeholder engagement and also RDG work on schedule 4 & 8 as part of its review of charges.
- This session is to discuss the PR18 review of schedules 4 & 8 and how your responses have informed our proposals for the areas to focus on.
- In particular, some issues were identified that would need substantive change to the existing regime in order to fix them. These are the areas that, we have marked as “Policy” in the slides that follow.
- The aim of today’s session is to spend some time discussing the following, for both schedule 4 & 8:

Which of the “Policy” areas should we focus on improving?

- We are keen to hear your views in order to shape this work and in light of our overall proposal for PR18 set out in our Initial Consultation Document.

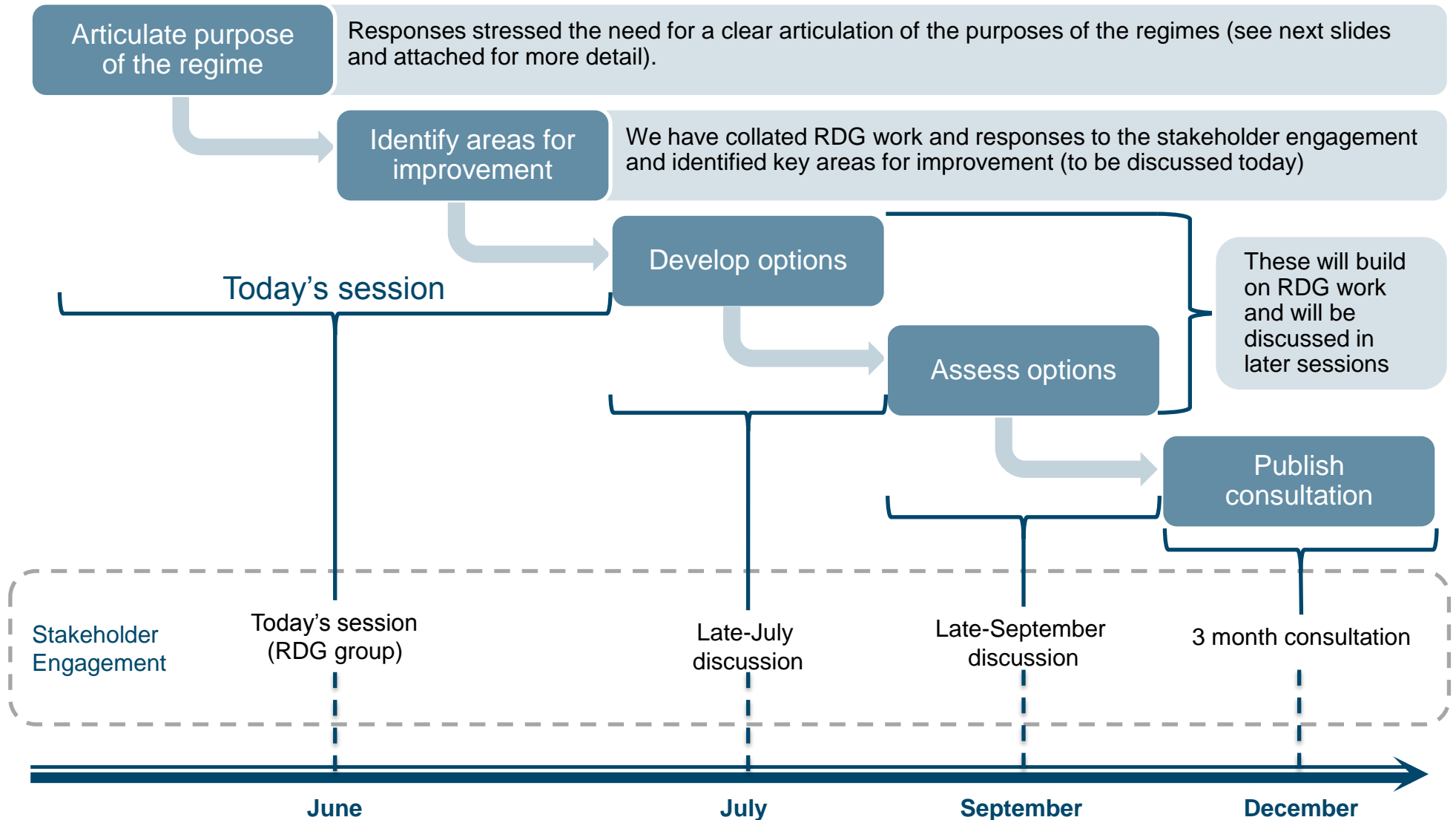
Agenda for the session

- Discuss the indicative plan for the review
- Set out the purpose of the regimes (at a high-level) and how this relates to delivering PR18 outcomes for the network
- Set out the areas for improvement from the regime (as identified from the consultation)
- Discussion of the “policy” areas



