



Schedule 4 and 8 Re-calibration Working Group

Re-cap on what has been
agreed so far and next steps

May 2017

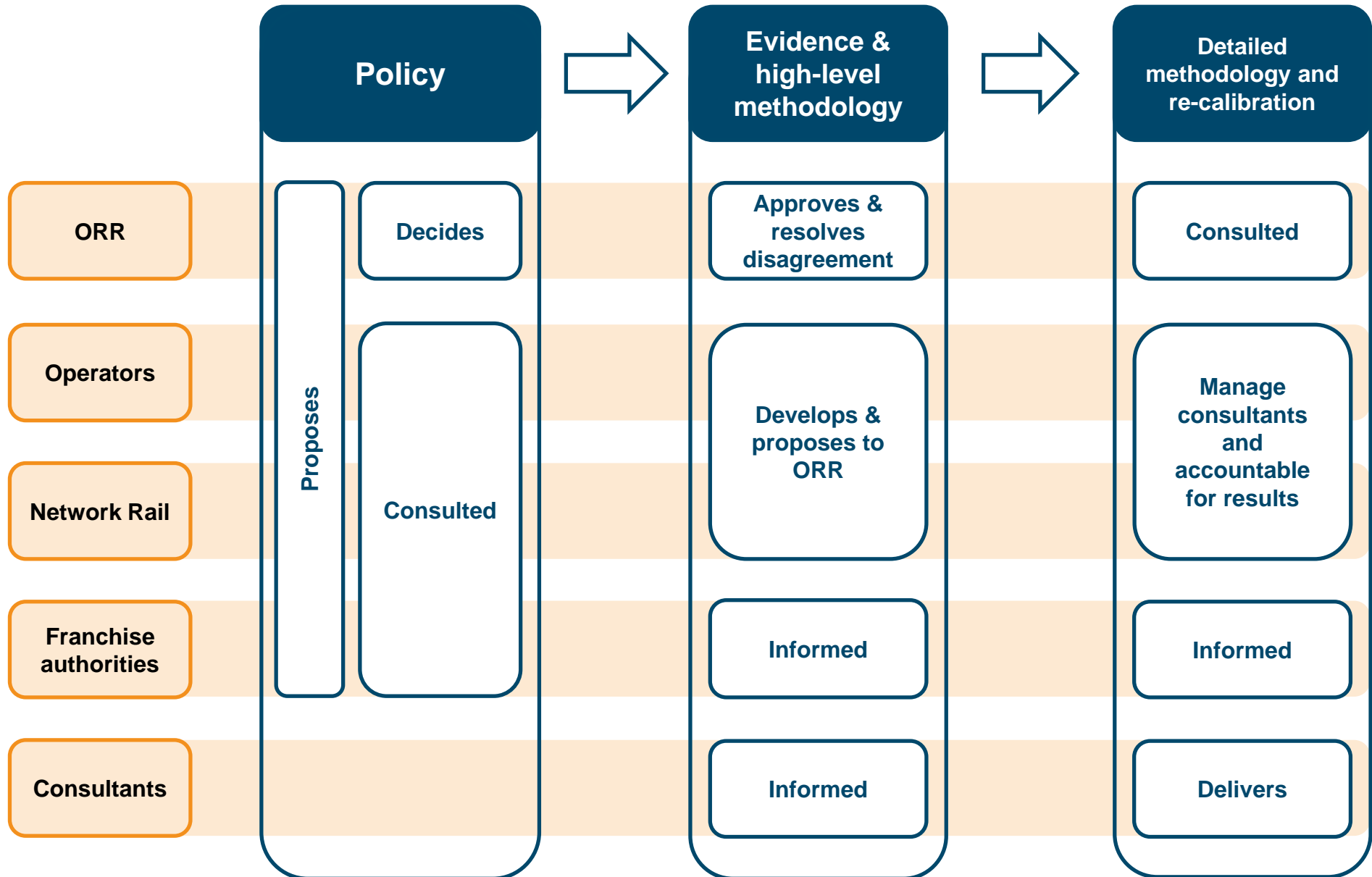


Schedule 4

Where we are on Schedule 4

- These slides summarise where we have reached in terms of the scope of the Schedule 4 re-calibration in terms of:
 - Approach to the re-calibration;
 - Bus replacement costs; and
 - Train mileage costs.
- At today's session we are also discussing:
 - ACS;
 - Bespoke compensation; and
 - Contractual wording issues.

Approach to the re-calibration



Bus replacement costs

- A range of options were discussed ranging from an inflationary uplift to a fundamental review.
- It was agreed at the working group that the re-calibration would be limited to:
 - Using cost data to review and assess the existing payment rates – any changes would need to be supported by evidence;
 - Considering whether the two rates are sufficient (e.g. is a separate intercity rate needed); and
 - Reviewing and assessing the appropriateness of the weightings used for full service replacements.

