



GJD Management Services

Richard Owen
Office of Rail Regulation
One Kemble Street
London
WC2B 4AN

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Dear Richard

PERIODIC REVIEW 2013: CONSULTATION ON INCENTIVES

This is a response to your Consultation Document Reference ORR/020/2011 published on 14th December 2011. I confirm that no part of this response is considered confidential and as such may be placed in its entirety on your website.

In section 5.1 (and in Box 5.1) you describe the rationale for having Schedule 4 and 8 as an integral incentive regime for track access contacts. At the very beginning of the privatisation process in 1994 there was a strong belief that these two regimes should be calibrated in such a way that poor performance by one party; in the main the infrastructure owner, should always suffer a significant financial penalty.

An important feature of the first generation of Schedule 8 regimes was the stepped payment rates. By this mechanism train operators were protected against a steadily increasing level of performance which would not, of itself, drive extra fare-box revenue. If the infrastructure owner continued to provide a declining level of performance then the financial pain was ratcheted upwards. In extreme situations, an operator's Track Access Charges for that particular day were also rebated. [*Commentary in Box 5.4 refers.*] However the back-to-back nature of the franchise contracts saw the majority of this money clawed back by OPRAF. One consequence of this was

56 Alders View Drive, EAST GRINSTEAD, West Sussex, RH19 2DN

✉ Gordon @gjdms.org.uk ☎ 07876 578 769

the use of the Access Disputes process to try and claim money back without having to settle matters via the 'Day 42' process¹.

What was noticeable at the time, was the aggregated effect of examining performance over the whole 28 days of each railway accounting period. This made accurate forecasting exceptionally difficult. Several operators, whose senior management where, at the time, new to the rail industry, had difficulty in reconciling several days of poor performance, yet found they were still required to make bonus payments to Railtrack. Again this frequently resulted in use of the access disputes process to modify the original attribution decision.

Against this background the opportunity was taken at the first Periodic Review to provide a straight-line performance rate and to add in a societal factor to the revenue effect payment rate. In a subsequent periodic review this 'Societal Rate' was stripped out. As Network Rail point out in their initial consultation response² this effect has not resulted in any identifiable performance drop; believing that performance is driven by factors other than Schedule 8.

Another factor which appears to cause some difficulty is that whilst the train operating system (TRUST) record delays against the agreed timetable. The performance system (PEARS) completes its calculations on Lateness; calculated against the public timings.

The writer Barry Doe is a regular commentator on UK timetable and fares matters and has written on several occasions about the use of 'Performance Time' and Public Differential timings to give an extra performance buffer. Writing in his regular opinion column in a recent Rail Magazine³ he highlighted the 17:19 Kings Cross to Hull service which has, in the final leg of its journey, 2 minutes Engineering Recovery Time and 3 minutes Performance Time along with a 3 minute Public Differential Timing (ie Working Time arrival at Hull is 20:03 but the Public Time is 20:06).

On the East Coast mainline, in the Up direction the current Timetable Planning Rules provide for an additional 4 minutes to be inserted into the time schedules for mainline services; usually in the form of 2 minutes 'performance time' between Stevenage and Woolmer Green and 2 minutes 'engineering recovery time' between Finsbury Park and Belle Isle. It is quite probable that a further 2 or 3 minutes will be added (by train operators) to

¹ An example of this is AD18 from June 1999 which resulted in an arbitration (A4) award in favour of North West Trains.

² Periodic Review 2013: First Consultation – Network Rail's response section 5.4 page 29

³ Rail Magazine Number 672 (Pages 56 & 57) for the period 15th to 28th June 2011

the working time arrival at Kings Cross so that the public advertised arrival time, against which performance measurements are taken will be 2 or 3 minutes later.

With inner-urban services there is frequently no Engineering Recovery Time⁴ and often only a small (1 or 2 minute) Public Differential Timing which given the lower (5 minute) threshold will trigger a more 'comfortable' overall performance level⁵. This compares to a situation where a considerable number of long-distance services, provided they have a delay-free run over the last leg of their journey, are able to recover 6 or 8 minutes of 'Lateness'. On many occasions this is likely to tip the balance between a train arriving 'late' or 'on time'.

