



# Workshop on schedules 4 & 8 policy options

PR18 meeting

5<sup>th</sup> August 2016

# ORR workshop on schedules 4 and 8 policy options, 5<sup>th</sup> August

- We presented these slides to a group of stakeholders at a workshop on schedules 4 and 8 policy options.
- At the workshop we sought views and suggestions on potential policy options to address the identified policy issues on schedules 4 and 8.
- We also discussed industry involvement in the ongoing review and recalibration of both regimes.
- **These slides do not represent our final policy position, all of the content is subject to change and only represents a snapshot of a stage in our policy development process.**



# Introduction and purpose

# Purpose of today

## Develop options for improving schedules 4 and 8

- Focus on those policy areas identified in review to date
- With you, investigate:
  - the merit of each option
  - the evidence to support each option
- We and the industry have limited capacity: collectively we have to focus on areas where we can most add value – we cannot pursue all options

## Discuss industry involvement in ongoing review and recalibration

## Our proposed priorities & approach

### Route-level Regulation

- Support the shift towards route-level decision making
- Encourages greater involvement from customers & regional funders
- Greater use of comparison between routes

### System Operation

- Encourage better use of the network
- Support improved capability in terms of network analysis and planning
- Protect operators moving passengers and freight across route boundaries

### New ways to treat enhancements

- Respond to the increased diversity of funders
- Provide flexibility to funders
- Implies some change to the periodic review to make this work

### Outputs & Performance Monitoring

- Build on industry work to improve how we measure performance
- Increased route-level monitoring & transparency
- Continued protection of renewals volumes and asset condition

### Cost transparency & improved incentives

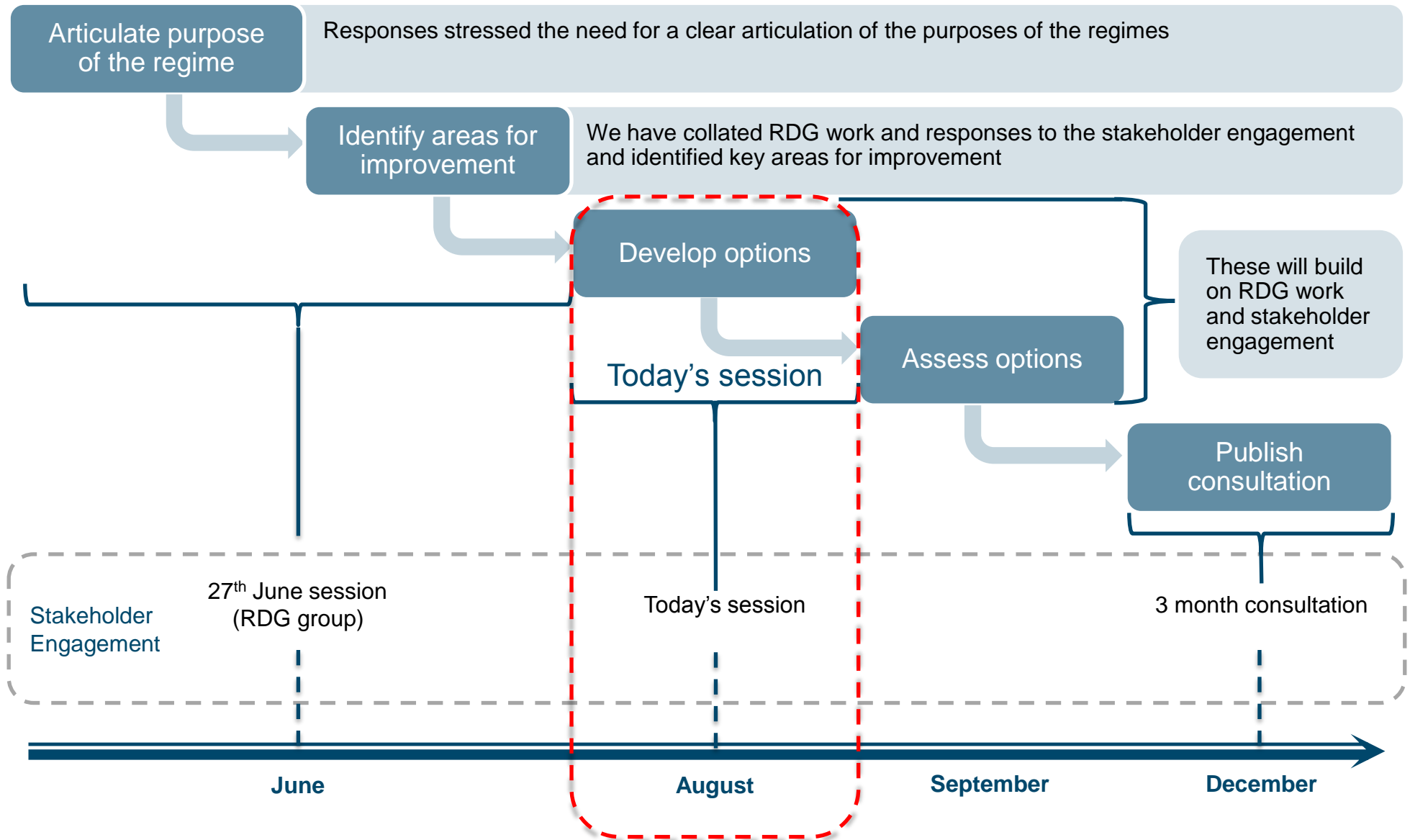
- Improved information about what drives cost on the network
- Explore way to improve alignment of TOCs, FOCs and Network Rail incentives
- Incremental improvements to the performance and possessions regimes