Plan for the review

Indicative plan for the review





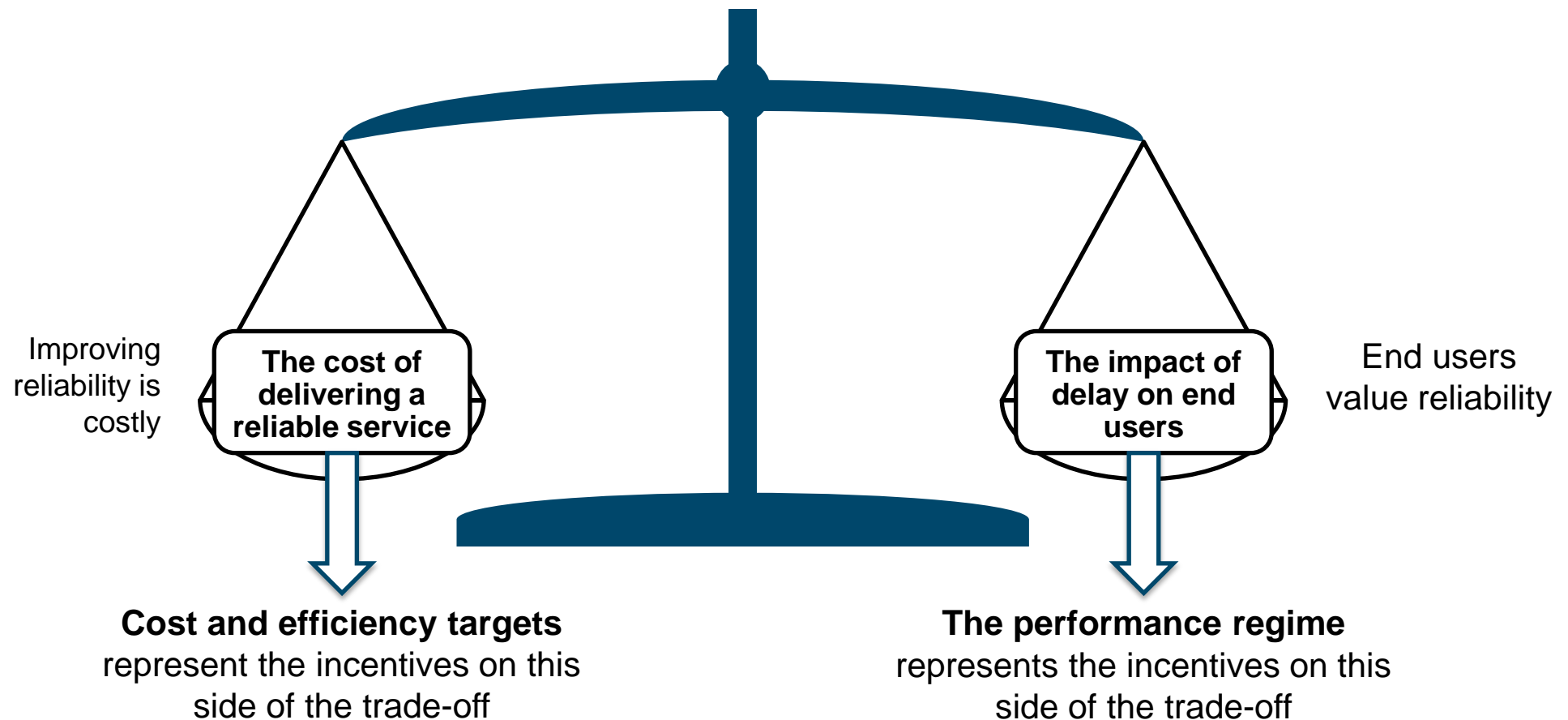
PR18 review of schedule 8



The purpose of the regime

Making the right trade-offs: reliability

- How much delay should we accept for any given service?
- Working out the right level of reliability that Network Rail should deliver means trade-off the cost of improving reliability against the impact that a less reliable service would have on end users.



What is the purpose of schedule 8?

What is the outcome we want from PR18?

PR18 Outcome

A network that is...

Reliable

Taking effective decisions to limit delays and cancellations, and their impact on users.

What tools do we have to promote this outcome?

Regulatory tools

The performance regime

Schedule 8

Regulated outputs

In CP6?

System operator incentives

Franchise obligations

Outside of PR18 review

How does schedule 8 (as one of those tools) promote this outcome?

Purpose of schedule 8

Schedule 8 has three main functions

Operator neutrality scheme

Holding operators appropriately neutral to the financial impacts of changes in performance

Network Rail incentive scheme

Incentivising Network Rail to improve performance

Operator incentive scheme

Incentivising operators to limit the delay they cause to other operators

The PR18 review of schedule 8 will seek to improve the regime against all of these functions



