

RDG PR18 working group: route-level regulation, charges and incentives

Note of meeting held 18 September 2017 and RDG's office

Attendees: Philippa Andell (Network Rail), Lynn Armstrong (ORR), Alexandra Bobocica (ORR), Dan Boyde (RDG), Emily Bulman (ORR), Chris Clark (Transport Scotland), Paul Cornick (ORR), Bill Davidson (RDG), Natasha Frawley (ORR), Peter Graham (Freightliner), Richard McClean (Arriva), Alexis Streeter (Network Rail), Peter Swatridge (Network Rail), Garry White (Network Rail), Tom Wood (RDG), Ben Worley (Network Rail).

Agenda items	Lead
1. Discussion on response to ORR consultation on the Overall Framework and scorecards.	RDG
2. Emerging thinking on the volume incentive.	ORR
3. Schedule 4 update on notification discount factors.	ORR
4. Network Rail's consultation on variable usage charges.	Network Rail

Discussion on response to the ORR consultation on the Overall Framework and scorecards.

1. RDG produced and circulated draft responses to the overall framework and the SO measures document. The group discussed the two draft response documents. RDG confirmed it will not produce a separate response to the route requirements and scorecard document because everything relevant is covered in the response to the overall framework.
2. RDG brought attention to the update on Network Rail's transformation plan that was released 18 September 2017, available [here](#). The next working group on 9 October will include discussion on the development of scorecards, supervisory boards and a general update on the transformation.
3. Regarding the SO document, the group was interested to understand what ORR means by the SO setting "rules" for how the routes should operate.

FINAL VERSION

4. The discussion on RDG's response to ORR's consultation on the overall framework for regulating Network Rail was focussed around the main headings in the response document.
5. Customer (TOC/FOC) satisfaction measures. Network Rail are doing some further thinking in this area. Customer satisfaction is on customer scorecards.
 - (a) The group agreed that measuring customer satisfaction is important, but there was some disagreement about how this could be measured and whether or not it should be consistent across routes.
 - (b) There is concern that if ORR uses customer engagement as a driver of regulatory approach, then it needs to be more quantitative. Some of the group were wary about using a quantitative proxy to measure something that is qualitative.
 - (c) Some of the group, including FOCs, expressed an interest in the measures on other customers' scorecards.
6. National Rail Passenger Survey (NRPS)
 - (a) The group supports the NRPS continued inclusion on scorecards. It was noted ORR is proposing a route level NRPS which may be in addition to operator focused NRPS scores.
7. Freight performance
 - (a) Network Rail wants to continue to include a regulatory measure of freight performance on route scorecards, such as FDM-R, but that this should not be mandated by ORR. Network Rail feels this would allow flexibility around monitoring and reporting for the freight and national passenger operator (FNPO) route at a geographic route level.
 - (b) Freight industry representatives noted that it is the only freight measure on the route scorecard so they do not want it removed. They also confirmed they would be generally happy with increased flexibility FNPO, so long as freight performance is not removed from scorecards. Network Rail confirmed it is not considering removal of freight performance metrics from scorecards.
8. Monitoring and enforcement
 - (a) The group felt financial penalties would be inappropriate as it takes money out of the industry. Network Rail also suggested that reparations would also be inappropriate as these still need to be funded at the expense of other activity.
9. Change control
 - (a) Network Rail were concerned about the statement in the draft response that stakeholders must always be involved in change control. Network Rail

considered that this is over-prescriptive and would be inappropriate in some cases such as for organisational change. There was general agreement that stakeholders should be involved where appropriate.

- (b) Some participants queried how the change control process would be documented, noting the importance of visibility. It was suggested that one option could be a reference in the licence via guidelines.
- (c) There was also discussion about variation in processes across routes. Network Rail indicated that routes are varied. However, there was a general consensus that having different approaches for each route should be avoided.

10. Other issues

- (a) Role of the technical authority
 - (i) There was discussion around the role of the technical authority, what channels customers can use to engage with it and how it is kept accountable.
 - (ii) There was concern that the technical authority makes decisions that affect TOCs and FOCs and other industry stakeholders such as RoSCos, but does not consult directly with them.
- (b) There was also some discussion on what happens if there is a failure to agree to core outputs. ORR indicated it would expect them to reach an agreement but is willing to look at what would happen where this has not been possible.

