

RDG PR18 Charges and Incentives, Route Regulation and Outputs Working Group

Note of meeting held on 16 April 2018 at RDG's offices

Attendees: Emily Bulman (ORR), Bill Davidson (RDG), Russell Evans (First Group), Dan Moore (DfT), Ben Worley (Network Rail), Tom Wood (RDG), Stephen Draper (Network Rail), Richard McClean (Arriva), Lanita Masi (East Midlands Trains), Phillippa Andell (Network Rail), Rebecca Holding (Abellio), Caitlin Scarlett (RDG), Dan Boyde (NTF), Lindsay Durham (Freightliner), Carl Kent (GBRF), Bilal Hussain (ORR), Alexandra Bobocica (ORR, item 3), Denise Wetton (Network Rail, item 4), Richard Clark (DB), Linzi Pidgeon (Transport Scotland), Sue Rhymes (Virgin Trains), Deren Olgun (ORR, item 1), Sheona Mackenzie (ORR).

Item 1: Schedule 8 calibration

- 1.1 Network Rail presented an update, highlighting that there are two key aspects of the recalibration of Schedule 8 Network Rail benchmarks: the setting of performance trajectories and the conversion of these trajectories into Average Minutes Lateness (AML).
- 1.2 Stephen Draper (Network Rail) highlighted that the routes have done a lot of work to produce route strategic plans with corresponding PPM lines, with differing levels of engagement by operators. The routes continue to work to agree the Network Rail proportion of the PPM line with operators. The need for ongoing dialogue between the routes and operators was highlighted.
- 1.3 Stephen Draper discussed how Network Rail has converted PPM trajectories into Network Rail caused delay per train kilometre for each operator (i.e. the Consistent Route Measure – Performance (CRM-P)). It was highlighted that the same model is applied across all routes to ensure consistency as they believe it is more sensible to have a common methodology to get from PPM to the delay minutes, given that it is a regulated metric, rather than the routes setting targets individually on a regulatory basis. The model for this has been shared with ORR and can be shared with operators if desired.
- 1.4 The primary conversion (i.e. from PPM to CRM-P) is done by a regression, using the two year sample, with the regression only used for the slope of the PPM line, where the level of delay is fixed to the last year so as to avoid any large step changes. The Network Rail delay is then normalised for operators in that route.
- 1.5 ORR then review the CRM-P level as part of the review of the Strategic Business Plan. If ORR alter the CRM-P in the Draft Determination then Network Rail will have to go back through the process with the routes to develop a revised plan.

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- 1.6 ORR clarified that both the proposed floor and the target trajectory will be in the draft determination.
- 1.7 Caitlin Scarlett (RDG) provided an update on the second aspect of the Schedule 8 recalibration, informing the group that Network Rail have commissioned SDG to build a model to estimate the relationship between the Network Rail delay minutes and AML for Schedule 8 purposes. This is expected to be completed in August, ready for an independent audit. The conversion will be done at a service group level to create the Network Rail element of the benchmark, with the performance trajectory applied to it. There will also be a TOC-on-TOC element added in at the end.
- 1.8 Dan Boyde (NTF) provided an update on the recent NTF performance seminar and Reform Board. It was agreed that there should be more effective engagement between Network Rail and operators, and that joint detailed performance strategies should be agreed as soon as possible. NTF will continue to help facilitate this.

Item 2: Schedule 4 notification factors

- 2.1 Bill Davidson (RDG) gave an update following the notification factors working group which is taking forward the next steps on ORR's consultation on notification factors. ORR have asked the group to make a recommendation on a new intermediate threshold. There is currently no agreement on what will be proposed to ORR but, on the notification factors themselves, there is broad industry agreement on making the incentive stronger for Network Rail to achieve T-22.
- 2.2 The proposed option for an intermediate threshold does not have full industry agreement and the notification factors working group are meeting to discuss this on 18 April 2018. ORR have asked that a recommendation is made by the end of June 2018.

Item 3: CP6 access charges

- 3.1 ORR published a letter on 13 April 2018 setting out its decisions on proposals to be consulted on as part of the draft determination on the Variable Usage Charge (VUC) and Infrastructure Cost Charges (ICC). This publication was accompanied by letters of support by DfT and Transport Scotland.
- 3.2 Concerns were raised regarding fluctuations in VUC rates between control periods, reflecting swings in Network Rail's cost base. A question was raised around the appropriate approach to smoothing costs to avoid such fluctuations.
- 3.3 Ben Worley (Network Rail) responded that the VUC calculation methodology aims to smooth costs over the longer term but unit rates have risen between control periods and forecast efficiency has not materialised, resulting in higher VUC rates.
- 3.4 ORR has deferred the price list publication to after the draft determination. Network Rail expects to publish it by July 2018 at the latest.