# Review to date

- RDG review of charges
- Our November 2015 stakeholder letter seeking views on the effectiveness of the current regimes

These allowed us to set out the regimes' purpose and identify priorities and potential options

# Schedule 4 and 8 leading up to December consultation



# PR18 December 2016 consultation

## ■ **Scope:**

- track access charges
- station long term charge
- Schedule 4
- Schedule 8
- Other contractual incentives (REBS)

## ■ **Assess policy options: in some cases, recommendations for preferred policy options**

## ■ **Early work on assessing overall impacts on market segments**

investigating the combined financial impacts of changes to charges and contractual incentives to categories of operator

## ■ **Three month consultation**



# Beyond December 2016

## ■ Policy development

- January-March 2017: industry engagement
- June 2017: conclusions on options

## ■ Recalibration

- Early 2017: agree scope, governance arrangements and funding
- Mid 2017: award tender to consultants
- 2017-18: conduct recalibration (continue to delivery plan?)

## ■ Implementation

- Early 2018 onwards
- Contractual wording
- Values (ACS, payment rates, others)

# Agenda

INTRODUCTION	
10.30-11.00	<input type="checkbox"/> Coffee and tea
11.00-11.10	<input type="checkbox"/> Welcome and introductions
11.10-11.20	<input type="checkbox"/> Update on plan for the PR18 review of schedules 4 and 8
PR18 REVIEW OF SCHEDULE 8	
11.20 -11.30	<input type="checkbox"/> Policy areas for improvement
11.30-12.50	<input type="checkbox"/> Discussion of the policy options
12.50-13.35	<input type="checkbox"/> Lunch break (lunch not provided) <input type="checkbox"/> Coffee & tea
PR18 REVIEW OF SCHEDULE 4	
13.35- 13.45	<input type="checkbox"/> Policy areas for improvement
13.45-14.40	<input type="checkbox"/> Discussion of the policy options
ROLE OF INDUSTRY	
14.40 – 15.00	<input type="checkbox"/> Role of industry
15.00	<input type="checkbox"/> Close



