



# Re-calibration of Schedule 4

TOC Working Group

10 April 2017

# Purpose of these sessions

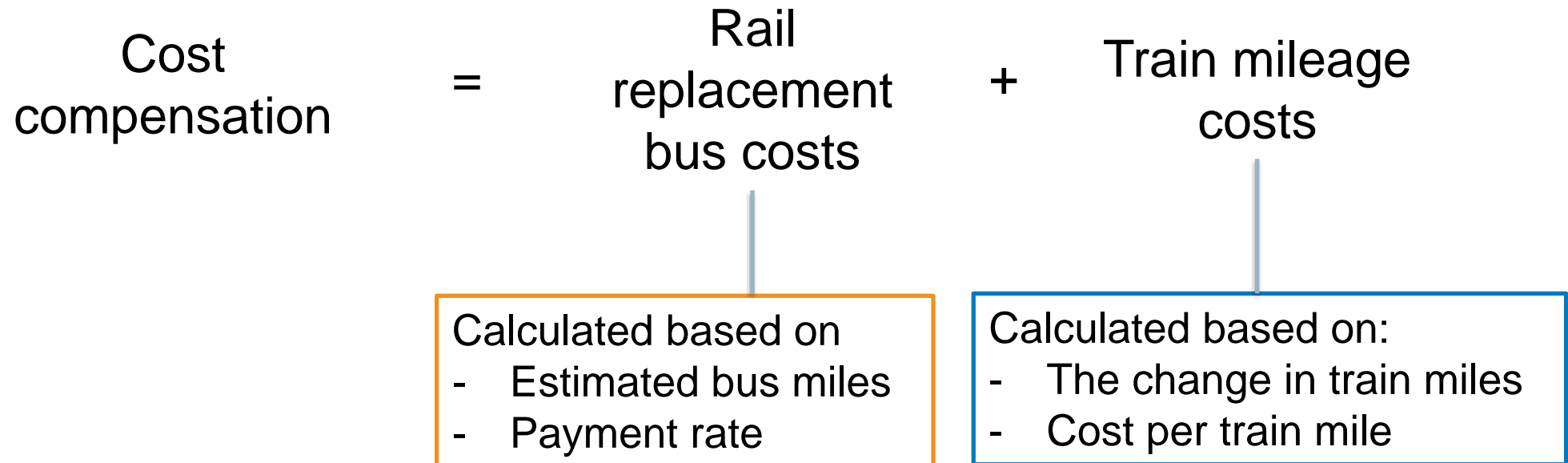
- To agree the detailed scope of the recalibration work by June to enable industry deliver the work needed
- The focus is on re-calibration not policy i.e. its about the specific numbers in the formula and detailed methodology rather than reviewing principals or fundamental aspects of the methodology.

Issue to discuss	When
Bus replacement costs	10 April 2017
Train mileage costs	10 April 2017
Contractual wording	Initial discussion on 10 April
ACS methodology	May meeting
SPD and bespoke compensation thresholds	May meeting
Notification Discount Factors	May meeting



# Cost compensation

# Cost compensation



- The basis for these calculations is the analysis carried out as part of PR08
- However they were updated during PR13:
  - EBM rates adjusted to bring compensation paid in line with actual costs
  - TMC rates updated by inflation



## Rail bus replacement costs

# Current methodology

Rail replacement bus costs (RRBC) = Estimated bus miles (EBM) x Estimated bus miles payment rate (EBMPR)

For full route replacement:

$EBM = \text{Weighting} \times \text{miles}$

Weighting varies by segment of route

For partial replacement:

$EBM = 0.5 \times \text{miles} \times \text{ITS}$

ITS being linked to stops at intermediate stations

Fixed rates - currently two rates one for LSE (£14.29\*) and one for the rest of the country (£9.66\*)

