

## **PR18: Schedule 4 and 8 Re-calibration Working Group**

### **Meeting 3: Note of the passenger operator Re-calibration Working Group meeting held on 10 April 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 April 2017.
2. In the meeting the group discussed: (i) governance of the Schedule 8 re-calibration; (ii) the ITT for phase 1 of the Schedule 8 re-calibration; (iii) the forward agenda for the next working group meeting; and (iv) the re-calibration of Schedule 4.
3. The slides ORR presented in the meeting are available on the ORR website<sup>1</sup>.

#### **Governance of the Schedule 8 re-calibration**

##### **4. Points of agreement**

- It was confirmed that the next passenger Working Group meeting will be the last led by ORR. Future Working Group meetings will be led by RDG, although ORR will continue to attend.
- ORR's role at future Working Group meetings will be to oversee the work to ensure it is in line with the principles that have previously been agreed and to resolve any disputes.

##### **5. Points of clarification**

- The RDG Reform Board has agreed that the Schedule 8 re-calibration should be led and funded by industry. It was also explained that the RDG PR18 co-ordination group will be responsible for the re-calibration.

#### **ITT for phase 1 of Schedule 8 re-calibration**

##### **6. Points of clarification**

- Phase 1 of the Schedule 8 re-calibration will cover monitoring point weightings and cancellation minutes.

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<sup>1</sup> [http://orr.gov.uk/\\_data/assets/pdf\\_file/0004/25519/slides-on-schedule-4-recalibration-10-april-2017.pdf](http://orr.gov.uk/_data/assets/pdf_file/0004/25519/slides-on-schedule-4-recalibration-10-april-2017.pdf)

- The Working Group clarified that monitoring point weightings are based on passenger numbers, not farebox revenue. The ITT will be updated to reflect this, however consultants will be invited to reconsider the methodology for calculating monitoring point weightings if they think it is necessary.
- On cancellation minutes, Network Rail explained that they would only support changes to the 'service interval multiplier' for a particular service where an operator can make a well-evidence case that the current multiplier is not accurate. RDG would take on board joint proposals to change the 'service interval multiplier' as part of the re-calibration work.
- RDG clarified that a number of services, such as Crossrail and Thameslink, will be excluded from the main Schedule 8 re-calibration as they require a bespoke re-calibration.

## 7. Actions

- **Working Group** to provide any comments to RDG on the ITT by the end of the week commencing 10 April 2017, this is to allow the ITT to be issued by the end of week commencing 17 April.
- **Operators** to respond to Network Rail's route customer teams to explain where they think the monitoring points should be. This needs to be confirmed before consultants start working on this (June 2017).
- **Operators** to provide evidence to Network Rail on why they think their service multiplier interval should be different to 1.5 by the end of May.

## Re-calibration of Schedule 4

### 8. Rail bus replacement costs

- ORR presented the current approach to rail bus replacement costs and 4 options for improving the current approach. The options ranged from 'do-minimum' to a fundamental review of the current approach to estimating the cost compensation associated with these costs.
- Some members of the working group stressed that the gap between the actual costs and the cost compensation for bus replacement services has significantly widened for the majority of service groups. They suggested that this needs to be looked at as part of the Schedule 4 re-calibration.
- The group discussed that evidence on these costs needs to be collected to understand the scale of the problem, i.e. under-compensation for bus replacement costs.