# PR18 review of schedule 8



## Areas for improvement

# Re-cap: 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

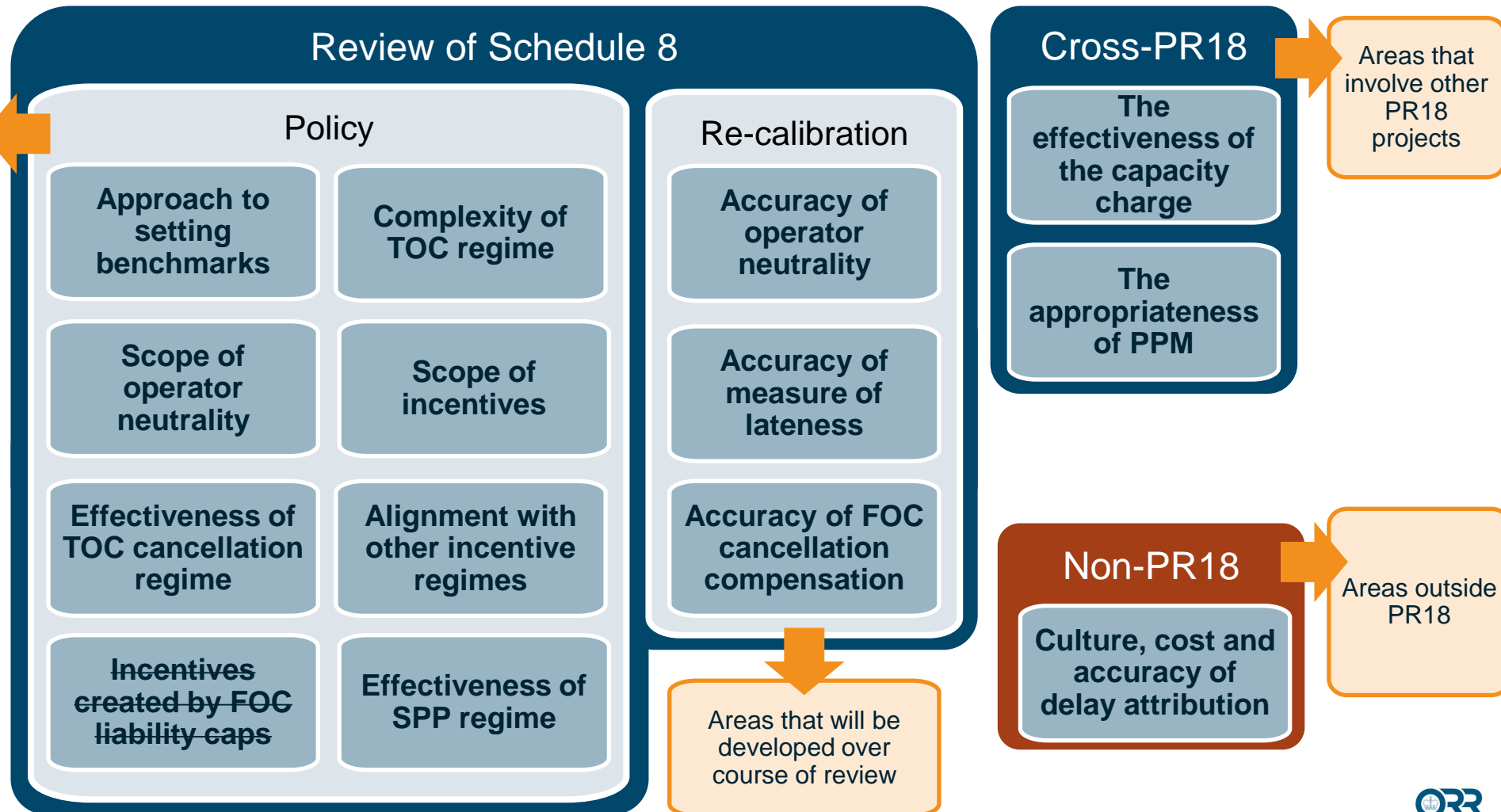
**Operator incentive scheme**

Incentivising operators to limit the delay they cause to other operators

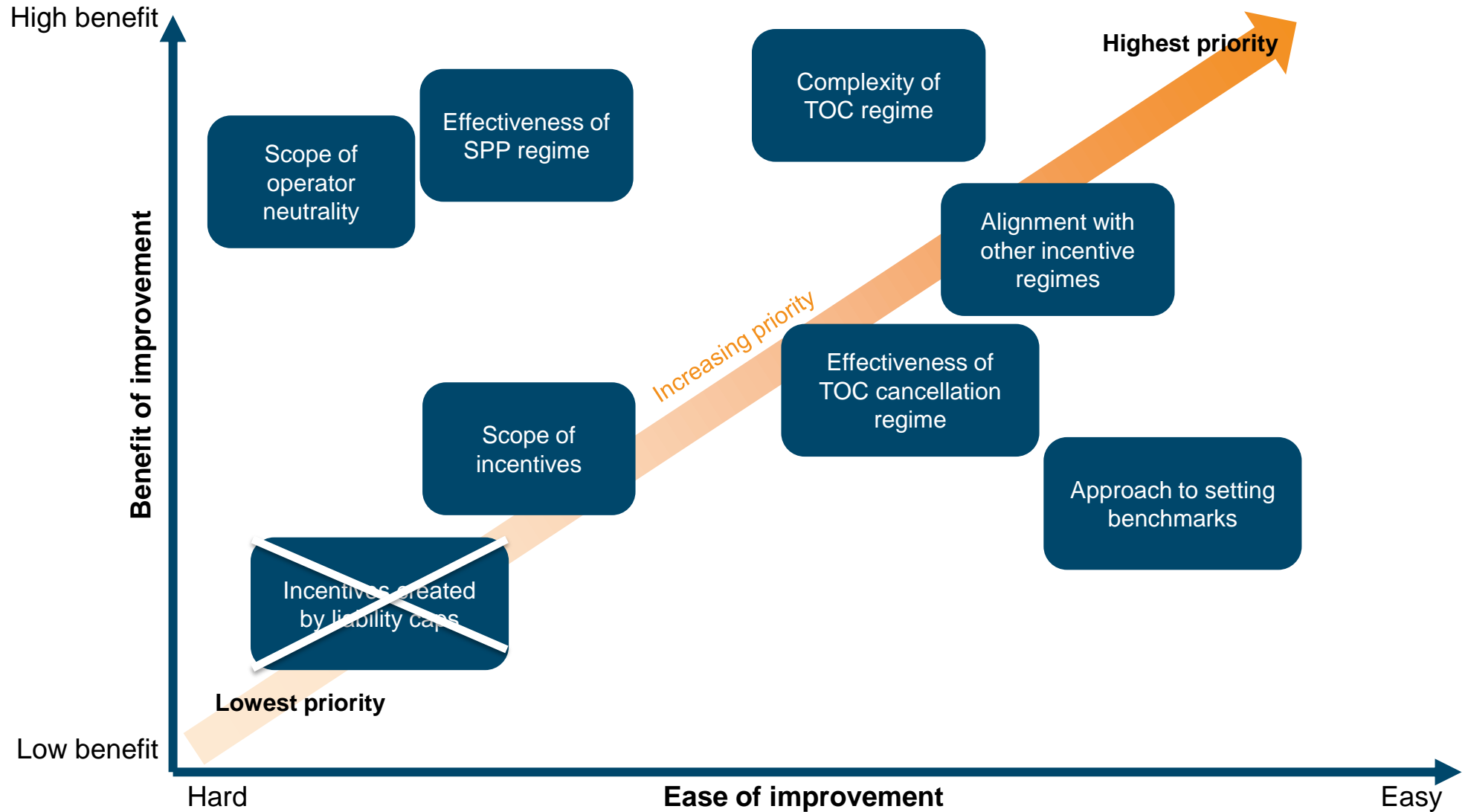
**The PR18 review of schedule 8 will seek to improve the regime against all of these functions**

# Re-cap: 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:



# Re-cap: how we are seeking to prioritise in the schedule 8 review





## Discussion of the policy options



# Structure of the discussion

- Scope of operator neutrality
- Scope of incentives
- Approach to setting benchmarks
- Complexity of TOC regime
- Treatment of TOC cancelled services
- Effectiveness of SPP regime
- Alignment with other performance incentives

# Scope of operator neutrality

**Policy issue:** There are concerns that current payment rates do not hold operators neutral to the financial impact of delay

## ■ Potential policy options:

- Include end user compensation payments in schedule 8 payment rates **(RDG assessed option)**
- Include cost compensation in passenger schedule 8 payment rates
- Improve the clarity and accuracy on what is included in the freight schedule 8 payment rates

# Scope of incentives

**Policy issue:** Network Rail and operators lack incentives to take account of end user or wider societal impacts of delay

**Observation:** schedule 8 payment rates are calibrated on operator rather than end user impacts

- **Potential policy options:** take account of value of delays to wider society and/or end users by either:
  - increasing the schedule 8 payment rates (re-introduce a societal rate )
  - or
  - By introducing a financial incentive for Network Rail
  - or
  - Discussed previously: Include end user compensation payments in schedule 8 payment rates (**RDG assessed option**)

# Approach to setting benchmarks

**Policy issue:** Possible perverse long-run incentives by setting the benchmarks based on historic performance. Also concerns about how the benchmarks will interact with route level performance targets and the incentive effects of benchmarks.

## ■ Potential alternative policy options:

- Set the same benchmark for all passenger operators (as freight regime is already done)
- Set the benchmark to match target performance for each service

# Complexity of TOC regime

**Policy issue:** The complexity of the current regime may inhibit the accuracy and effectiveness of incentives provided to Network Rail and operators to limit the delay that they cause. It may also increase the cost of implementing and recalibrating the regime.