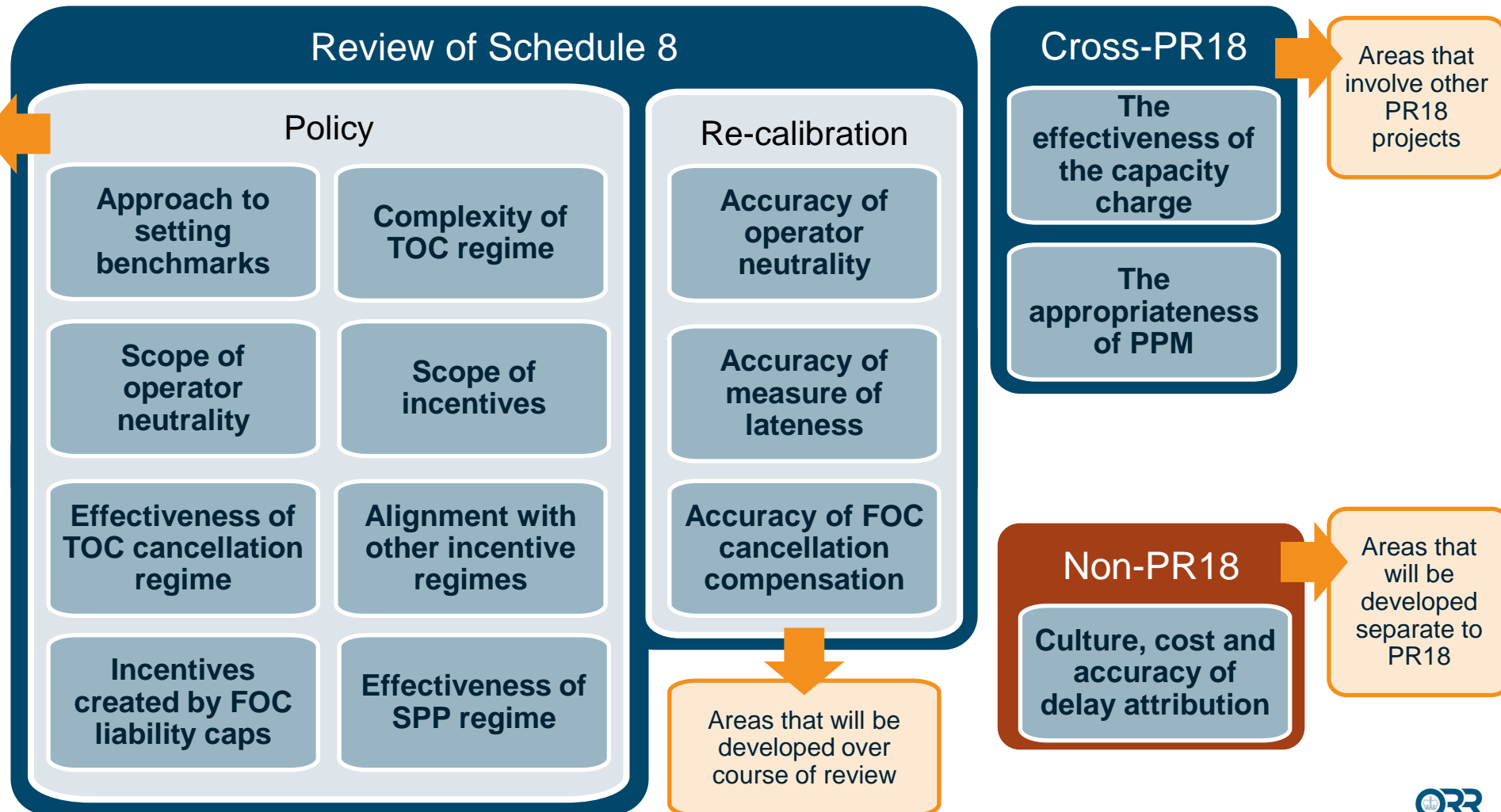
Areas for improvement

Support for regimes

- A lot of support was expressed for several aspects of the current regime.
- In particular, we note that respondents supported the following:
 - The liquidated sums character of the regime
 - That the regime should be the sole remedy
 - The principle of basing operator rates on the impacts on other operators
 - Network Rail acting as central counterparty within the regime
 - Possibility of bespoke arrangements and recognition of where formulaic approach weakens (i.e. SPP)
- Respondents also noted that the regime was successful at incentivising operators and Network Rail to improve their performance, although it could be improved.

Areas for improvement

- We recognise that there is significant scope for improving the regime, and, following your responses we have identified the following key areas:



Policy issues

- These are the areas where responses supported significant change to purpose or functioning.
- We plan to develop options on these and will meet to discuss in late July
- The December consultation will be on options in these areas.

Approach to setting benchmarks

Concerns about long-run incentive affects of setting benchmarks based on historic performance and how they will interact with route level performance targets.

Complexity of TOC regime

Concerns that the regime lacks transparency and that this inhibits effectiveness of incentives.

Scope of operator neutrality

Concerns that payments to operators are not well connected to passenger or freight user compensation as well as concerns that costs are not being compensated.

Scope of incentives

Concerns that incentives do not take into account impacts on end users or wider societal impacts.

Effectiveness of TOC cancellation regime

Concerns that TOC cancellation regime creates perverse incentives for operators.

Alignment with other incentive regimes

Concerns that schedule 8, franchise obligations and regulated outputs are not well joined up.

