



Schedule 4 & 8 Re-calibration Working Group

Meeting 1

15 February 2017

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Intro

- Over the next year the Schedule 4 and 8 regimes will need re-calibration. It is in the industry's interests to ensure that the re-calibration is accurate.
- In view of the general movement towards closer working arrangements between operators and Network Rail, and the fact that industry are best placed to understand the intricacies of the re-calibration, we expect industry to take the lead on ensuring that the re-calibration is delivered, including, in particular:
 - Providing the relevant data; developing the appropriate methodologies; managing the delivery of work and auditing results.
 - Industry will be ultimately responsible and accountable for the results.
- Likewise, in light of the lessons learned from the costly error to TOC payment rates on the need for expert scrutiny of the calculations, Network Rail will need to be able to conduct an audit all the work.
 - Operators should ensure that whatever confidentiality agreements they need are in place – because the Network Rail audit must proceed regardless.

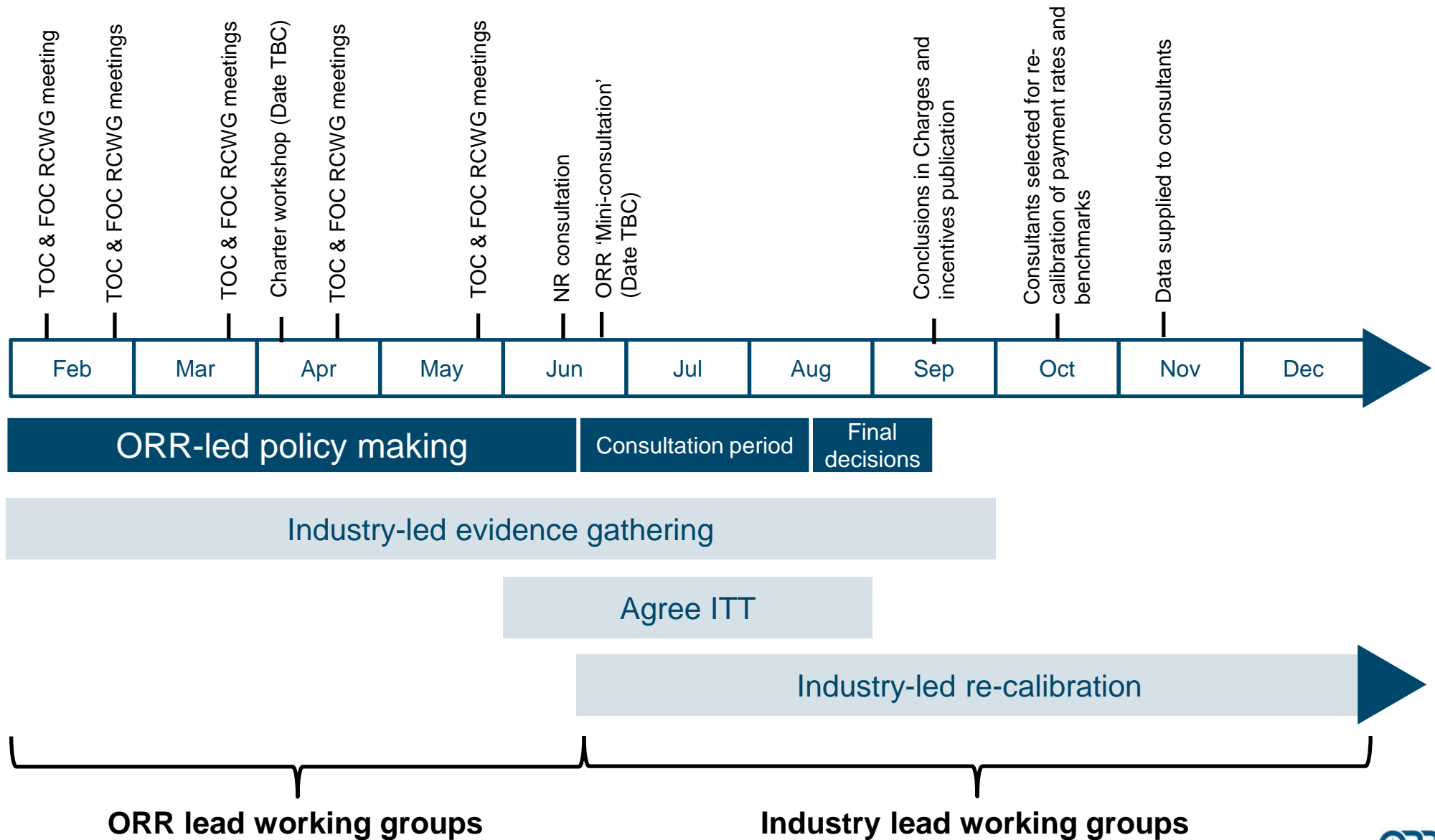
Agenda

Time	Topic
15.00	Introduction & purpose of the Re-calibration Working Group
15.10	Plan for re-calibrations Timelines Split of responsibilities
15.30	Scope of recalibrations Schedule 8 What needs re-calibrating? What are the priorities? Schedule 4 What needs re-calibrating? What are the priorities?
16.20	Engagement with industry and wider stakeholders
16.25	Topics for future Re-calibration Working Group meetings
16.45	Conclusions