\* In 2012/13 prices

# What is the basis for this approach?

- Formulaic cost compensation introduced as part of a fundamental review of Schedule 4 as part of PR08
- Analysis of TOC data found replacement bus costs accounted for the majority of TOCs' possession costs (c 90%+)
- This analysis also confirmed that none of the simple measures of disruption (number of possessions, length of possessions etc) provided an adequate basis for calculating compensation
- Concept of estimated bus miles (EBM) was established as an alternative:
  - Data was collected from 5 TOCs who agreed to participate (data was for all replacement bus costs not the cost of one bus – reflecting the fact that one cancelled train may need multiple replacement buses)
  - Statistical analysis shows that there was a reasonable linear relationship between EBM and replacement bus costs (more so than the alternatives put forward)
- Pre-established lookup values used to calculate bus cost compensation to allow TOCs to plan/budget possession costs compensation according to agreed, predictable and calculable rules.

# Example EBM lookup values

Route Section	FULL rail replacement bus service weight = 1.0	NO rail replacement bus service weight = 0.0	PARTIAL rail replacement bus service weight = 0.5 x % trains stopping	
			Section	% trains stopping at intermediate stations
Stations A - M	Stations F - I	Stations I - M	Stations A - F	33%

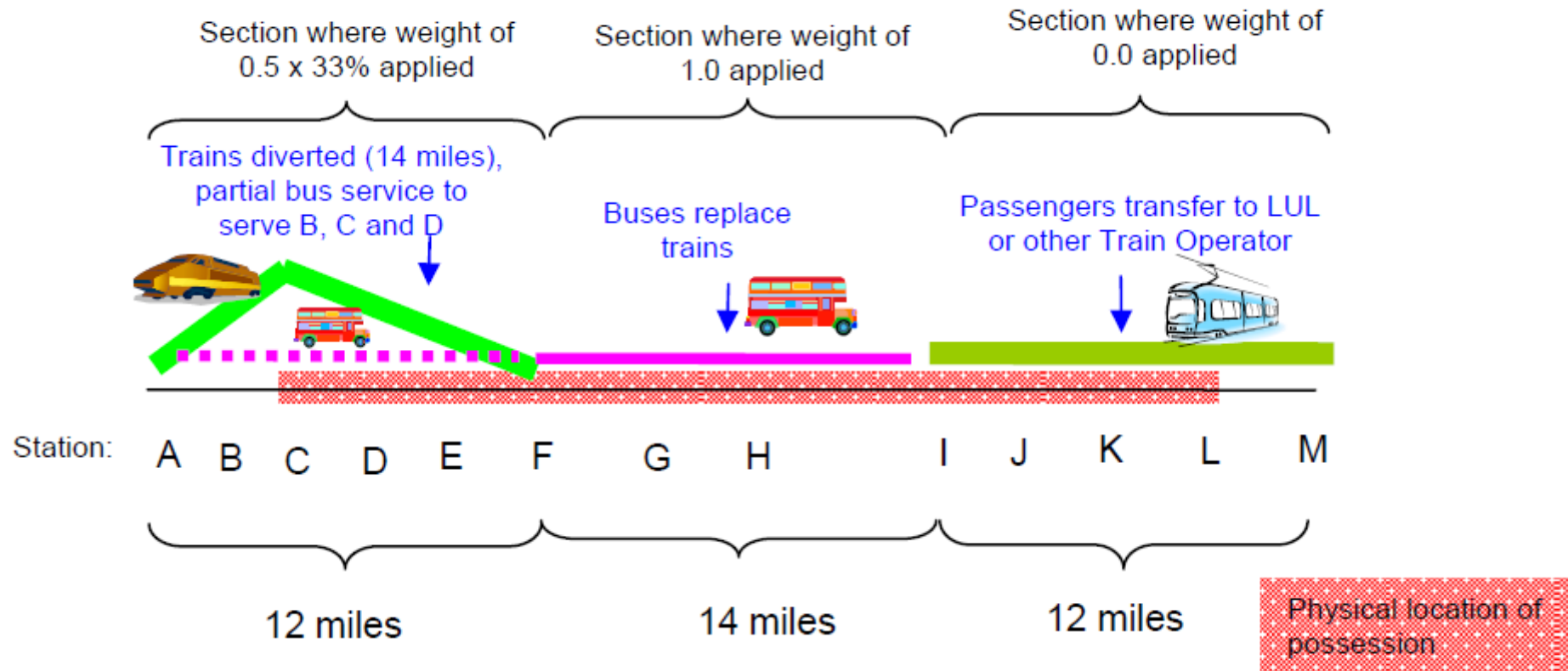
Section where weight of 0.5 x 33% applied      Section where weight of 1.0 applied      Section where weight of 0.0 applied