Incentives created by liability caps

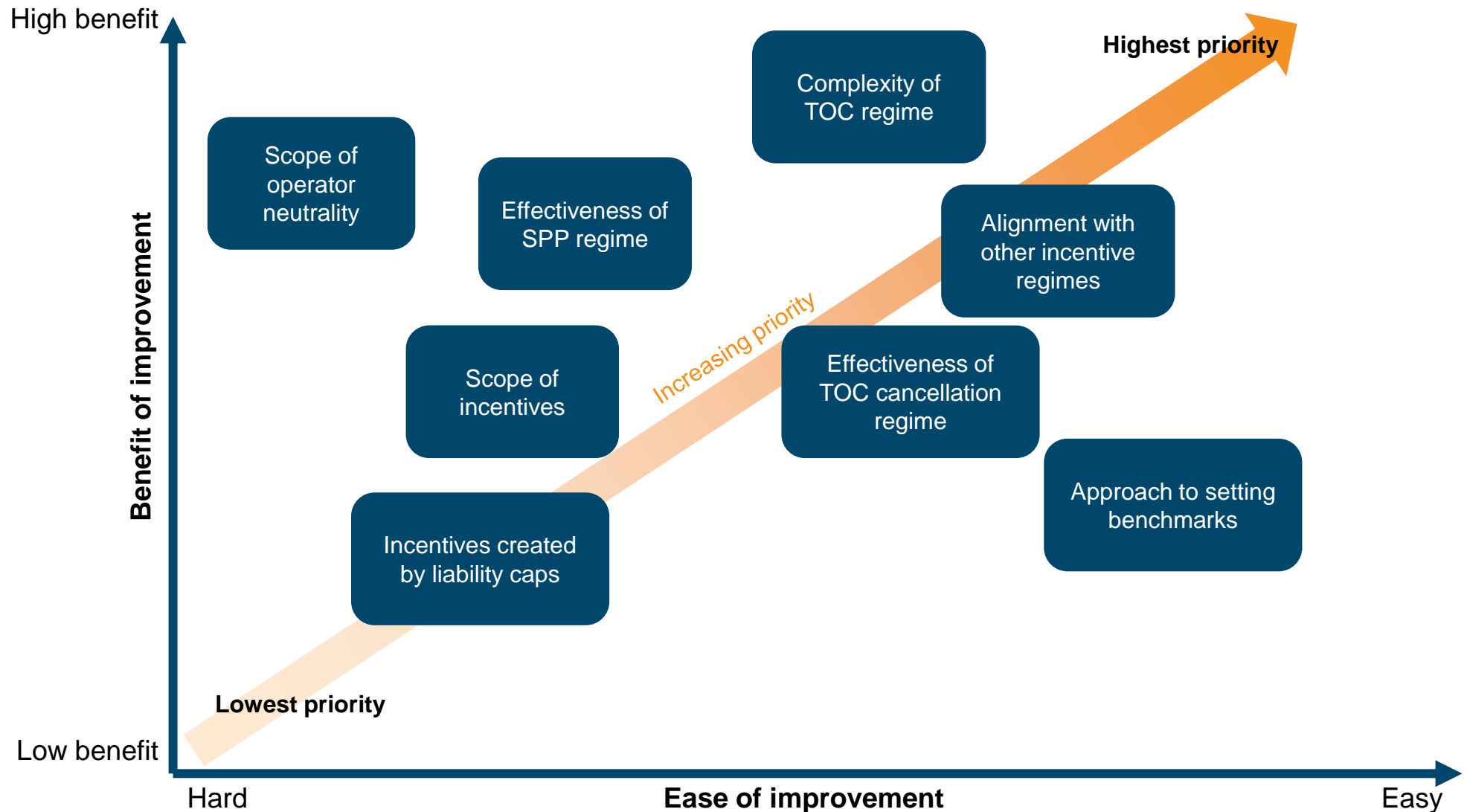
Concerns about the lack of incentives operators and Network Rail have when liability caps are reached.

Effectiveness of SPP regime

Concerns that SPP claims are costly, time-consuming and hard to resolve.

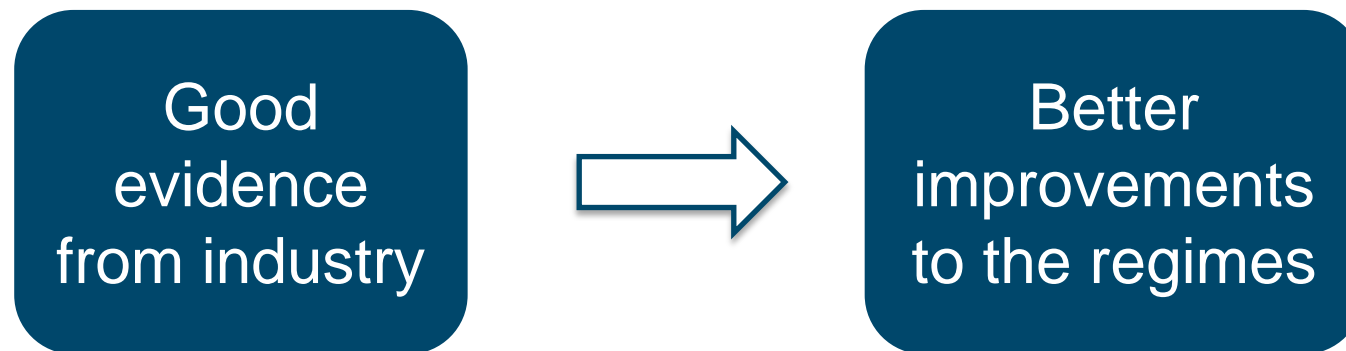
- **We would like your views on the relative priorities of these issues**

Early thoughts on priorities – for discussion



Evidence and the role of industry

- Developing these options requires evidence from industry on their costs and benefits.
- Improvements will be easier to devise and assess if we have good evidence.



