RDG PR18 working group

Note of meeting held on 19 May 2016 at RDG's offices

Attendees: Bill Davidson (RDG) (chair); Russell Evans (FirstGroup); Hannah Deveson (Network Rail); Richard McClean (Arriva); Oliver Mulvey (DfT); Lindsay Durham (Freightliner); Nigel Jones (DB Schenker); Steven McMahon (Transport Scotland) (by phone); Chris Hemsley (ORR); Richard Gusanie (ORR).

Apologies/not present: Maggie Simpson (Rail Freight Group); Simon Tew (Welsh Government); Martin Baynham-Knight (Keolis); Chris Simms (Abellio); Mike Hewitson (Transport Focus).

Introduction and governance arrangements

1. This was the first meeting of the group. Its purpose was to provide a forum for frank, open and constructive discussions by industry and wider stakeholders on issues relating to route-level regulation, incentives, charges and increased transparency around costs, to inform decisions on the 2018 periodic review (PR18). While ORR was likely to put forward the majority of the papers to be discussed, other members were also welcome to submit material.

2. It was also agreed that there should be terms of reference for this group and the other working groups that were being set up to focus on other PR18 topics (including one on system operation). This document should set out the different groups and how they were coordinated, including any sub-groups. (It was agreed the recently formed 'Schedules 4 & 8 and the capacity charge' sub-group should be a sub-group of this working group).

3. It was also agreed that notes of each meeting should be taken to capture the key points of the discussion (in unattributed form). Once agreed, these would be made available to other groups and published on ORR's website, potentially along with other papers where appropriate.

   Action: ORR and RDG to produce a terms of reference and matrix of the other meeting groups

PR18 initial consultation document

4. ORR presented slides on its initial consultation document on PR18. Key issues from the group's discussion included the following.

Route-level regulation

5. The group observed that implementing route-level regulation was likely to be a substantial undertaking with widespread implications. It was noted that the shift may

need to take place over more than one control period, given the number of issues that needed to be worked through, but a coherent model would be needed in PR18. Particular issues highlighted were as follows.

- The extent to which routes would have the capability to produce full route-level plans was noted as an issue.

- It was agreed that train operators could add a lot of value through a significantly increased role in engaging with Network Rail's routes. But this would require a major step up from now in terms of resourcing and capability. For PR18, this engagement would need to be focused on what was realistic, with further progress coming in later. It would also require longer term support from franchising authorities (given the TOC investment required to get the benefits).

- The implication that route-level regulation could (potentially) lead to route-based charges:

    - while this would be consistent with a fully route-based approach, it was noted that this should only be implemented if it supported better decision making by routes and/or customers and was sensible overall, with a full impact assessment. The importance of not doing anything to unsettle freight customers was flagged in this context;

    - it was queried whether historic enhancement costs would be captured in route-level regulatory asset bases (RABs).

- On Schedule 8, it was suggested that any improvements that Network Rail is required to make to delays and cancellations could be translated into route and system operator targets, with these improvements translated (albeit "jam-spread") into Schedule 8 benchmarks (similar to the approach in CP2).

- It was mentioned that there had been a scheme in CP5 for routes to work with train operators to remove bits of network in areas where these were no longer needed (and so reduce cost). But this had not been effective in practice. It was suggested that this was because route managing directors did not have the incentives to do so, as savings could not (apparently) be recouped beyond the five year control period.

Other points

6. Other discussion points arising from the presentation included the following.

- **System operator**: It was noted that ORR was proposing to focus its regulation on Network Rail's existing 'system operator' function (rather than proposing organisational changes to Network Rail). Part of this focus was to ensure coherence across routes, but also to put in place a more effective framework to encourage the system operator to look for ways to free up capacity and inform choices by funders.

- A question was raised on what a '**virtual freight route**' within Network Rail might look like. It was noted that this could be a key coordination role within Network Rail's 'system operator' function, headed by someone with significant seniority in the company. Among the responsibilities would be ensuring that routes did not impose significant temporary speed restrictions, affecting freight operators (indeed, this would be a key system operator role for all operators).

- **Enhancements**: It was suggested that a necessary change in approach for enhancements was for Network Rail to be focused on the outcomes of an enhancement (e.g. increased capacity), rather than delivering a specific project. This would provide greater flexibility for achieving the outcome, more focused on the end user. It was recognised that this would require a cultural change within Network Rail and the regulatory framework.

- **Stations and depots**: It was noted that ORR's consultation did not mention stations and depots. The importance issue of terminal capacity at stations was mentioned, and related to this, safety for passengers at stations.

- **Working papers:** As part of its process of engagement and consultation, ORR would be publishing working papers looking in more detail at some of the issues with route regulation, system operation, outputs and enhancements. These were intended to provide a more flexible way of engaging, with less formal responses welcomed along with alternative proposals and ideas (though 'formal' responses were also welcomed). ORR did not expect to publish less formal responses.

  This engagement could lead to more formal consultation in certain areas but ORR also envisaged a number of iterative discussions and exchanges with relevant parties before and after the deadline for responses, so responding to the working paper would not be their final opportunity to inform decisions.

Future meetings and suggested topics

7. It was agreed that it could be useful to hold larger workshops focused on key issues, with attendance focused on Network Rail, train operators and governments.

8. It was agreed that the next meeting on 6 June 2016 would discuss route-level regulation, following ORR's working paper on this. The following meeting would discuss Schedules 4 and 8 priorities (with some discussion on purpose). ORR would provide RDG with a list of proposed forward agenda items beyond this, which aligned with its policy development process. Other members were invited to propose papers that they would present at future meetings.

   Action: ORR to provide RDG with a list of future agenda items. Other members were invited to propose their own papers.

Note agreed at the RDG PR18 working group meeting on 6 June 2016