## ■ Potential policy options:

- Set operator benchmarks in TOC-on-TOC minutes (instead of TOC-on-self) **(Network Rail developed option)**
- Change the approach to setting benchmarks

# Treatment of TOC cancelled services

**Policy issue:** The current TOC cancellation regime may create perverse incentives for operators in respect of cancelling services because a cancelled service, despite not delaying other services, is treated as DML

## ■ Potential policy options:

- Set operator benchmarks in TOC-on-TOC minutes (instead of TOC-on-self) **(Network Rail developed option)**
- Have a separate regime for cancellations

# Effectiveness of SPP regime

**Policy issue:** The current process for making sustained poor performance (SPP) claims is costly, time-consuming and difficult to resolve

## ■ Potential policy options:

- Improve the guidance on how to make SPP claims
- Publish archive of SPP claims
- Make a formulaic regime

# Alignment with other performance incentives

**Policy issue:** Incentives on operators to limit delay may not be well aligned due to use of different measures across schedule 8, franchise obligations and regulated outputs

- PR18 outputs project is reviewing performance metrics
  
- We are not proposing to make changes in schedule 8 to:
  - Average minutes lateness (AML); or
  - the use of delay minutes per 100 train miles for freight regime benchmarks.
  
- **Do you agree with this proposal?**





**Lunch break 45 min**



# PR18 review of schedule 4

# Re-cap: 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

Reducing operators' exposure to financial risks associated with possessions

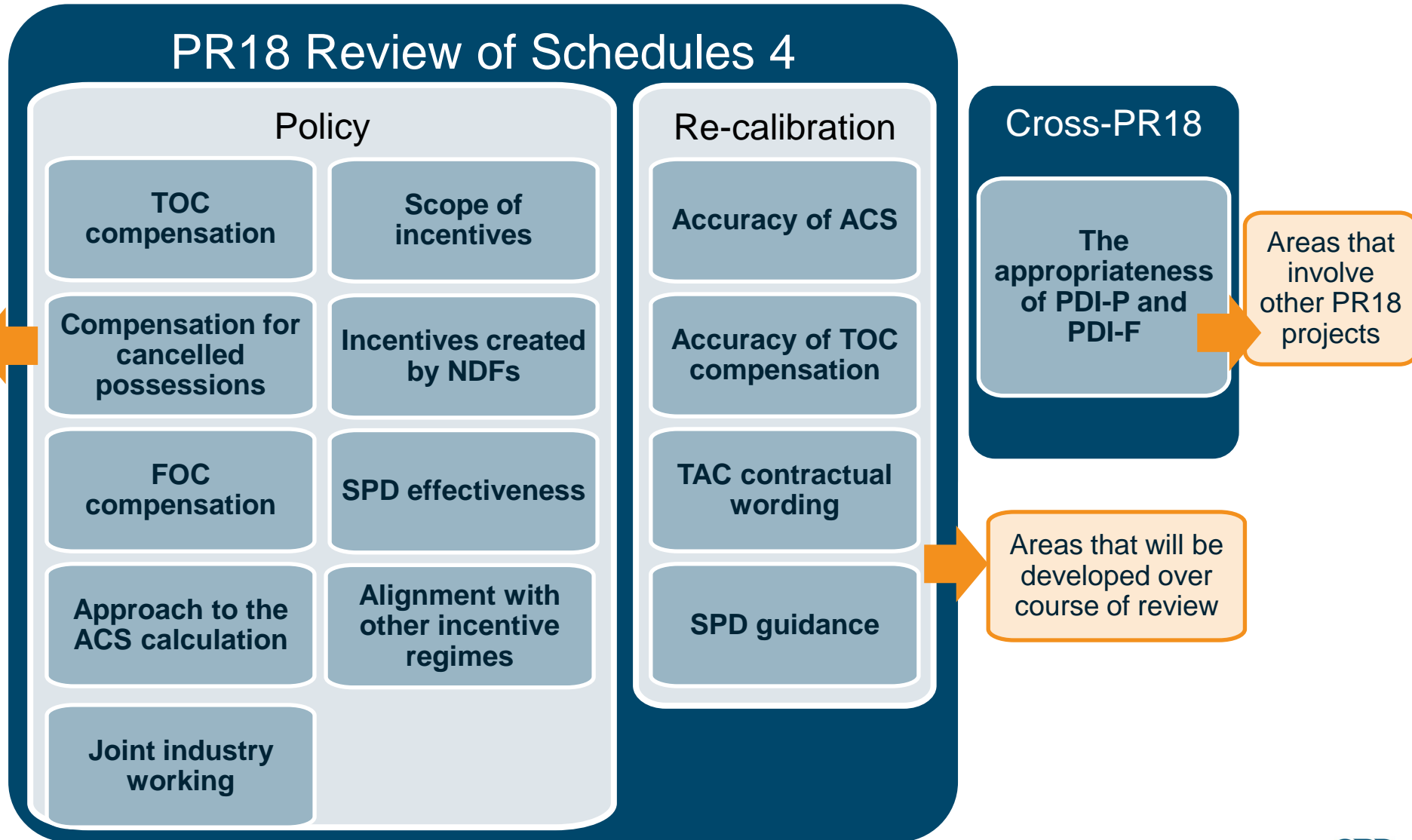
### Network Rail incentive scheme

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

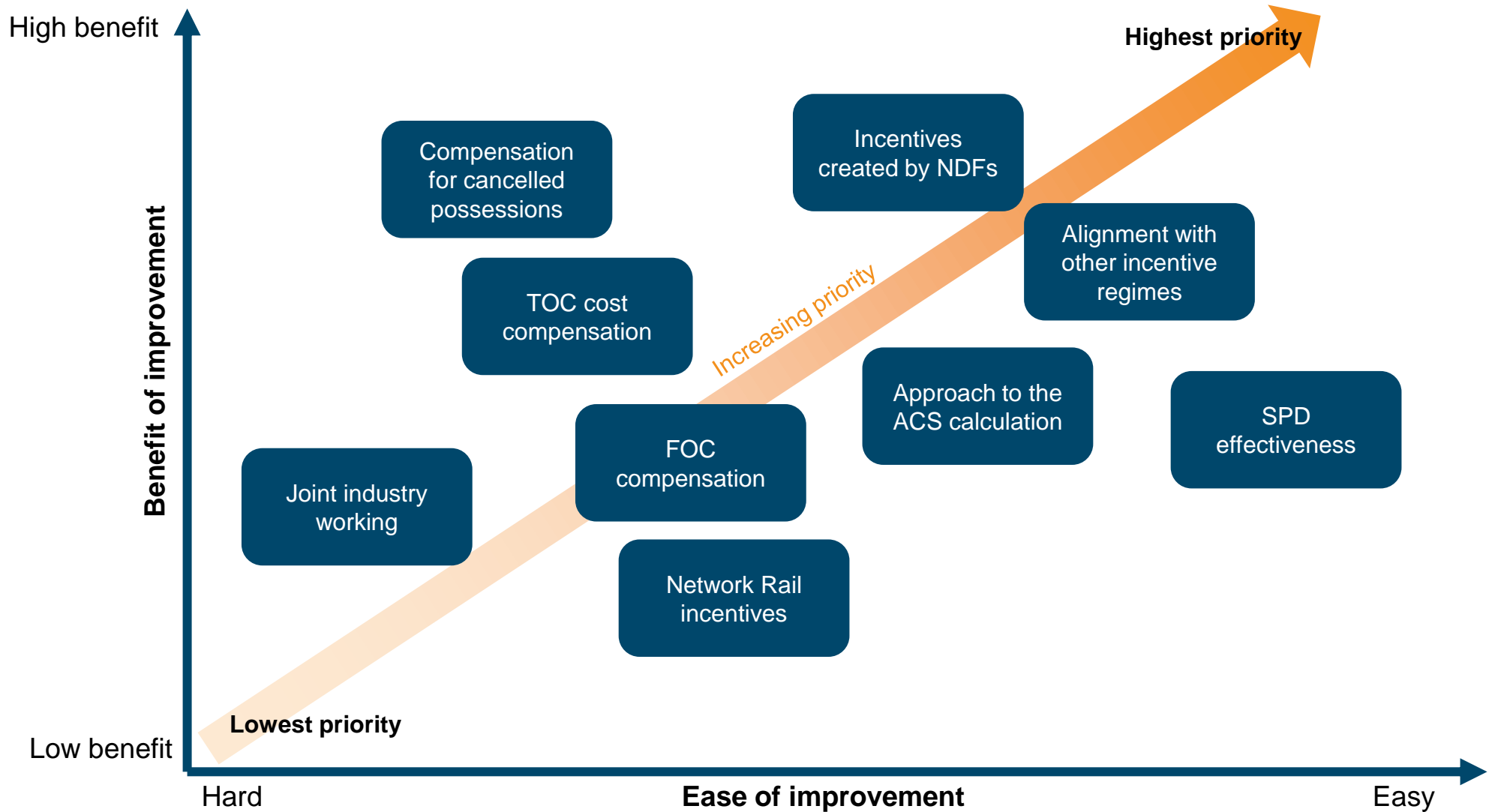
The PR18 review of Schedule 4 will seek to improve the regime's functioning against all of these

