

PR18: Schedule 4 and 8 Re-calibration Working Group

Meeting 2: Note of the passenger operator Re calibration Working Group meeting held on 10 March 2017 at ORR's London offices

The purpose of the note

1. This note summarises the actions and key decisions agreed in the passenger operator meeting of the Schedule 4 and 8 Re-calibration Working Group (hereafter: the Working Group) meeting held on 10 March 2017.
2. In the meeting the group discussed: (i) RDG's project plan for the re-calibration of the passenger Schedule 8 regime; (ii) the re-calibration of monitoring point weightings and cancellation minutes; and (iii) the re-calibration of benchmarks for operators and Network Rail.
3. The slides ORR presented in the meeting are available on the ORR website¹.

RDG's project plan for the re-calibration of Schedule 8

4. Points of agreement

- The Working Group agreed with the proposal to split the re-calibration of the passenger Schedule 8 regime into two phases. Phase 1 will cover the re-calibration of monitoring point weightings and cancellation minutes, while phase 2 will focus on benchmarks, payment rates and the Sustained Poor Performance (SPP) threshold. It was also agreed that phase 2 will include the audit of the work done in phase 1.
- The Working Group agreed with the proposal to have a three stage sign-off approach for any work that consultants will do for the group. The three stages are:
 - **Stage 1:** Consultants present methodology and initial results to industry at this working group.
 - **Stage 2:** Consultants address any concerns with the methodology raised in Stage 1. Consultants present any changes at the following Working Group meeting and provide industry with a final opportunity to raise concerns.

¹ The slides from 10 March 2017 Schedule 4 & 8 recalibration working group, along with the notes and slides of other working group meetings, are available [here](#).

- **Stage 3:** Final sign-off of the re-calibrated results and this is confirmed in this Working Group.

5. Concerns raised

- The Working Group raised the point that some operators, such as GTR, Thameslink and Crossrail, will require a bespoke Schedule 8 re-calibration. Some operators were concerned about this work and how it will interact with the rest re-calibration of the regime for other operators. Some operators felt that this had not been reflected in the re-calibration project plan.

6. Actions

- **RDG** to set out an initial view of the process for including the bespoke re-calibration to the main re-calibration of the regime in the Schedule 8 re-calibration project plan.
- **ORR** to investigate the re-opener provisions available for Schedule 8, where necessary to facilitate bespoke re-calibrations.

Monitoring point weightings and cancellation minutes

7. Points of agreement

- The Working Group agreed that the location of monitoring points should be reviewed, since they were last updated around 18 years ago.
- It was agreed that operators (with engagement from Network Rail routes) are best placed to suggest where monitoring points should be for their services.
- The Working Group agreed that cancellation minutes should continue to be calculated by multiplying the service interval by a fixed number.
- There was broad agreement that the number the service interval is multiplied by to calculate the cancellation minutes should be updated if operators can demonstrate that it does not accurately represent the financial impact they experience when one of their services is cancelled. However, operators would need to provide robust evidence to support any change.

8. Points of clarification

- The Working Group stated that, contrary to ORR's slides, the weighting for a monitoring point is based on farebox revenue at stations, not passenger numbers.
 - Note: it was clarified at the 10th May Working Group that monitoring point weightings are indeed based on passenger numbers.

- In relation to monitoring point weightings there are essentially two parts to the re-calibration: (i) to establish the location of the monitoring points; and (ii) to calculate the monitoring point weightings.
- Network Rail explained that although there may be instances where operators and Network Rail are happy with the current monitoring points they are likely to still need to be reviewed as they will feed into some regulated performance outputs for the next control period.

Schedule 8 benchmarks

9. Points of agreement

- The Working Group agreed that in Schedule 8 the benchmarks play an important role in minimising industry cash flows, maintaining performance incentives and preserving neutrality for Network Rail as a central counterparty. **Concerns raised**
- Some operators raised a concern that when Network Rail performs slightly above their benchmark the payments operators have to make to Network Rail are not matched by additional revenue from passengers.
- It was commented that the reason why Network Rail might not be held neutral could be that the regime was not correctly re-calibrated for this control period.
- There was some discussion on Criteria 2 '*similarity of contractual entitlements*'. Some members argued that there are reasons why benchmarks are different for each service group, e.g. they are different to reflect different conditions that the operators need to operate under and the operators serve different markets. Operators also noted that they take expected levels of performance into account when they bid for new franchises; and open access operators take this into account in their business plans. ORR agreed to reflect on this point.

Attendees

Name	Organisation
Catherine Rowe	AGA
Lanita Masi	EMT
Tony Southerton	EMT
Russell Evans	First Group
Rob Moss	GTR
Raj Patel	GTR
Michelle Gadsen	GWR
Maureen Dominey	MTR Crossrail
Alexis Streeter	Network Rail
Caitlin Scarlett	Network Rail
Raminta Brazinskaite	ORR
Yasmine Ghozzi	ORR
Joel Moffat	ORR
Deren Olgun	ORR
Phil Dawson	VTEC
James Mackay	RDG
Susan Henderson	Southeastern
Lee Shuttlewood	SWT
Tim Jones	TfL
Russell Parish	TfL
Agnes Mckeever	Transport Scotland
Darren Horley	Virgin Trains
Steve Holden	Virgin Trains