Re-calibration issues

- These are areas where there were some concerns over the accuracy of the current regime.
- Since we wouldn't be proposing any significant changes to the regime in these areas; our focus will be on improving the evidence base, the December consultation will not include these areas.

Accuracy of FOC cancellation compensation

Operators raised concerns that compensation doesn't cover what it is meant to.

Accuracy of measure of lateness

Concerns that regime doesn't track passenger lateness sufficiently accurately due to issues with monitoring points and passenger weightings

Accuracy of operator neutrality

Concerns about the accuracy of evidence behind calculation of MRE and FOC payment rates

- We expect industry to play a significant role in updating the evidence in these areas and in re-calibrating the regimes themselves.

Cross-PR18 issues

The appropriateness of PPM

Concerns that PPM may create perverse incentives for operators



What we are doing about it

This is being looked at in conjunction with NTF as part of the review of regulated outputs

The effectiveness of the capacity charge

Concerns about wash-up etc.



We will be developing options for improving the capacity charge both as part of the review of schedule 8 and in conjunction with the work on the structure of charges

Non-PR18 issues

Culture, cost and accuracy of delay attribution

Many responses raised concerns about the incentives for Network Rail to accurately attribute delay as well as the cost and culture of delay disputes.



There is limited scope for a regulatory solution to this problem via PR18. However, we will seek to facilitate and industry led solution to this issue



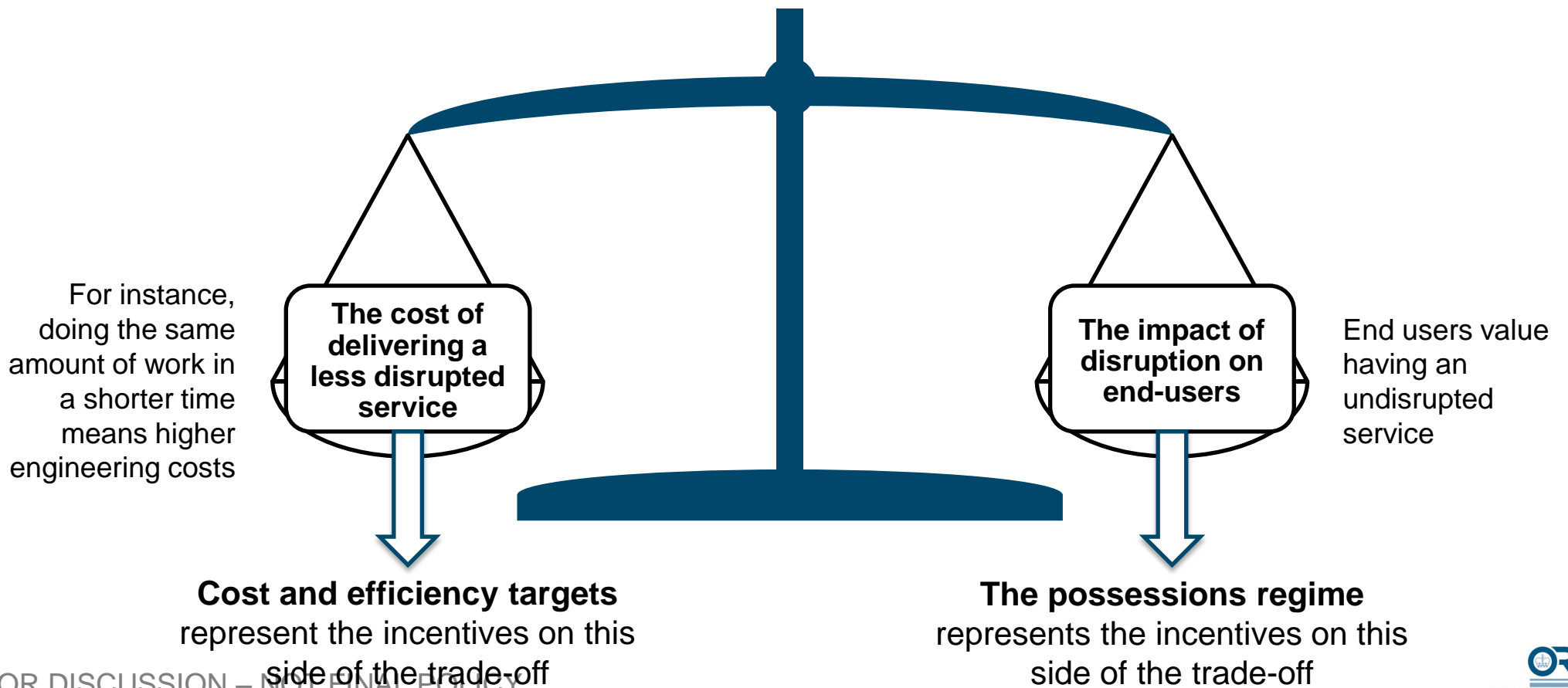
PR18 review of schedule 4



The purpose of the regime

Making the right trade-offs: planned disruption

- We will always need some level of planned disruption in order to maintain the quality of the network - what determines the right level and timing of that disruption?
- It depends on trading-off the engineering cost of making the possession shorter or holding it at a less convenient time vs. the impact on users of taking a longer possession or holding it



What is the purpose of Schedule 4?