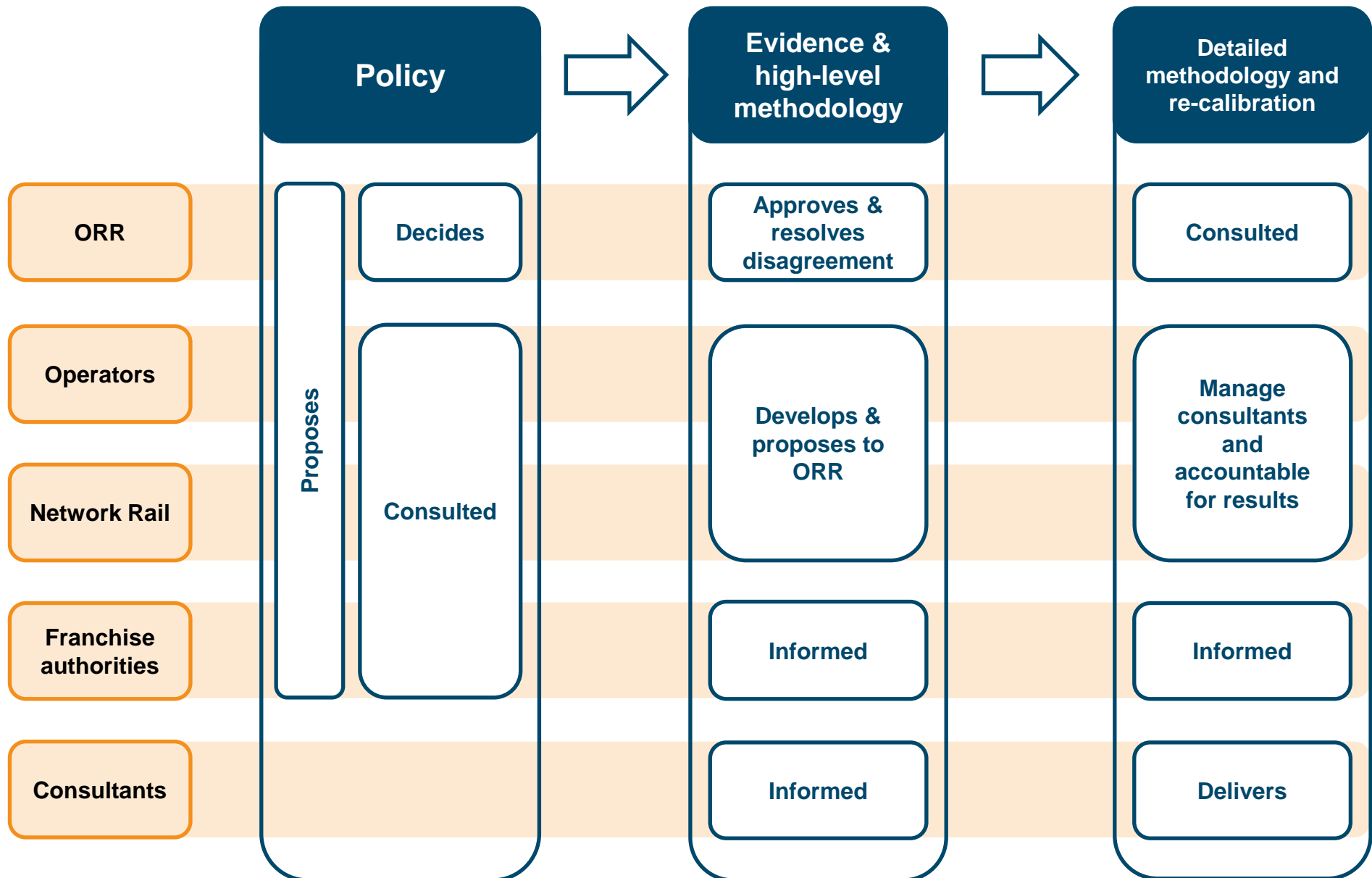


Plan for re-calibration

Indicative timeline



What is the split of responsibilities?



The role of the Re-calibration Working Group

- To discuss and, where possible, agree outstanding policy issues affecting the re-calibration.
 - Outside scope of the working group: Assessment of December 2016 consultation proposals
- To agree work re-required and timelines for delivery.
- To determine the evidence base that will be needed to inform the recalibration work and agree how it will be developed.
- To agree procedures for audit and quality assurance.
- To scope, review and agree ITTs for key consultancy contracts.
- Any other aspects of process that needs to be followed to ensure a robust, evidence-based recalibration of Schedules 4 and 8.



Schedule 8 re-calibration priorities

Areas for re-calibration: TOC regime

FOR DISCUSSION

Suggested priorities	TOC regime
High	Payment rates; benchmarks
Mid	Monitoring point weightings; SPP threshold
Low	Cancellation minutes

- High priority: Areas that are of the highest importance for the proper functioning of the regime.
- Mid priority: Areas where re-calibration may be needed in light of changes to other aspects of the regulatory framework.
- Low priority: Areas that ORR is not prioritising for re-calibration: industry may choose to re-calibrate these, but ORR will not be leading efforts to do so.