Next Steps

- We need to agree a process that enables industry to lead this work
- Operators provide the evidence needed to carry out the work
- ORR's role will be limited to resolving any disputes and provide appropriate checks and balances

Train Mileage Costs

- Two options were discussed – an inflationary uplift or a review of payment rate in light of changes to variable costs.
- It was agreed at the working group the scope of the re-calibration would be:
 - Review rates for variable costs included within the existing calculations; and
 - Consider whether there was evidence to support the inclusion of any other variable costs.

Next Steps

- We need to agree a process that enables industry to lead this work
- Operators provide the evidence needed to carry out the work
- ORR's role will be limited to resolving any disputes and provide appropriate checks and balances

ACS, Bespoke compensation and contractual wording

- The scope of the re-calibration work has been discussed today;

Next Steps

- For ACS and bespoke compensation:
 - We need to agree a process that enables industry to lead this work
 - Operators provide the evidence needed to carry out the work
 - ORR's role will be limited to resolving any disputes and provide appropriate checks and balances
- For contractual wording issues:
 - Operators to notify ORR of issues they think should be looked at
 - ORR will lead on these and engage with industry on the detail in due course
 - Note: it may not be possible to resolve all issues raise.

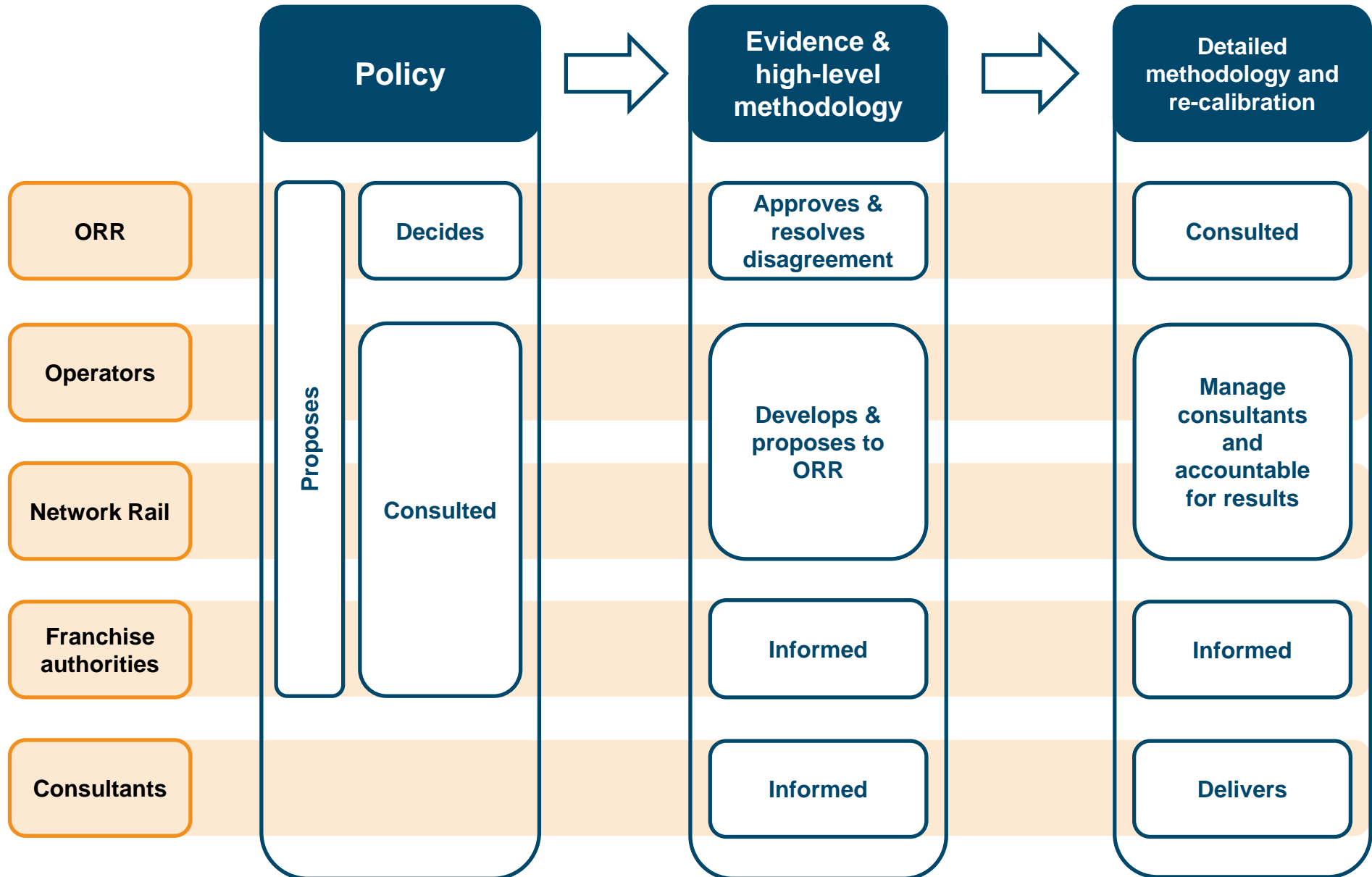


Schedule 8

Where we are on Schedule 8

- These slides set out what has been agreed so far in relation to each aspect of the re-calibration of Schedule 8 and the next steps.
- The slides cover:
 - The split of responsibilities
 - Benchmarks
 - Payment rates
 - Sustained Poor Performance (SPP)
 - Monitoring point weightings
 - Cancellation minutes

The split of responsibilities



Benchmarks

■ Passenger operator benchmarks

- In December 2016 we consulted on changing the approach to setting passenger operator benchmarks (de-linking them from past performance).
 - ❖ In light of the responses to the consultation, we are currently minded **not** to change the approach to setting benchmarks. However, this is a provisional view.
- We will finalise our decision in our conclusions document in June 2017.

