

## RDG PR18 working group

### Note of meeting held 9 October 2017 at RDG's office

Attendees: Bill Davidson (RDG), John Thomas (RDG), Tom Wood (RDG), Steve Price (RDG), Dan Boyde (RDG), Richard McClean (Arriva), Lanita Masi (East Midlands Trains), Andy Wyllie (First group), Richard Dean (Abellio), Raj Patel (GTR), Sue Rhymes (Virgin) [on phone], Richard Clarke – DB cargo, Lindsay Durham – Freightliner, Ian Kapur – GBRF, Carl Kent – GBRF, Maggie Simpson – RFG (on phone), Phillippa Andell – NR, Peter Swatridge – NR, Ben Worley – NR, Sarah Capper – NR, Andrew Wahome – NR (on phone), Denise Wetton – NR (on phone), Adam Mantzos – Brockley consulting (on phone), Dan Moore – DfT (on phone), Chris Clarke – TS (on phone), Carol Smales – TfL, Siobhan Carty – ORR, Alex Bobocica – ORR, Nicholas Hall – ORR, Lynn Armstrong – ORR (on phone).

Agenda items	Lead
1. Update on NR's transformation plan	<b>Network Rail</b>
2. Update on proposals for Route Supervisory Boards	<b>Network Rail</b>
3. ORR overview of infrastructure cost charges consultation and market can bear (MCB)	<b>ORR</b>
4. Fixed cost allocation methodology	<b>Network Rail</b>

## 1. Update on NR's transformation plan

1. Network Rail outlined the background to the Transformation & Efficiency directorate which was set up in July 2017. The team's overriding purpose is to provide oversight, support and help to accelerate the pace of change regarding Network Rail's activities, rather than the delivery of changes themselves.
2. Network Rail explained that it applies a holistic approach across change projects by pulling together various commitments into one portfolio, thereby providing one point of contact for external stakeholders.
3. Network Rail presented a breakdown of the Transformation & Efficiency Plan. Each activity within the plan has been allocated an Executive Owner to ensure transformation projects are being delivered with a high degree of focus and accountability.

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4. Further detail was provided on the team's work on Culture within the organisation. Six fundamental cultural pillars supporting transformation have been identified. The historical attention to Safety will be extended to also focus on Customers, Continuous Improvement, Cost Consciousness, People Management and Diversity & Inclusion.
5. The team's current work in progress includes (i) setting direction & approach (ii) providing support for other elements of the business and (iii) providing assurance around the delivery of projects.
6. It was commented that the priorities under the Transformation plan looked to be centrally focused and that there should be consideration to increasingly reflect the devolved route structure and stakeholders views.
7. Network Rail confirmed that the team currently numbered 25 with 2 portfolio directors and that timelines had been drawn up to ensure the delivery of targets.

## **2. Update on proposals for Route Supervisory Boards**

8. Network Rail outlined its current thinking regarding the purpose of the Route Supervisory Boards (RSB) – to help to bring track and train closer together at the local level. The RSBs are intended to perform an advisory and supervisory role, looking to improve business performance for end users through the use of the industry scorecards.
9. An update was provided on the PwC Independent Review into the effectiveness of the Western Route Supervisory Board, which has now completed. The review highlighted many strengths to the current operation of the RSB whilst identifying areas for improvement including better information sharing with TOC and FOCs not represented on the RSB and clarification of the strategic priorities, reporting requirements and governance structure. Key proposed changes were highlighted.
10. There was considerable discussion about the RSBs. Concerns were raised that there had been a shift away from using the RSBs to hold Network Rail to account towards using them to make industry-wide decisions regarding areas where Network Rail and operators work together. Some attendees argued strongly that the roles and responsibilities of the RSBs need to be clarified and the RSB chairs need to be “properly trained” about what it is and is not appropriate to discuss.
11. A lack of consistency in membership of the boards was highlighted with some RSBs restricting the number of operators on the Board while others do not. Concerns were also raised about the practicalities of needing to participate in another industry forum and that where capacity constraints prevent the attendance of those invited as optional attendees, their ‘consent’ to the decisions of that group should not be assumed. In addition, required practices related to the publication of the minutes and papers of the meetings should be clarified.