# Re-cap: 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:



# Re-cap: how we are seeking to prioritise in the Schedule 4 review





## Discussion of the policy options

# Structure of the discussion

- Incentives created by NDFs
- Compensation for cancelled possessions
- Approach to the ACS calculation
- Sustained planned disruption effectiveness
- TOC compensation
- FOC compensation
- Scope of incentives
- Incentives for amending timetables
- Alignment with other incentives

# Incentives created by notification discount factors (NDFs)

**Policy issue:** the current NDFs, which we last reviewed as part of PR08, may no longer be accurate and therefore may not incentivise good possession planning

## ■ Evidence and the role of industry

- Developing options to address ‘**notification discount thresholds**’ requires evidence from industry on their possession planning practices

## ■ Potential policy options:

- Review schedule 4 notification discount factors (**RDG assessed option**)
- Review schedule 4 notification discount thresholds (i.e. change / add to / reduce thresholds)



# Compensation for cancelled possessions

**Policy issue:** there is no revenue loss compensation for cancelled possessions including for planned and cancelled strikes. This may not incentivise good possession planning.

## ■ Evidence and the role of industry

- Developing options to address ‘**compensation for cancelled possessions**’ requires evidence from industry on the scale of the issue (i.e. a number of cancelled possessions)

## ■ Potential policy options:

- Include revenue loss compensation for cancelled possessions

# Approach to the ACS calculation

**Policy issue:** Network Rail may be inefficiently over-recovering schedule 4 costs

## ■ Potential policy options:

- Basis for renewals volumes assumptions, e.g. based on Delivery Plan not SBP
- More frequent mechanistic ACS calculation (**RDG assessed option**)

# Sustained planned disruption effectiveness

**Policy issue:** No sustained planned disruption claims

## ■ Potential policy options:

- Review thresholds
- Read across from SPP issues

# TOC compensation

**Policy issue:** compensation does not cover all cost impacts such as those associated with train planning, management and publicity

## ■ Evidence and the role of industry

- Developing options to address ‘**TOC cost compensation**’ requires evidence from industry on their other costs

## ■ Potential policy options:

- Include other cost compensation (e.g. staff costs)

# FOC compensation

**Policy issue:** Schedule 4 compensation does not cover all cost and revenue impacts

## ■ Evidence and the role of industry

- Developing options to address '**FOC compensation**' requires evidence from industry on their costs associated with possessions

## ■ Potential policy options:

- Reform cost triggers and payment rates

# Scope of incentives

**Policy issue:** Network Rail is not incentivised to take account of end user and wider societal impacts

- **Observation: schedule 4 passenger compensation is calibrated on operator rather than end user impacts**
- **Potential policy options:** take account of value of delays to wider society by either:
  - increasing the schedule 8 payment rates (and therefore schedule 4 compensation)and/or
  - By introducing a financial incentive for Network Rail

# Incentives for amending timetables

**Policy issue:** the regime does not encourage industry to work together to declare amended timetables, e.g. for bad weather

## ■ Evidence and the role of industry

- Is this an issue with Schedule 4, or with application of industry processes?
- Developing options to address '**joint industry working**' requires industry collaboration

## ■ Potential policy options:

- How might schedule 4 be reviewed to take this into account?