- Some members said that their companies have been charged more for bus replacement services as a result of late notice. They suggested that factors similar to the current Schedule 4 notification discount factors (NDFs) should be used to reflect and compensate for higher costs incurred.
- A comment was made that TOCs incur other cost (e.g. management costs) having to arrange bus replacement services. ORR stressed that these costs associated with having to arrange bus replacement services could only be looked at as part of PR18 recalibration if these costs are systematic and material.
- Another comment was made that train operators do not get compensated for the actual miles that they have to run bus replacement services as bus replacement cost compensation is based on the VTP model. However, some operators argued that the VTP model values could be updated through Section 22 application to better reflect the actual costs TOCs incur.
- The group discussed that there are only two estimated bus miles payment rates (EBMPR). One is for London and South-East and another one is for the rest of the country. The group suggested that further market segmentation may need to be explored.
- However, the group recognised the importance of preserving the simplicity of the regime. Therefore it was agreed that as long as operators are compensated in the round, simplicity was more important than absolute accuracy.
- A comment was made that there was a lot of effort made in PR08 to estimate a relationship between estimated bus miles (EBMs) and rail replacement bus costs. It was argued that this linear relationship is very likely to hold for CP6.
- In terms of the options presented on rail replacement costs, it was discussed that Option 1 (i.e. do minimum) should be presented as a 'do-nothing' option.
- The working group discussed wanted ORR to write to TOCs to seek evidence on bus replacement costs. The group suggested that ORR needs to follow the same approach as the last time they asked for evidence associated with bus replacement costs. ORR reiterated that it expects industry to lead the recalibration exercise.

#### **9. Points of agreement concerning rail bus replacement costs**

- The working group agreed that Option 2 (update the payment rates only) and 3 (update payment rates and review weightings) should be explored as a minimum.
- It was agreed that the TOCs would need to provide evidence to support the recalibration exercise.

10. **Train mileage costs**

- The group discussed that a similar approach to bus replacement costs needs to be followed to update payment rates for train mileage costs.

11. **Points of agreement concerning train mileage costs**

- The group agreed that Option 2 needs to be explored further.

12. **Contractual wording**

- ORR discussed that it is collecting a list of issues concerning Schedule 4 contractual wording. It intends to share this list with the working group prior to the next meeting in order to discuss these issues at the next meeting.
- ORR said that it intends to lead on Schedule 4 contractual wording.

13. **Other**

- ORR wants industry to lead on the recalibration of schedule 4. It suggested that it would be good to explore having RDG to lead Schedule 4 recalibration (as per the approach to the Schedule 8 recalibration).
- However, the industry expressed the following concerns in regards to this approach:
  - a. These are policy decisions that ORR will make,
  - b. Confidentiality issues,
  - c. RDG resource availability.
- It was agreed that a more senior level discussion might be best to progress this decision.
- It was discussed that it might be useful to have a passenger operator secondee to work at RDG on the Schedule 4 re-calibration. The RDG PR18 co-ordination group will review the suggested secondee's and make a decision on who will lead the re-calibration on behalf of the industry.
- ORR requires operators to provide more detailed evidence which sets out the impact of moving to a TOC-on-TOC regime.
- **Action**
- **ORR** to have a separate discussion with RDG about RDG leading Schedule 4 recalibration.

- **RDG** to circulate information on the role of the secondee to the group.
- **Operators** to send suggestions to the RDG PR18 co-ordination group for possible secondees to work on the Schedule 4 re-calibration.
- **ORR** to circulate log of contractual issues for members to populate before the next meeting.

## Forward agenda

### 14. Points of agreement

- At the next Working Group meeting ORR should provide an update on the previously proposed 'mini' Schedule 4 and 8 consultation.
- In terms of Schedule 4, ORR plans to discuss an access charge supplement (ACS), bespoke compensation and contractual wording at the next meeting.

## Attendees

Name	Organisation
Catherine Rowe	AGA
David Rourke	Arriva (LOROL)
David Mchugo	Chiltern
Peter Saul	DfT
Russell Evans	First Group
Rob Moss	GTR
Martin Thornley	GWR
Michelle Gadsen	GWR
Peter de Boeck	GWR
Maureen Dominey	MTR Crossrail
Peter Swatridge	Network Rail
Caitlin Scarlett	Network Rail
Alexis Streeter	Network Rail
Deren Olgun	ORR
Sheona Mackenzie	ORR
Raminta Brazinskaite	ORR
Joe Quill	ORR
Joel Moffat	ORR
Susan Henderson	SouthEastern
Stuart Freer	SouthEastern
Lee Shuttlewood	SWT
Tim Jones	TfL
Russell Parish	Tfl
Darren Horley	Virgin Trains