■ Network Rail benchmarks

- The June 2017 conclusions document will **not** include any policy decisions that affect how the Network Rail benchmarks are set.

■ Next steps

- **Industry's role:**
 - Pick an appropriate re-calibration period.
 - Calculate the benchmarks for each service group.
- **ORR's role:**
 - To assess whether the evidence and methodology used is consistent with the principles of the policy, and to approve or reject the re-calibrated results accordingly.

Payment rates

■ Passenger operator payment rates

- The decision on moving to a TOC-on-TOC performance measure will impact how the passenger operator payment rates are set.
- We will confirm our decision in our conclusions document in June 2017.

■ Network Rail payment rates

- The June 2017 conclusions document will **not** include any policy decisions that affect how the Network Rail payment rates are set.
- Separately, the PDFH econometric work, which may provide new evidence to inform the re-calibration, is ongoing.

■ Next steps

- **Industry's role:**
 - Develop and agree a methodology for calculating Network Rail and passenger operator payment rates.
 - This should include proposals on how to incorporate the results of PDFH's econometric work, which should be driven by the robustness of the different sources of evidence.
 - Ensure that revised payment rates are calculated.
- **ORR's role:**
 - On the Network Rail payment rates: If agreement cannot be reached as to what evidence to use or how, ORR will make a decision.
 - Otherwise our role will be to assess whether the evidence and methodology used is consistent with the principles of the policy, and to approve or reject the re-calibrated results accordingly.

Sustained Poor Performance (SPP)

■ SPP provisions

- In December 2016 we consulted on changing the SPP provisions to allow claims to be made for costs only.
- We will confirm our decision in our conclusions document in June 2017.

■ SPP threshold

- The June 2017 conclusions document will **not** include any policy decisions that affect how the SPP threshold is set.

■ Next steps

- **Industry's role:**
 - To review the evidence for the level of the SPP threshold and develop proposals for revision, accordingly.
 - To calculate a new threshold based on updated evidence.
- **ORR's role:**
 - To assess whether the evidence and methodology used is consistent with the principles of the policy, and to approve or reject the re-calibrated results accordingly.

Monitoring point weightings

■ Re-calibrating monitoring point weightings

- In this Working Group it has been agreed that:
 - The location of monitoring points should be reviewed, since they were last updated around 18 years ago; and
 - Operators (with engagement from Network Rail routes) are best placed to suggest where the monitoring points should be for their services.

■ Next Steps

- **Industry's role:**
 - Operators and Network Rail to agree new monitoring points.
 - Industry to calculate new weightings based on the new monitoring points.
- **ORR's role:**
 - To check the methodology used to re-calibrate the monitoring point weightings.

Cancellation minutes

■ Re-calibrating cancellation minutes

- In this Working Group it has been agreed that:
 - Cancellation minutes should continue to be calculated by multiplying the service interval by a fixed number (the 'service interval multiplier');
 - The service interval multiplier should be updated if operators can demonstrate that it does not accurately represent the financial impact they experience when one of their services is cancelled;
 - If no evidence is provided for a service the service interval multiplier will remain 1.5.
- We discussed the need for ORR to make clear operators role on this. What is still required?

■ Next steps

- **Industry's role:**
 - Operators to provide evidence to Network Rail if they think their service interval multiplier should be re-calibrated.
 - Industry to calculate a new service interval multiplier in cases where there sufficient evidence has been provided.
- **ORR's role:**
 - For services where the service interval multiplier is changed ORR will check the evidence and methodology used.



Next steps

ORR 'mini' consultation

- We previously discussed having a 'mini' consultation on Schedules 4 & 8 in June or July 2017.
- The purpose of this consultation was to hear industry's views on significant changes to policy or methodology that hadn't been formally consulted on, such as new approaches to setting benchmarks.
- As it does not appear that there will be any new significant changes to policy or methodology another consultation does not seem necessary.
- Instead we intend to publish a summary on what has been agreed in these working group meetings.
- Are there particular points from these meetings that you would like that note to reflect?

Next steps

■ Working Group meetings

- This is the last Working Group meeting that will be led by ORR.
- RDG will lead future meetings, although ORR will continue to attend.
- ORR's role at future Working Group meetings will be to oversee the work to ensure it is in line with the principles that have previously been agreed and to step in if there are any disputes.