# Alignment with other incentive regimes

**Policy issue:** Schedule 4 and regulated outputs are not well joined-up

- ORR to consider and address any perverse incentives that may occur if schedule 4 does not align with regulated outputs and / or Network Rail scorecards

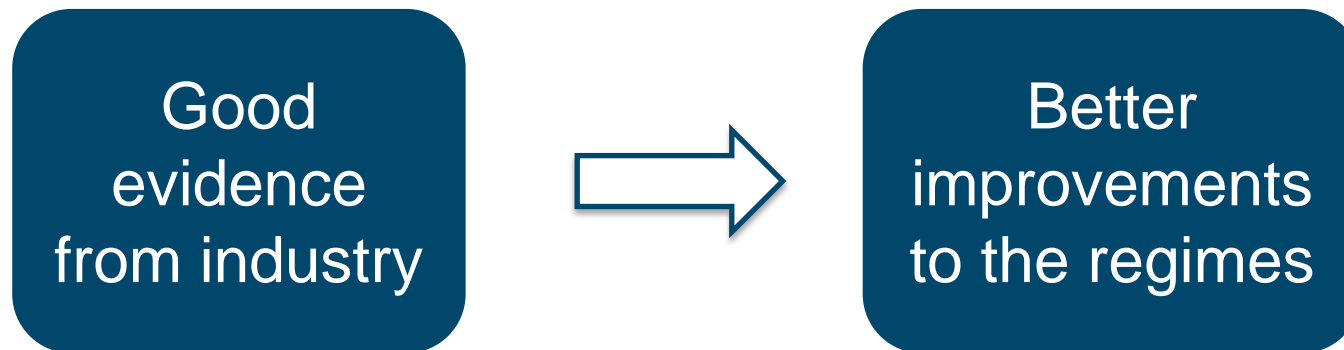




# Role of industry

# 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



## Schedule 4: re-cap on evidence sought for our review of notification discounts

Evidence sought	Relevant organisation
<b>Possession planning practices and associated timescales</b> (e.g. to inform passengers etc.)	Network Rail and operators
<b>Cancelled possessions</b> (i.e. number of possessions cancelled) and <b>associated impacts</b> (i.e. revenue and cost impacts)	operators
<b>Costs of possessions to TOCs</b> (e.g. costs on planning, management and publicity)	TOCs
<b>Costs of possessions to FOCs</b>	FOCs

# Recalibration of TOC payment rates

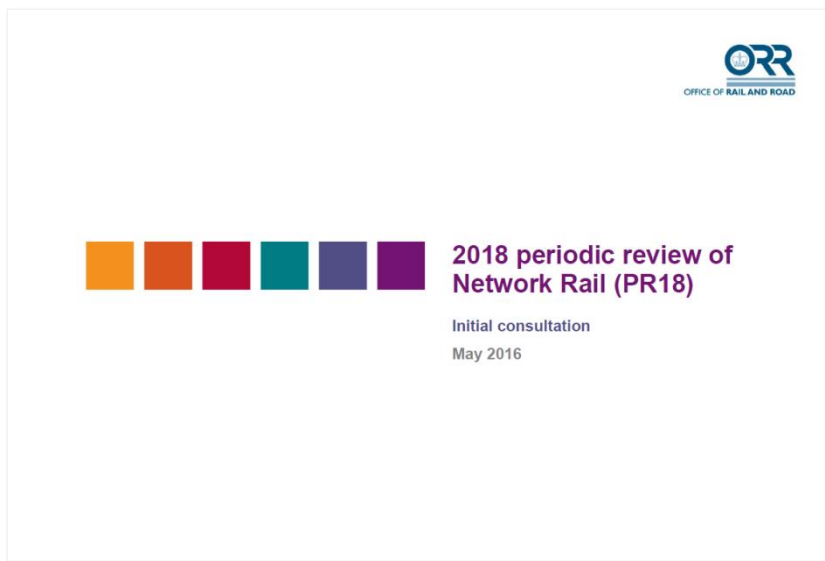
- Recalibration is important – the Star model is important
- Inevitably a major challenge for consultants and industry
- How can we collectively avoid material errors?
  - Consultants' quality assurance process
  - Engagement and scrutiny by industry
- Arrangements for funding
- Arrangements for scrutiny and sense checking

# Thinking ahead to where contributions would be useful for Schedule 4 and 8 re-calibration and implementation

Schedule 8	
Accuracy of <b>FOC cancellation compensation</b>	Network Rail and FOCs
Accuracy of <b>measure of lateness</b> (i.e. MPWs)	Network Rail and TOCs
Accuracy of MRE and FOC payment rates	Network Rail and TOCs
Schedule 4	
ACS	Network Rail
Both regimes	
Contractual wording	All parties
Other??	Industry

## How to get in touch

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[Schedules 4 and 8 !\[\]\(5a132f13505a6571904d622757b7a8f0\_img.jpg\) PR18.Schedules4and8@orr.gsi.gov.uk](mailto:PR18.Schedules4and8@orr.gsi.gov.uk)



**Thank you**