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To passenger operators

Dear colleague,

Schedule 4 Sustained Planned Disruption: our conclusions on values for defined service group revenue

Purpose

1. The purpose of this letter is to give our conclusions on values for defined service group revenue for your services. Defined service group revenues are needed to calculate Schedule 4 Sustained Planned Disruption (SPD) thresholds, in the passenger track access contracts¹, which are the points at which operators are entitled to claim additional compensation for SPD.
2. This follows my earlier letter to you of 12 March 2014 setting out our proposed values, for which we asked for any comments by 24 March 2014. The values for your service groups are set out in **Appendix A** in the excel spread sheet accompanying this letter.

Background

3. Under Schedule 4 of the model passenger track access contract, operators are entitled to receive compensation for revenue losses and costs resulting from restrictions of use in return for the payment of an access charge supplement². Operators receive compensation based on a three tiered structure underpinned by compensation formulae.

¹ The defined service group revenues in this letter are our conclusions on the 'figure to be determined and published by ORR' as set out in the SPD thresholds definitions in paragraph 1 of part 3 of Schedule 4. The model contract can be accessed via our website:
http://orr.gov.uk/_data/assets/word_doc/0004/2956/model_passenger_contract.doc

² Open access operators may pay an access charge supplement if they wish to receive full Schedule 4 compensation.



4. In addition to this, under part 3 of Schedule 4, operators can claim compensation for SPD. In order for SPD to be triggered, an operator's revenue loss compensation must exceed one of two thresholds, as set out below³. Once the relevant threshold is exceeded and SPD is triggered, the operator or Network Rail is entitled to enter into negotiations to determine the actual revenue losses and costs as a result of SPD. Once this is agreed, the operator will receive compensation based on actual, rather than formulaic, relevant losses and costs⁴.
5. Either party may trigger SPD when an operator's formulaic Schedule 4 revenue loss compensation is either:
 - a. Greater than 20% of defined service group revenue over 3 consecutive periods; or
 - b. Greater than 15% of defined service group revenue over 7 consecutive periods.
6. The SPD revenue threshold is set on a consistent basis to that of the Schedule 4 formulaic revenue loss compensation⁵. The Schedule 4 revenue loss compensation is a function of the Schedule 8 Network Rail payment rates, referred to as NRPR in Schedule 4⁶.

Defined service group revenue thresholds for CP5

7. As part of our PR13 work, we have updated Network Rail payment rates for all TOCs based on the same year's service group revenue data (2011-12). This means that for CP5 the defined service group revenues, on which the SPD revenue thresholds are based, are equal to the 2011-12 service group revenues that were produced by Halcrow as part of its work to update the Schedule 8 payment rates.
8. The defined service group revenue for your service groups are set out in Appendix A in the excel spread sheet accompanying this letter. The numbers in the Appendix represent our final determination of your defined service group revenues for CP5.

³ SPD may alternatively be triggered by reasonably incurred costs exceeding certain thresholds. These are set out in part 3, paragraph 1.1 (Defined terms) of the model passenger track access contract.

⁴ Conversely, if it is agreed or determined that there has been an overpayment of revenue loss compensation (that is, the actual revenue loss is lower than that already provided for under formulaic compensation), Network Rail is entitled to repayment of the difference.

⁵ The revenue loss compensation calculation is set out in paragraph 3.4 of Schedule 4 of the model track access contract (passenger services).

⁶ See paragraph 3.4 of Schedule 4 of the model track access contract (passenger services).



9. We have uprated the defined service group revenues to 2012-13 prices (Column (F) of Appendix A) and these should be indexed annually by the RPI over CP5 in line with the indexation formulae in Appendix B of this letter. Please note we have revised the uplifted defined service group revenues for 2012-13 using a different inflation index than in my letter of 12 March 2014. This is so that the indexation is consistent with that used to uprate the Schedule 8 payment rates calculated by Halcrow as part of the Schedule 8 recalibration from 2011-12 prices to 2012-13 prices
10. As with PR08, we have shared the defined service group revenues with Network Rail. We consider this is necessary because the SPD provisions affect both parties, with payments possibly flowing either way. We also consider it appropriate to enable Network Rail to assess its risk of breaching the SPD revenue threshold for a particular service group and also strengthen its incentive to avoid this from occurring.
11. The figures will remain confidential to the respective TOC and Network Rail, and no other publication of these values will take place⁷.

Yours faithfully



Emily Bulman

⁷ We note that at paragraph 1.1 of Schedule 4 of the passenger track access contract (Defined Terms), the definition of SPD Revenue Threshold makes reference to ORR publishing the defined service group revenue threshold figure. This refers to notification of the threshold to individual TOCs in this letter; thresholds will **not** be made public more widely.



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Appendix A

Please see separate excel file.



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Appendix B

Initial Indexation Factor for 2014-15

1. For the year commencing on 1 April 2014, the values in column (F) of Appendix A should be indexed in accordance with the Initial Indexation Factor contained in the formula below, which is taken from paragraph 1 of part 1 of Schedule 7 of the existing passenger track access contract.

2. The applicable indexation formula is:

$$\text{IIF} = \left(1 + \frac{(\text{RPI}_{2013} - \text{RPI}_{2012})}{\text{RPI}_{2012}} \right)^2$$

where:

IIF means the Initial Indexation Factor;

RPI_{2012} means the RPI published or determined with respect to the month of November 2012; and

RPI_{2013} means the RPI published or determined with respect to the month of November 2013;

Indexation for each of the remaining years of CP5

3. In subsequent years (i.e. from 1 April 2015), the values in column (F) of Appendix A should be indexed annually in accordance with the indexation formula below, which is equivalent to the one in paragraph 14 of Schedule 4 of the CP5 passenger track access contract.

4. The applicable indexation formula is:

$$R_t = R_{t-1} \cdot \left(1 + \frac{(\text{RPI}_{t-1} - \text{RPI}_{t-2})}{\text{RPI}_{t-2}} \right)$$

where:

R_t is the relevant defined service group revenue in the Relevant Year t ;

R_{t-1} is the relevant defined service group revenue in the Relevant Year $t-1$;

RPI_{t-1} means the RPI published or determined with respect to the month of November in Relevant Year $t-1$; and;



RPI_{t-2} means the RPI published or determined with respect to the month of November in Relevant Year t-2.

