

# RDG PR18 System Operator working group

## Note of meeting held on 26 May 2016 at RDG's offices

**Attendees:** Garry White, Chair (Network Rail), Bill Davidson (RDG), Peter Graham (Freightliner), Nigel Oatway (DB Cargo), Steve Price (ATOC), Richard McClean (Grand Central), Emily Bulman (ORR), Alexandra Bobocica (ORR), Raminta Brazinskaite (ORR – note taker)

**Apologies/not present:** Nigel Jones (DB Cargo), Chris Peaker (Go-Ahead), Andy Wylie (FirstGroup), Graeme Hampshire (Stagecoach), Martin Baynham-Knight (Keolis), Dean Johnson (National Task Force), Roger Cobbe (Arriva), Jonathan Pugh (Network Rail).

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### Introduction and governance arrangements

1. This was the first meeting of the RDG PR18 System Operator working group. The purpose of the meeting was to introduce the PR18 consultation process. The discussion also covered at a high level the system operation working papers to be published as part of the PR18 consultation in early June.
2. It was agreed that this and future System Operator working group meetings will be managed under the Chatham House Rule. It was also agreed that ORR will be responsible for producing a summary note of each meeting.
3. This note summarises the main points of discussion at the meeting. It is not intended to represent the position of RDG or individual working group members. Its purpose is to record key points to inform ORR's policy development and to enable interested stakeholders not present at the meeting to see the main points of discussion.
4. The group discussed the membership of the group. It was agreed that representatives from DfT and Transport Scotland should be invited to join.

**Action: RDG agreed to invite DfT and Transport Scotland to the group.**

### PR18 initial consultation

5. ORR presented slides on its initial consultation on PR18 (published 18 May 2016). It set out the key areas included in the document (i.e. funding, charges, incentives and outputs for Network Rail) which will also be the subject of discussion at the different RDG groups that have been set up. Key points of discussion are set out below. The views expressed do not necessarily reflect the views of the group as a whole.

### Route devolution and stakeholder engagement

6. PR18 needs to support Network Rail's devolution to its routes, including better engagement with its customers at the route level.

7. As part of PR18 there needs to be more engagement with end-users, including passengers and freight customers. For example, it was suggested that passengers could get involved in this process via the train operators.
8. The group discussed the boundaries of the current Network Rail routes and whether they are appropriate. Network Rail is going to look at this as part of its response to the Shaw review recommendations. In light of this, the focus for PR18 should be on establishing principles for route-based regulation that would allow flexibility if circumstances change, including between one or more routes and the system operator.

### **System operation**

9. In light of greater devolution to the routes, the importance of the national system operator increases, e.g. to support cross-boundary passenger and freight operators.
10. The system operator function needs to be flexible to manage different arrangements, e.g. if we have different routes in the future or if more routes are formed through concession agreements such as HS1. This means that the System Operator structure needs to be future-proof and able to accommodate changes.
11. The boundaries of the activity of Network Rail's rail operating centres (ROCs) do not necessarily align with routes. The question was then asked how that affects system operation or route regulation.
12. We need to be clear about the boundaries of the system operator and its interaction with the routes.
13. There has to be some flexibility in moving funds between various settlements for Network Rail to ensure that we operate our railway effectively and efficiently. This needs to be done transparently.

### **Enhancements**

14. The group discussed the proposed PR18 approach to enhancements. This approach emphasises that there are different funders and, therefore, it might allow funders to choose from a menu of options for the regulatory treatment of enhancements. It was then asked whether PR18 would consider who is best placed to deliver these enhancements. The group considered that this is very important as there are different means to deliver enhancements, e.g. routes or third parties could deliver them.
15. Although a separate RDG PR18 working group was being set up to look at enhancements, the discussion around enhancements highlighted that there are significant overlaps with other working groups (e.g. as in the case with enhancements that have links with the work on system operation). The System

Operator working group agreed that there needs to be a system to pick up any overlaps between different working groups.

**Action: RDG to investigate how to ensure that different overlaps between working groups are addressed.**

## Other

16. It was noted that the capacity charge needs to be reviewed. The charge will be looked at by ORR and will also be discussed as part of another working group (i.e. Schedules 4 & 8 and the capacity charge sub-group).
17. A comment was made that there is a lack of common objectives for the industry: operators and Network Rail have different objectives. It was also argued that different incentives need to be better aligned to enable Network Rail to make efficient trade-offs. For example, the system operation scorecard clearly shows that there are some contradicting objectives, e.g. more services versus better performance.
18. Stations and depots are often run by third parties. However, these are fundamental to capacity. It is important to know if they are part of individual routes or national infrastructure. What are the implications if they are sold? The regulatory structure needs to envisage different future circumstances.
19. Although a lot of work has already been done, e.g. concerning route devolution ( e.g. routes were announced in 2011 followed by a significant amount of monitoring that was shifted to the routes), PR18 presents a very ambitious agenda that will try to tackle a number of different issues .
20. PR18 is likely to introduce more complexity to the system that needs to be managed early on in the process. For example, people who are on the ground and whose activities are going to be affected are not involved in PR18 discussions. Industry needs to make upfront investments to ensure that these people understand how these new regimes will affect their day-to-day activities.
21. Having the right skills is an important issue for both freight and passenger operators, i.e. to enable them to deal with upcoming industry changes including increased route devolution.

## PR18 initial consultation system operation working papers

22. ORR gave a high level overview of the system operation working papers (i.e. WP2: system operation initial views on potential issues and opportunities and WP3: system operation initial views on the regulatory framework for Network Rail's system operator function). ORR is also publishing a conclusions note to the August 2015 consultation.

23. It was noted that more clarity is needed in terms of how we define and label system operation activities. For example, Network Rail's system operation functions have separately been referred to as the network system operator, central system operator and national system operator. The group needs to make sure that it uses consistent definitions. If there are any differences in these definitions, the group then needs to be clear about that.
24. The group planned to produce a formal response to the PR18 initial consultation. To do so, the group will need to agree about how to bring the group's views and comments into a single formal response.