

PR18: Schedule 4 and 8 Re-calibration Working Group

Note of the charter operator Re-calibration Working Group meeting held on 27 June 2017 at ORR's London offices

The purpose of the note

1. This note summarises the actions and key decisions agreed in the charter operator meeting of the Schedule 4 and 8 Re-calibration Working Group (hereafter: the Working Group) held on 27 June 2017.
2. In the meeting, the Working Group discussed Network Rail and operator payment rates in the Schedule 8 regime, the re-calibration of benchmarks in Schedule 8, the annual and incident caps, and next steps for charter Schedule 8 re-calibration.
3. The slides ORR presented in the meeting are available on the ORR website¹.

Payment rates

4. Points of agreement

- The Working Group agreed to continue to use the Network Rail payment rate from the freight regime as the basis for the Network Rail payment rate in the charter regime. The consensus amongst charter operators was that it would be disproportionate to engage consultants to design a model to calculate a specific Network Rail payment rate for the charter Schedule 8 regime.
- Charter operators noted that the level of the charter operator payment rate has an impact on their business and that they would like a better understanding and greater transparency of the calculation of the rate.
- It was suggested that the RPI uplift calculation in the Track Access Contract is changed to be aligned with the freight regime.

5. Points of clarification

- Network Rail highlighted that the methodology used to calculate the charter operator payment rate was complex and that it lacks the expertise and resource to carry out that piece of work.

¹ http://orr.gov.uk/_data/assets/pdf_file/0019/25525/slides-on-schedule-8-recalibration-27-june-2017.pdf

6. Actions

- ORR will look into how it can explain the calculation of the Network Rail payment rate in the passenger regime and how this feeds into the charter operator payment rate to charter operators.
- ORR will seek to ensure that any of our decisions that affect charter and freight operator payment rates (and our reasoning for them) are communicated clearly.

Benchmark

7. Points of agreement

- The Working Group agreed to keep the current methodology of setting Network Rail's benchmark on the basis of its own past performance in relation to charter operators.
- The Working Group agreed that the charter operator benchmark should continue to be set on the basis of average charter operator performance over a re-calibration period.

8. Points of clarification

- ORR noted that it is industry's responsibility to select an appropriate re-calibration period. The benchmarks should be set on the basis of expected performance, so the re-calibration period should reflect expected CP6 performance. In reviewing the approach to setting benchmarks ORR will be looking for a demonstration that the chosen re-calibration period is representative of expected CP6 performance.
- ORR explained that a decision on what will happen to the congestion adjustment to the charter operator benchmark is still pending. The congestion factor is calculated using the capacity charge model and, since the capacity charge model won't be being updated (owing to the decision to remove the charge), ORR needs to make a decision on whether or not (and if so, how) to take the adjustment forward into CP6. ORR will carefully consider the financial impact of the adjustment on charter operators and engage with operators before making a final decision.
- The Working Group asked how the level of baseline network mileage will be determined, which feeds into the calculation of the annual adjustment to the freight operator benchmark. ORR clarified this could be discussed further once the policy on the annual adjustment had been concluded.

Annual caps

9. Points of agreement

- The Working Group broadly agreed on using the default annual cap for “small” freight operators as the annual cap in the charter regime uplifted for inflation for CP6.

10. Points of clarification

- ORR noted that contractual wording will be discussed later in the PR18 process. ORR will engage with operators and Network Rail and will provide a timeline for this work when it has been agreed internally.

Incident caps

11. Points of agreement

- The Working Group broadly agreed that the approach of having an incident cap menu with associated Access Charge Supplements (ACSs) should continue.
- The Working Group agreed that Network Rail and charter operators would consider whether the ACSs should more closely reflect the past performance of individual operators, rather than the industry average.

Next steps

12. Points of clarification

- ORR noted that its role was to set the overall policy for Schedule 8 and that it is the industry’s role to collect evidence, develop a methodology and do the re-calibration.
- ORR noted that it would need to approve the final results of the re-calibration before they could be implemented. ORR recommended that they be consulted throughout the re-calibration process in order to reduce the risks of rejection of the re-calibration results and to simplify the approvals process.

13. Points of agreement

- The Working Group agreed that, given the close relationship with freight operator regime, charter operators should be involved in any future freight re-calibration Working Group meetings.

14. Actions

- **Network Rail agreed to engage with charter operators** to be involved in any future freight Schedule 8 re-calibration meetings.
- **ORR** to confirm dates for the review of contractual wording issues, following discussions with ORR lawyers.

Attendees

Name	Organisation
Nigel Oatway	DBC
Norman Egglestone	DRS
Peter Swatridge	Network Rail
Caitlin Scarlett	Network Rail
Alexis Streeter	Network Rail
Rachel Gilliland	Network Rail
Thomas Wood	RDG
James Shuttleworth	WCR
Deren Olgun	ORR
Joel Moffat	ORR
Yasmine Ghozzi	ORR