Areas for re-calibration: FOC regime

FOR DISCUSSION

Suggested priorities	FOC regime
High	Payment rates; cancellation rates; benchmarks
Mid	Cancellation threshold
Low	Incident caps; liability caps; Cancellation benchmark

- High priority: Areas that are of the highest importance for the proper functioning of the regime.
- Mid priority: Areas where re-calibration may be needed in light of changes to other aspects of the regulatory framework.
- Low priority: Areas that ORR is not prioritising for re-calibration: industry may choose to re-calibrate these, but ORR will not be leading efforts to do so.



Schedule 4 re-calibration priorities

For discussion: Areas for recalibration – Schedule 4 (TOC)

Recalibration of:

- Inputs (unit costs and volumes)
- Calculations (changes to the underlying methodology)

Some links to policy work (on NDFs, ACS and bespoke compensation)

Bus replacement
costs

Train mileage
costs

Notification
discount
thresholds

ACS methodology

SPD threshold

Cost threshold for
cancelled/amended
possessions

For discussion:

- What is missing from this list?
- Which issues should be the priority for recalibrating?

For discussion: Areas for recalibration – Schedule 4 (FOC)

Freight schedule 4 payments are met from a fixed budget financed through Network Rail's revenue requirement.

We are not minded to change the way in which FOC Schedule 4 payments are calculated or funded beyond uprating for inflation.

We are aware that stakeholders have expressed concerns about a number of areas:

- whether payment rates reflect operators' costs/ losses due to disruption;
- whether funding should be adjusted to reflect forecast M&R volumes in CP6 compared to CP5;
- the compensation categories criteria

However, increases in payment rates, for example, would require additional funding. This could be met by FOCs electing to pay an access charge supplement. Or through additional subsidy for which a case would need to be made.

For discussion:

- What (if anything) have we missed?

Note: we are separately assessing the overall impacts of PR18 (charges, Schedules 4 and 8) on freight, and any changes made as part of the recalibration would feed into that work.



Engagement & Forward agenda


Wider stakeholder engagement – *FOR DISCUSSION*

- The Re-calibration Working Group is primarily intended for those with technical, working-level understanding of Schedules 4 & 8.
- How do we want to engage with wider stakeholders?
 - Do we want to update RDG? If so, how regularly?
 - Do we want to have forums for engaging with other stakeholders?

Forward agenda – *FOR DISCUSSION*

- This is an indicative agenda that may change as need arises

	When?	TOC	FOC
Meeting 1	Early Feb	<i>This meeting</i>	
Meeting 2	Late Feb/early Mar	S8: NR and TOC benchmarks	S8: Payment rates, cancellation rates, cancellation thresholds
Meeting 3	Late March/early Apr	S4: Bus Replacement Costs; Train Mileage Costs; SPD threshold. S8: NR payment rates; TOC payment rates; SPP threshold	S4: FOC issues S8: NR & FOC benchmarks
Meeting 4	Late Apr/early May	S4: ND thresholds; ACS calculations S8: Monitoring point weightings; cancellation minutes	S8: Incident caps & liability caps
Meeting 5	Late May/early Jun	Possibly revisit benchmarks and/or other issues identified for follow up at earlier meetings	Possibly revisit payment rates and/or other issues identified for follow up at earlier meetings



Prep for next meetings

TOC Re-calibration Working Group Meeting 2

10th or 13th March TBC

■ Key topic: **Approach to setting benchmarks**

- In the December consultation document we proposed that the operator benchmarks no longer be based on historic performance.
- Changes to the way regulated outputs are set also make it worth considering how Network Rail benchmarks are set.

■ We are interested in approaches to setting the benchmark that balance the following considerations:

- Minimise industry cash flows
- Similarity of contractual entitlements
- Low cost and complexity of re-calibration (especially within Control Period)
- Maintaining performance incentives
- Preserve neutrality for Network Rail as central counterparty
- Financial impact of change to benchmarks on operators

■ **We will send out a paper outlining discussion points and suggested next steps prior to this meeting**

FOC Re-calibration Working Group Meeting 2

27th February

- Key topics: **NR payment rates, cancellation rates, cancellation threshold, FOC payment rates**
- Evidence for these elements of the regime has not been updated since PR08.
- Some operators have complained that payments under the regime do not reflect gains/losses to FOCs.
- ORR will set out suggestions on what the NR payments rates and cancellations rates should reflect. **This will be circulated to the group prior to this meeting.**
- We will leave it to industry to agree on whether and/or how to update the rates.
- In particular, Operators and Network Rail will be expected to provide the evidence and analysis to do the re-calibration.

What should you do now?

- As noted, we will send discussion points to the FOC group and the TOC group ahead of the next meetings.
- Please:
 - Read these
 - Think about them
 - Come with ideas!
- We want these sessions to be as productive as possible.