Station: A B C D E F G H I J K L M

12 miles      14 miles      12 miles



# Example replacement bus cost compensation calculation



## Rail Replacement Bus Costs:

$$= \text{£}12.70 \times \text{EBMs} = \text{£}12.70 \times (12 \text{ miles} \times 0.5 \times 0.33 + 14 \text{ miles} \times 1.0 + 12 \text{ miles} \times 0.0) \times 30 \text{ trains}$$

$$= \text{£}6,088$$

## Train Mileage Costs:

$$= \text{£}2 \times \text{TMOs} = \text{£}2 \times (14 \text{ miles} \times 30 \text{ trains} - (12 \text{ miles} + 14 \text{ miles} + 12 \text{ miles}) \times 30 \text{ trains})$$

$$= -\text{£}1,440$$

## Total Compensation:

$$= \text{£}4,648$$

# Options for re-calibration

## **Option 1:** Do minimum (Base case)

- Uplift current rates inline with inflation

## **Option 2:** Update the payment rates only

- Use cost data to review and assess the existing payment rates – any changes would need to be supported by evidence;
- Consider whether the two rates are sufficient (eg is a separate intercity rate needed)

## **Option 3:** Update payment rates and review weightings

- As per option 1 but also review and assess the appropriateness of the weightings used for full service replacements

## **Option 4:** Review methodology

- Fundamental review of the methodology underpinning the calculation of bus replacement costs

# Discussion of options for re-calibration

Three possible areas for recalibration (covered in options 2-4):

- Payment rates
- Weightings
- Methodology

The key issue is what recalibration of these would deliver compared to the work involved – as opposed to simply adjusting rates for inflation (option 1).

## **Questions for discussion:**

- Is there any evidence that bus rates have changed significantly since PR13 (compared to RPI)?
- Is there any evidence of issues with the weightings?
- Is there any evidence that the underlying methodology is no longer fit for purpose? (eg is there any evidence that the linear relationship between EBM and replacement bus costs has changed?)



# Train mileage costs

# Current methodology

$$\text{Train mileage costs (TMC)} = \text{Change in miles (TM)} \times \text{Payment rate per train mile (TMPR)}$$

## Basis for this approach

- Intended to take into account the savings made (or costs incurred) by not running (or diverting) services
- Intended to reflect the variable access charges paid by each TOC and fuel costs
- Does not include changes in the staff or maintenance costs as a result of possessions

# Options for recalibration

**Option 1:** Uplift payment rate inline with inflation (Base case)

**Option 2:** Review payment rate in light of changes to variable costs including VUC, fuel costs. Including considering whether other variable costs should be included.

## **Our initial thoughts:**

- During PR13 rates were simply increased in line with inflation
- It may therefore be appropriate to review the rates more fully in PR18
- Option 2 should be manageable within the timeframes and deliver a more accurate incentives/compensation level



# Contractual wording

# Issues with contractual wording

- Various people have raised different issues with the existing contractual wording
- It would be helpful if we could have a common log of known issues
- This would then allow us to consider possible fixes

Ref	Specific paragraph reference	Brief summary	Raised by	Detailed description of the issue	Possible solutions
Example	Schedule 4 Part 3 paragraph 3.6	<b>Bus - Train Payments:</b> it is unclear what is meant by 'terminating at a destination other than that shown for those Trains'	GWR	It might mean the train unit finishes and then another train is used from the next station, because the journey and destinations are still reached in order to have a WACM of 0	Amend the definition of TTSSG

- We will circulate a template (populated with issues we are already aware of) – can parties please populate this by the end of April
- We can then discuss the issues at our May or June WG