What is the outcome we want from PR18?

PR18 Outcome

A network that is...

Available

Taking effective decisions around possessions, mitigating the overall impact of these on end users

What tools do we have to promote this outcome?

Regulatory tools

The possessions regime

Schedule 4

Regulated outputs



Franchise obligations

Outside of PR18 review

How does Schedule 4 (as one of those tools) promote this outcome?

Purpose of Schedule 4

Schedule 4 has two main functions

Operator neutrality scheme

Holding operators appropriately neutral to financial impacts of possessions

Network Rail incentive scheme

Incentivising Network Rail to minimise the level of service disruption as a result of possessions

The PR18 review of Schedule 4 will seek to improve the regime's functioning against all of these



Areas for improvement

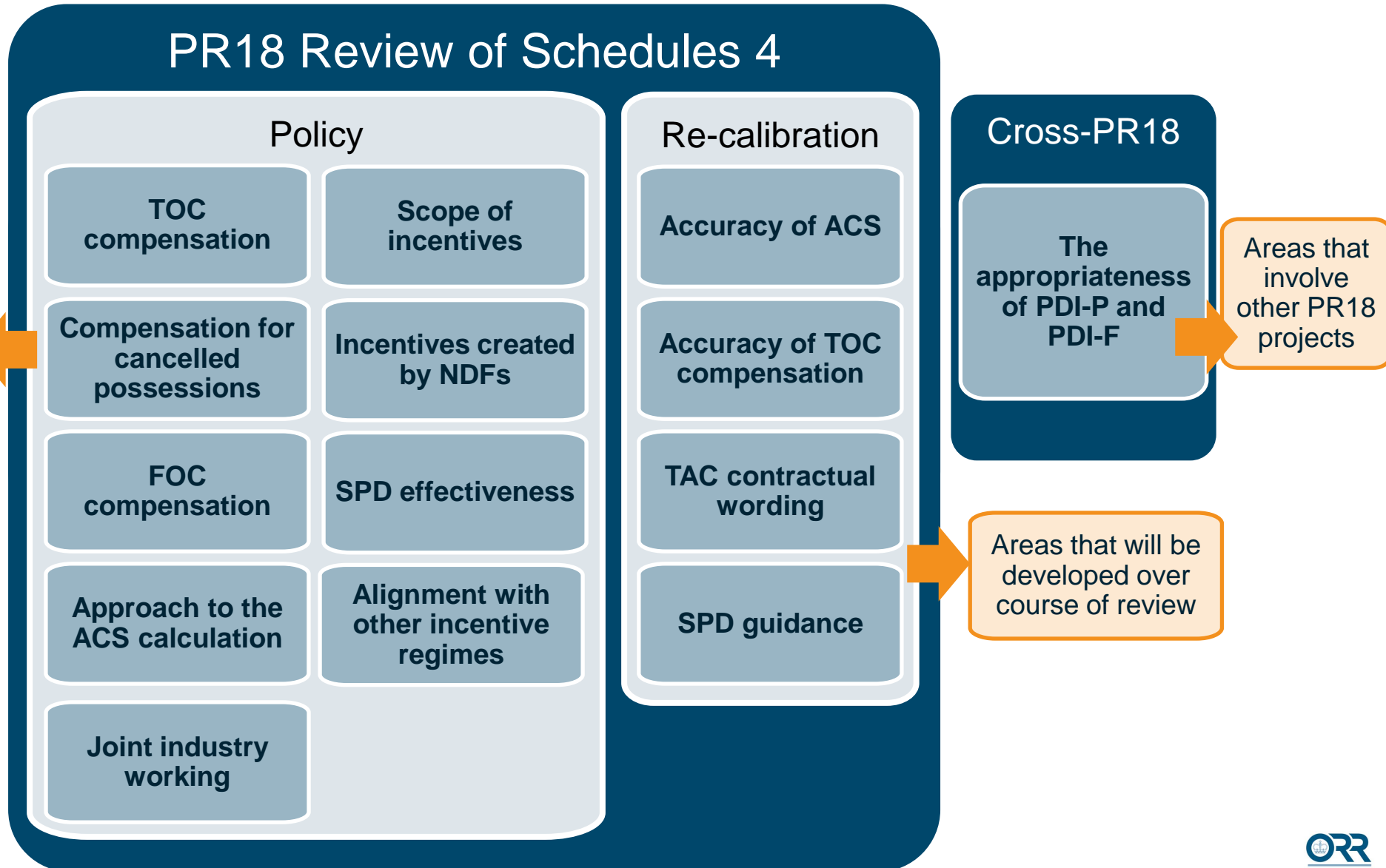
Support for Schedule 4

- A lot of support was expressed for several aspects of the current regime.