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12. There was further discussion on scorecards and how RSBs would utilise them.
13. Network Rail agree to revert back to the group with further clarity on issues raised.

### **3. ORR overview of infrastructure cost charges consultation and market can bear (MCB) test**

14. ORR confirmed that it had published a PR18 consultation on the approach to charges recovering fixed network costs (which have been called *infrastructure cost charges*). The consultation has set out proposals on:
  - The market segmentation for freight services, and an initial view on which market segments appear to be able to bear charges above directly incurred cost in CP6;
  - A potential approach to a market segmentation for passenger services; and
  - The design of passenger infrastructure cost charges.
15. It was confirmed that the consultancy studies supporting this work will be published shortly.

#### Freight

16. ORR propose to retain the existing approach to recovering fixed network costs from freight operators broadly unchanged. No change is proposed to the current (CP5) market segmentation.
17. The 'ability to bear' in key freight market segments have been reviewed and it is proposed that the 3 commodities which were required to pay infrastructure charges in CP5 (ESI coal, iron ore and spent nuclear fuel) continue to do so in CP5. In addition, ORR has proposed to allow Network Rail to levy infrastructure cost charges on trains carrying biomass in CP6.

#### Passenger

18. A possible market segmentation approach for passenger services has been investigated, based on analysis undertaken by ORR's consultants. The initial view based on the analysis undertaken, is that major intercity and long-distance commuter services appear to have the ability to bear charges above directly incurred cost.
19. This analysis provides one possible approach to defining market segments but further issues still need to be worked through in order to develop a firm market segmentation proposal, and define which services should be subject to infrastructure cost charges in CP6

#### Other issues discussed

20. Approach for levying infrastructure cost charges on open access operators is being considered along with possible changes to way the FTAC, which is currently paid by franchised passenger operators, is levied.
21. The consultation is open until 30 November 2017 and ORR is keen to receive feedback on what has been outlined.
22. It was clarified that further work will be required in order to develop final proposals in this area. This work will include ORR looking at its access policy in light of the possible introduction of infrastructure cost charges for open access services (which can bear such charges).
23. Concern was voiced that there is a lot of work to be completed before final proposals are set out, and this could represent a significant risk for franchises, especially those coming up for renewal.

## 4. Fixed cost allocation methodology

24. Network Rail presented and sought views on its consultation on the methodology for allocating fixed costs to train operators in CP6, which was published on 22 September 2017.
25. A better understanding of fixed costs across the network has the potential to improve industry decision making and understanding of the distribution of funding/subsidy across the network.
26. The consultation focuses on the methodology for allocating all regulatory costs (not charges) to train operators in CP6. Network Rail is proposing that the new methodology proposed by Brockley Consulting is used in CP6, but ORR will decide whether it should be adopted.
27. Costs are allocated to c.3,100 individual track sections and then are only allocated to the train services that use those track sections, where possible, using an 'avoidable cost' approach which aims to establish a direct link between traffic and long-run costs. Costs to operators under the new method were presented.
28. There was discussion of what is meant by 'avoidable costs'. Some operators stressed that not all of the costs which can be allocated to an operator based on the avoidable costs methodology could realistically be saved were those services to stop running on the network. There was agreement that the presentation and use of wording on this issue would need to be carefully considered.
29. There was concern expressed regarding how published cost information could be perceived by industry participants and that further discussion would be required on this point.

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30. It was confirmed that the cost caused by Network Rail infrastructure trains have been treated as a central overhead cost, and allocated to all services.
31. Responses to the consultation were requested by COB 17 November 2017.

## Other business and next meeting

32. **ACTION** – RDG to circulate the presentation from the System Operator that described a draft governance framework including proposals for an Advisory Board along with Network Rail's presentations on its Transformation plan, its proposals for Route Supervisory Boards and the review by PWC on the supervisory board proposals.
33. The next meeting is on 30 October 2017. The current agenda items include an update on responses to the PR18 Overall Framework consultation.