Emerging thinking on the Volume Incentive

- 11. ORR made a brief presentation on the volume incentive. ORR is looking at changes in Network Rail's structure over CP5, and proposed PR18 changes to the regulation of Network Rail's routes and the SO, when considering options for the volume incentive in CP6. No options were discussed with the group.
- 12. ORR will consult on the volume incentive in November 2017.

Schedule 4 update on notification discount factors

- 13. ORR presented three potential policy options for Schedule 4 notification discount factors (NDFs).
- 14. ORR asked if a technical session would be worthwhile and who would be best to speak with. The group agreed that a technical session would be worthwhile if the right experts were able to be sourced. Suggestions included that it should include representatives from RDGs commercial team, and people who understand the timetable and processes that happen after the notification of a possession. The Passenger Demand Forecast Council (PDFC) might be an appropriate body, but

timings may not match as they meet quarterly and ORR would like this discussion to happen in early October.

15. The group discussed the further implications of changes to NDFs. Operators noted the need to think about the unintended implications on their processes including resource planning. It was also noted that passengers can also be affected which may affect consumer protections.
16. The analysis presented by ORR did not include season ticket holders. ORR will take their behaviour into account before the final policy proposals are released.
17. Some of the group was unsure about the problem being solved by amending NDFs in Schedule 4. ORR indicated that details are available in the consultation published in December 2016. In addition, ORR was briefly summarised that the goal of this work is to ensure the incentives are working as well as possible and are reflecting current passenger behaviour.
18. Some participants felt that options 2 and 3, which changed the number of NDF categories, may not greatly improve incentives but would affect industry processes. There was a discussion on what these changes would reasonably deliver.
19. The group recognised that the whole industry view is an important consideration when changing NDFs. Network Rail indicated it would look into who would be best to speak to.
20. Some of the group were surprised by the similarity between the previous NDFs and the updated NDFs presented. Although ORR noted that these were draft figures and were subject to change.
21. It was noted that while NDFs do not apply to FOCs, changes to the thresholds may change the planning processes which would affect FOCs.
22. ORR will consult on NDFs in November 2017.

Network Rail's consultation on variable usage charges

23. Network Rail recently published a consultation regarding variable and station charges. It noted that this consultation proposed a series of changes to the VUC. — These changes are designed to be small 'tweaks' to the methodology rather than fundamental structural changes. Network Rail noted that today's session would focus on these methodological changes rather than potential changes to the levels of charging rates. A draft price list containing updated rates is expected to be published in February 2018.

FINAL VERSION

24. As part of the consultation, Network Rail is asking operators to review the list of rolling stock characteristics which underpins the charge. Where operators wish to propose changes to characteristics these should ideally be underpinned by evidence.
25. Another area of consultation regarded the assumed maximum speeds of passenger vehicles. Specifically, Network Rail are giving passenger operators the option to base the VUC rate on an estimate of the actual average speed, with reference to the routes' line speeds, rather than the maximum speed the vehicle is capable of when calculating the charge. There was discussion around how changing speed assumptions for some vehicles would affect the rates paid by all operators.
26. Another change proposed by Network Rail relates to the having more than one VUC rate for multiple unit motor/trailer vehicles within a vehicle class. There was comment that there is a trade-off between accuracy and simplicity that needs to be considered when making any change to the number of rates permissible. Some participants noted that the current method does not deal well with articulated passenger trains as it miscalculates axle weight. There was comment that there will be more of these types of trains using the network in CP6.
27. There was discussion as to how the VUC model takes into account track damage caused by engineering trains. Freight operators were particularly interested in how damage caused by vehicles undertaking engineering work are reflected in the methodology used to calculate charges and whether Network Rail has appropriate incentives to use trains that impose less damage on the network.
28. There was a discussion whether operators could contribute evidence on the efficiency of certain wagons and bogeys. Operators said that there is not often a significant difference between the rates for track-friendly and not track-friendly vehicles and that this may be disincentivising operators from modifying rolling stock in order to impose less wear and tear on the tracks. Network Rail indicated that ideally evidence should be submitted by late October but it encouraged operators to speak to them if that is unachievable as there is likely to be some flexibility to provide information after this point. There was comment from Network Rail that reopening this issue may result in significant work and it might be too late in the process to include the conclusions from their analysis.

Other business and next meeting

29. **ACTION** – The next meeting is on 9 October 2017. The current agenda items include fixed cost allocation, market-can-bear analysis, route and NSO supervisory board, and scorecards for CP6.