- We note that respondents supported the following:
 - The liquidated sums nature of the regime
 - Standardised regime across operators
 - Provides incentives for Network Rail to reduce disruption
 - Provides certainty to operators
 - There is broad support for Schedule 4 purpose and underlying principles, but requests for a clear articulation of them (see the previous slide)

Areas for improvement

- We recognise that there is significant scope for improving the regime, and, following your responses we have identified the following key areas:



Policy issues

- These are the areas where responses supported significant change to purpose or functioning.
- We plan to develop options on these and will meet to discuss in late July.
- The December consultation will be on options in these areas.

TOC compensation

Concerns that compensation does not cover all cost impacts

Compensation for cancelled possessions

Concerns that there is no revenue loss compensation for cancelled possessions including for planned and cancelled strikes

FOC compensation

Concerns that compensation does not cover all cost and revenue impacts

Approach to the ACS calculation

Concerns that Network Rail may be inefficiently over-recovering S4 costs

Joint industry working

Concerns that the regime does not encourage industry to work together to declare amended timetables, e.g. for bad weather

Scope of incentives

Concerns that Network Rail is not incentivised to take account of end user and wider societal impacts

Incentives created by NDFs

Concerns that NDFs are inaccurate and may not incentivise good possession planning

SPD effectiveness

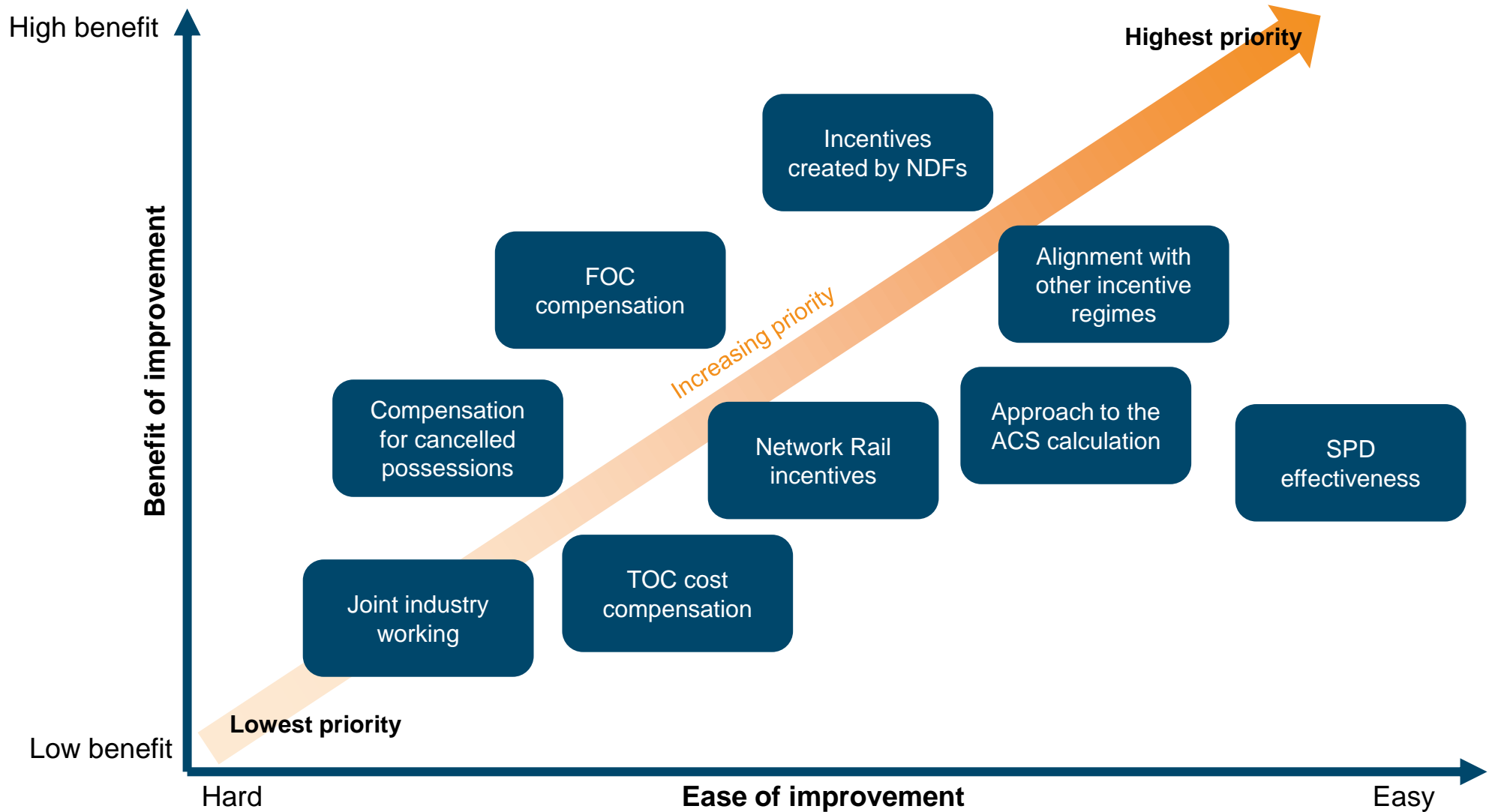
Concerns that SPD claims are costly, time-consuming and hard to resolve

