

RDG PR18 route regulation, charges and incentives working group

Note of meeting held on 2 March 2017 at RDG's offices

Attendees: James McKay, Chair (RDG), Bill Davidson (RDG), Russell Evans (First Group), Peter Swatridge (Network Rail), Ben Worley (Network Rail), Caitlin Scarlet (Network Rail), Maggie Simpson (Rail Freight Group), Elizabeth DeJong (RDG), Graeme Hampshire (Stagecoach)

For items 2 and 3: Alexandra Bobocica (ORR), Joe Quill (ORR)

Introduction

1. This note summarises the main points discussed. 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:
 - I. **RDG's response to ORR's December 2016 charges and incentives consultation.** *ORR did not attend for this part of the discussion and therefore no points are recorded below. ORR will be publishing responses to the consultation on its website in due course;*
 - II. ORR update: **overview of approach to PR18 market can bear test;** and
 - III. ORR update: **outline of working paper setting out a methodology for assessing the overall financial impact of charges.**
3. There was also a discussion around RDG's members views on proposal to fund work for the recalibration of Schedule 8 (*this is not recorded in this note*);

ORR update: overview of approach to PR18 market can bear test

4. ORR presented the proposed high level approach for the PR18 market can bear test. This approach is being developed into an invitation to tender (ITT) document which will be issued by the end of March. ORR will circulate the draft ITT to the members of the RDG route regulation, charges and incentives working group for comment before publication.
5. Points raised by attendees in relation to the freight market can bear test:

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- a. A proportionate approach needs to be taken when investigating a potential geographic dimension for the market segmentation – this might become very complex very quickly;
 - b. For biomass, the assessment will be looking at the economics of very specific businesses (i.e. there is a small number of power stations currently in operation). The assessment will need to reflect this (e.g. by engaging with the relevant companies);
 - c. ORR needs to take account of potential complications in terms of Network Rail's billing system resulting from a geographic element being introduced to the market segment definition;
6. Points raised by attendees in relation to the passenger market can bear test:
- a. Clarification was sought around ORR's approach for the market segmentation for passenger services and whether it would be based on current open access services running on the network. ORR explained that the market segmentation should be comprehensive and will therefore be based on all services running on the network. This will be used to produce a list of market segments. The second stage of the work will involve assessing the ability to bear for each of these market segments, in order to inform the setting of mark-ups for services which are not run by franchised passenger operators (core services). ORR's working assumption is that the ability to bear assessment for core franchised services would be based on the current approach to franchising (including the fact that operators are held harmless to changes in charges);
 - b. Given the high proportion of services currently running which are specified by franchising authorities, it seemed like the effort involved in undertaking the market segmentation analysis is high relative to the number of services it could impact;
 - c. Attendees also highlighted that known categorisations of services (e.g. intercity / LSE / regional) should be explored.
7. There was a general discussion around concerns regarding the point at which ORR would set the threshold for what the market can bear (in relation to both freight and passenger services). ORR explained that this would be set on the basis of the analysis, with the ultimate decision on the acceptable level of impact on traffic (and therefore the level at which to set the charges) being taken by ORR's Board.
8. There was also a point raised by some attendees around what recourse operators would have if they did not agree with ORR's assessment of what the

market can bear (or if indeed the level set turned out to be unaffordable). ORR clarified that it would be consulting on the caps for what the market can bear in advance of the draft determination, and would also keep industry updated of emerging findings while the analytical work is taking place.

ORR update: outline of working paper setting out a methodology for assessing the overall financial impact of charges

9. ORR presented its proposed approach for assessing the overall financial impact of our PR18 charging proposals.
10. Stakeholders noted that given the timings proposed by ORR (initial assessment to be completed by June 2017), this model would be used before any data will be available on the level of variable charges in CP6.
11. The attendees asked for clarification regarding the purpose of this work. ORR clarified that the purpose of the tool / model being developed is to test the impact of our policy decisions. At a first stage this is not intended to assess the impact of other changes (e.g. in Network Rail's costs).
12. Some attendees noted that while this analysis would be something useful for ORR to undertake, it might be better for this to be done once Network Rail's draft price lists are available (i.e. a timing point).