

04 March 2015

Dear Sir or Madam,

**Error in CP5 Schedule 8 passenger train operator payment rates**

1. The purpose of this letter is to inform you of an error in the CP5 Schedule 8 passenger train operator payment rates. This letter is being sent to all train operators, Network Rail and other key stakeholders.

**The scope of the error**

2. As part of the CP5 review notice, issued on 20<sup>th</sup> December 2013, we issued revised Appendix 1s to Schedule 8 including revised benchmarks and payment rates. Last week, CH2M Hill<sup>1</sup> (who calculated the revised rates) informed us that, unfortunately, they made an error in the calculation of the train operator (or “TOC”) payment rates that was not picked up in the quality assurance process.
3. **This error only affects passenger operators and Network Rail.** It relates to the operator payment rate, as set out in the table below.

| Appendix 1 element             | Passenger operators | Freight operators | Charter operators |
|--------------------------------|---------------------|-------------------|-------------------|
| Network Rail performance point | Unaffected          | Unaffected        | Unaffected        |
| Network Rail payment rate      | Unaffected          |                   |                   |
| Operator performance point     | Unaffected          |                   |                   |
| Operator payment rate          | <b>Error</b>        |                   |                   |

4. The net financial impact on each operator will vary depending on the combined effect of (a) the scale of the payment rate error for each service code and (b) the extent to which performance diverges from its CP5 benchmark for that service code.

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<sup>1</sup> Formerly Halcrow



5. **We will inform each operator of the financial impact on them of the error when we have reliable estimates of it.**
6. We are informing operators of this error now, before we have estimates of the impact or proposed next steps, because we have been asked to approve some new contracts (and extensions to existing ones) before the priority date for the December 2015 timetable (which is 6<sup>th</sup> March 2015). This letter serves as an acknowledgement that these contracts may need to be amended after we have approved them.

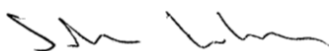
### **The origin of the error**

7. CH2M Hill recalibrated key Schedule 8 parameters as part of PR13, in a contract funded by ORR and Network Rail. Despite their quality assurance process, a formula error occurred in CH2M Hill's calculation of the TOC payment rates.
8. CH2M Hill uncovered this error in the context of calculating rates for the Caledonian Sleeper franchise, and informed us of it last week. They apologise to us and the industry. We are grateful to them for the transparent and proactive approach they have taken to date, including organising an independent audit of their recalibration. We are working with CH2M Hill to get this matter resolved as quickly as possible.

### **Next steps**

9. CH2M Hill are in the process of calculating revised payment rates. Once complete, their calculations will be independently audited.
10. Once we have reliable estimates of the financial impact on each TOC (we expect these within two to four weeks) we will write to the affected parties to set out:
  - a. The scale of the financial impact
  - b. What action, if any, we propose to take.
11. We, together with CH2M Hill, would like to apologise for this error.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Larkinson', written in a cursive style.

**John Larkinson**