- 3.5 ORR clarified that there will be a proposal in the draft determination for FTAC to vary with changes in timetabled traffic. The baseline will be based on forecasts and variations in timetabled traffic relative to the baseline will be reflected in the following year's FTAC bill. ORR are currently working with Network Rail to establish which data sources are most appropriate. ORR will also be consulting on options to limit Network Rail's financial exposure in relation to the FTAC.
- 3.6 There was discussion on the PSO levy which was consulted on by DfT last year and for which it published a response earlier in April. The PSO would enable open access operators to make a contribution to socially desirable services provided as part of franchises.
- 3.7 DfT believe that the PSO is the correct approach, accepting the principle of a greater charge leading to greater access, and are looking to work with ORR over the course of the next 12-18 months to develop a proposition to enable the drafting of primary legislation. They are keen to keep momentum going even though there is no room in the parliamentary timetable to introduce primarily legislation over the short-term.

Item 4: Supervisory Boards

- 4.1 Denise Wetton (Network Rail) provided an update on supervisory boards, informing the group that, between March and November, the Western, Wales and Borders, East Coast Mainline, West Coast Mainline, and Chiltern supervisory boards went live.
- 4.2 There is agreement between train operators and Network Rail for supervisory board for Anglia, Northern, East Midlands and Wessex, with the Anglia board to be announced in the coming days to go live on 1 May 2018. Paul McMahon will be in conversation with freight CEOs and freight group for the Freight and National Passenger Operator supervisory board.
- 4.3 The South East board that currently exists will continue until the full go-live in May which will then transfer to a supervisory board. Conversations are ongoing for Scotland, which already has an alliance, but the possibility for an independent chair is being considered.
- 4.4 Denise Wetton shared a draft Supervisory Board Brochure for comment.
- 4.5 A question was raised on the evolution of the supervisory boards since the earlier boards were set up and what lessons have been learned. Denise Wetton highlighted that lessons learned from the PwC independent review have been taken into account for the more recent supervisory boards, and that there is now a greater strategic focus where appropriate.
- 4.6 A point was raised about circulating notes from the supervisory board meetings for minor/freight operators that cannot attend. Denise informed the group of a proposal to create an area in Sharepoint where agendas and notes from each supervisory

board meeting can be shared widely. It was also mentioned that the intention is to be more proactive in inviting smaller operators when there are items to be discussed that are pertinent to them.

Item 5: Financial framework

- 5.1 Network Rail should have flexibility to move budgets between years and between cost categories to avoid re-planning of work. It was highlighted that this topic is still under discussion between ORR, Network Rail and government.
- 5.2 DfT expects to set out details of its position in relation to flexibilities in its response to ORR's financial framework consultation but recognise the need for appropriate flexibilities, consistent with the normal level of financial control within government. DfT is currently in discussion with HMT on this but it was highlighted that there are no scenarios where Network Rail would be held to an annual budget.
- 5.3 It was also noted that DfT are supportive of the RPI to CPI change.
- 5.4 There was a question on whether there should be a centrally held pot to fund for risk or if funds should be fully allocated to route budgets, and whether the risk pot is additional to or included in the funding Network Rail has available to deliver its output.
- 5.5 Network Rail responded by highlighting the funds would only be spent on projects and will be released in a gradual, controlled manner.

Item 6: Managing changes affecting PR18 settlements

- 6.1 Phillippa Andell (Network Rail) updated the group on Network Rail's view on the managing change working paper. Network Rail support what ORR is aiming to achieve with its working paper, highlighting barriers in CP5 to change have been very high. Network Rail support the proportionate approach set out by ORR in the working paper. However there are concerns with the complexity of the proposed process.
- 6.2 Network Rail will set out in its response how opportunities for early engagement with ORR can be created and to report transparently, framing that around internal processes for managing changes to enhancements and the business planning process so that the regulatory process wraps around existing Network Rail processes.
- 6.3 DfT will be responding to the consultation, including potentially on the levels of the thresholds.

Next meeting

The next meeting is scheduled for 14 May 2018 at 10:30 at RDG's offices.