

6th RDG PR18 system operation working group

Note of meeting held on 7 September 2016 at ORR's offices

Attendees: Garry White, Chair (Network Rail), Matthew Lutz (Network Rail), Bill Davidson (RDG), Oliver Mulvey (DfT), Benn Hall (DfT), Richard McClean (Arriva), Nigel Jones (DB Cargo), Andy Wylie (First Group) (by phone), Chris Hemsley (ORR), Siobhán Carty (ORR), Alex Bobocica (ORR), Raminta Brazinskaite (ORR), Geoffrey Horton (ORR / Europe Economics), Ben Tannenbaum (ORR / Europe Economics)

Apologies/not present: Lindsay Durham (Freightliner), Graeme Hampshire (Stagecoach), Martin Baynham-Knight (Keolis), Peter Graham (Freightliner), Steve Price (ATOC), Chris Peaker (Go Ahead), Roger Cobbe (Arriva), Jonathan Pugh (Network Rail), Guy Woodroffe (RSSB), Joanna Walker (Abellio), Chantal Pagram (Go Ahead)

Introduction and governance arrangements

1. **This note summarises the main points of discussion at the meeting. It is not intended to represent the position of RDG or other attendees of the working group. Its purpose is to record key points to inform ORR's policy development and to provide transparency to interested stakeholders not present at the meeting.**
2. The purpose of the meeting was to discuss ORR's emerging observations on stakeholders' feedback to our working papers. This included discussion on the system operator functions, potential options for regulating the Network Rail system operator and system operation issues and opportunities for prioritisation.

General points

3. ORR explained that it intends to publish its system operator consultation in mid-November 2016. The closing date of this consultation was likely to be in early-mid January 2017. The consultation is intended to support a more iterative process to developing policy on system operation.

The system operator functions

4. The group made the following points on the system operator functions:
 - (a) There was no common understanding about the role of the system operator and that it would need to continue to evolve going forward. The

latter comment was made in light of changes that control period 6 (CP6) would bring. For example, at this stage it was not clear how routes and the rest of Network Rail (i.e. the centre) would interact;

- (b) The system operator needs to be consistent with the way it treats other infrastructure managers;
- (c) The Network Rail System Operator (NRSO) should have capability to supply information to bodies like ORR and DfT to help them make decisions on access rights or future franchises; and
- (d) The system operator not only lacked incentives, it also lacked capabilities to deliver its role.

Possible design options for regulating the system operator

- 5. The following points were made on certain aspects of the potential options for regulating the system operator:
 - (a) Regarding the treatment of system operator costs:
 - (i) It may be preferable to focus on increasing the transparency of the NRSO's capex and opex costs rather than introducing various efficiency mechanisms, designing new charges or having a separate RAB for the NRSO. At the same time, attendees also recognised the need to incentivise the NRSO to be proactive;
 - (ii) The NRSO would need to be properly resourced to ensure the delivery of its outputs;
 - (iii) Having a revenue requirement for the system operator could create risks on its business. This could restrict business flexibility in terms of allowing it to evolve and adapt to meet the needs of its customers;
 - (iv) The treatment of capital costs was important as well. It was not clear how the NRSO developed its business cases;
 - (v) Based on previous cases, some investments in the NRSO capability offered better returns than some investments in physical assets; and
 - (vi) The regulatory framework would need to ensure that the NRSO had the ability to make investments where it needed to, i.e. these investments could get included in strategic NRSO business plans.
 - (b) Regarding system operator outputs and incentives:
 - (i) System operator outputs would need to be customer orientated to reflect different markets and products. For example, for some operators (particularly freight) cross-route corridors were very

important. Therefore, performance may need to be measured at that level instead of being measured at a route level;

- (ii) In addition to monetary incentives, the NRSO would need some reputational incentives, which could be very effective.

Issues and opportunities

6. The group made the following comments on ORR's system operation issues for PR18:
 - (a) In its working paper 2, ORR did not identify significant or systematic issues associated with short-term system operation. The comment was made that whilst that was right at that point in time, this could change in the future, i.e. how the short-term system operation was undertaken could change as a result of e.g. automated traffic systems, etc.;
 - (b) Network Rail did not have good incentives on capacity management compared with its incentives regarding performance; and
 - (c) Other issues that ORR suggested it would not focus on for PR18 (as part of the issues and opportunities work) included, for example, issues related, to the time limited nature of franchises and CAPEX biased incentives to improve performance and capacity. Although, the latter could potentially be mitigated as a result of better incentives for NRSO.

Future meetings

7. The group suggested that it would be helpful to have an update on the outputs framework for CP6 in the future.