Alignment with other incentive regimes

Concerns that schedule 4, franchise obligations and regulated outputs not well joined up

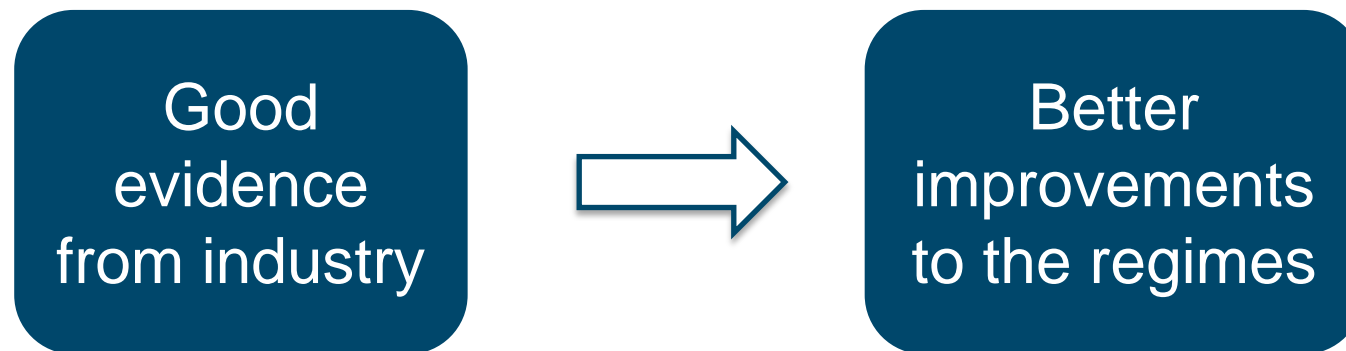
- **We would like your views on the relative priorities of these issues**

Early thoughts on priorities – for discussion



Evidence and the role of industry

- Developing these options requires evidence from industry on their costs and benefits.
- Improvements will be easier to devise and assess if we have good evidence.



Re-calibration issues

- These are areas where there were some concerns over the accuracy of the current regime.
- Since we wouldn't be proposing any significant changes to the regime in these areas; our focus will be on improving the evidence base, the December consultation will not include these areas.

Accuracy of ACS

Concerns over the accuracy of Schedule 4 unit costs; requests to consider how Network Rail might develop means to calculate route-based Schedule 4 unit costs

TAC contractual wording

Highlighted that there are some issues related to the contractual wording of Schedule 4

Accuracy of TOC compensation

Concerns over the accuracy of payment rates and cost estimates

SPD guidance

Requests to have an archive of SPD claims and guidance on bespoke revenue compensation

- We expect industry to play a significant role in updating the evidence in these areas and in re-calibrating the regimes themselves.

Cross - PR18 issues

Regulatory outputs

Operators said that that it is not clear how availability outputs are calculated. Some operators also argued that the availability output targets are inaccurate

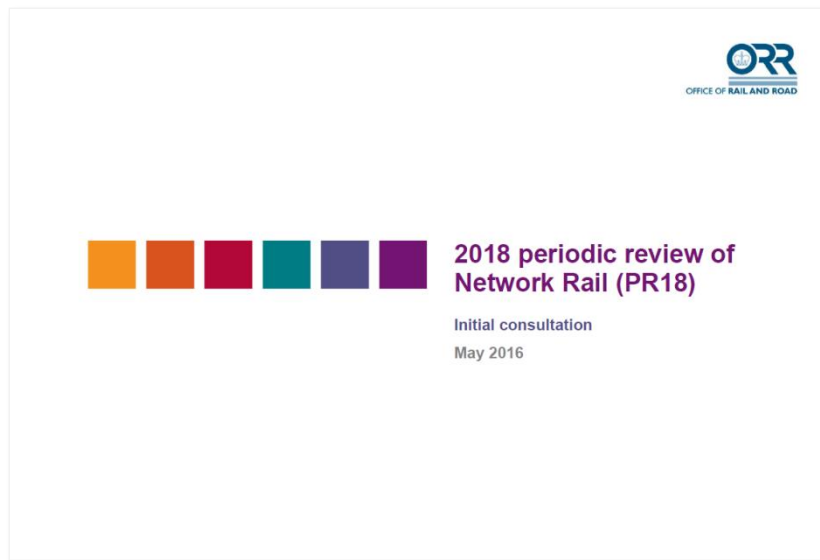


What we are doing about it

This will be picked up in the review of regulatory outputs

How to get in touch

Please subscribe to our PR18 email alerts service and you will receive our all latest news: <http://eepurl.com/b1XI5H>



 www.orr.gov.uk/pr18

 PR18@orr.gsi.gov.uk

[Schedules 4 and 8 !\[\]\(8d0f0e0fe25b320c33272c52aec1fbca_img.jpg\) PR18.Schedules4and8@orr.gsi.gov.uk](mailto:PR18.Schedules4and8@orr.gsi.gov.uk)