There is of course nothing unusual about the use of Engineering Time, Performance Time and Public Differential Timing, to help boost the opportunities for trains to recover lost-time from small operational problems en-route. In particular, for long-distance services, their combined effect is to produce a very different financial answer when Lateness⁶ is calculated compared with 'totting up' the sum total of individual delays. This effect can be further heightened when you have a single payment rate. Again providing a focus on 'delays' will quite possibly skew the financial answer arising out of computing Schedule 8 payments calculated on 'Lateness'.

I believe ORR is right to conclude that the general introduction of stepped 'kinked' payment rates is not supported by the industry. However, I feel ORR should re-examine the operation of Schedule 8 regimes for long-distance operators, the aim should be to determine if stepped payment rates, (*which were not unduly complicated to administer when they were a feature of the schedule 8 regime*), possibly linked to a rebate in Track Access Charges, would provide a quicker and greater financial rebate to train operators in the face of increasing infrastructure failures. Especially the impact of planning tools which seek to reduce lateness on the final leg of the journey.

At the current time the Schedule 8 regime will collect but not attribute ownership to all 1 and 2 minute delays. These are all collected at the end of each day and then split 50% to Network Rail and 50% in proportion to the allocation of attributed minutes between NR and TOC. It is the fine detail contained in these 1 and 2 minute 'sub-threshold' delays which statistically

⁴ Sometimes the point-to-point sectional running time is extended by a notional 5% so that trains are never planned to run to their full potential

⁵ As reflected in the Annual Performance figures for Southeastern where almost all their Peak Time trains have a 2 minute Public Differential arrival at their destination. This gave rise to the widespread criticism over the Period 10 performance figure of 82.6% against a Season Ticket discount target of 82.0%

⁶ Which is calculated on a per-day basis at only a handful of key stations, one of which will be the destination.

hold the key to understanding performance over any many inner-urban areas. It is not the role of this response document to also become a primer on Statistical Process Control but if the industry is to better understand where it has process matters, under its own control, to address, it needs to identify ‘Common Causes’ and ‘Special Causes’ the key to which is to begin attribution of all delays.

In your consultation document you highlight⁷ some issues relating to the impact of extreme weather. One cannot escape the feeling that on several occasions during the winter of 2009/10 some LSE centric operators, under the full acquiesce of Network Rail, opted to run very limited train services. The winter of 2010/11 came under much greater scrutiny because, as highlighted⁸ Customer Information Systems (CIS) are driven by timetable data extracted each night, via a Common Interface File (CIF) out of the NR train planning system (ITPS). Inaccurate data in the latter will result in misleading data in the former. Part of the problem, as highlighted by Stagecoach South West Trains⁹ is that when a route is shared and one train operator prepares an emergency timetable and others do not, you get unequal treatment. The operator with an emergency timetable will (hopefully) get little in the way of Schedule 8 payments and will instead rely upon Schedule 4. Other operators appear to prefer to take full advantage of managing ‘on the day’ and gaining Schedule 8 payments at the expense of what Schedule 4 may calculate. Part of this can be traced back to changes to compensation between these two regimes. Initially Schedule 4 made payment calculations using the Schedule 8 Amended Timetable algorithm. This ensured a fairly straightforward method to compare the difference between the ‘New Working Timetable’¹⁰ and the “Applicable Timetable” when wholesale timetable changes are made. This (former) mechanism provided robust compensation which, when small parts of the network are affected by Restrictions of Use compensation, using the Amended Timetable algorithm can be miniscule. This then leads to calls for further changes to Schedule 4 to deliver levels of compensation much closer to those achieved under Schedule 8.

Going back 30 years, before the advent of digital planning and customer information systems, the rail industry always prepared contingency plans which contained basic ‘what if’ style timetables. Well over 80 such

⁷ Paragraphs 5.37 to 5.41

⁸ Passenger information during disruption, interim report, February 2011 paragraphs 2.38 and 2.39

⁹ Consultation response letter dated 2 September 2011

¹⁰ Previously the ‘First Working Timetable’

timetables covered the West Coast mainline from Euston to Glasgow.¹¹ With modern technology it should not be such a major project to prepare basic timetables for reduced operation during heavy snow/severe frost. Such timetables (even if only in the form of a standard hour) could easily be added into the train service database as 'Run as required' or 'Q' schedules so they can be activated and copied quickly. I believe ORR should consider making this aspect of contingency planning a licence requirement.

I believe that separating out the question of emergency timetable implementation and compensation from planned Restrictions of Use may go some way towards making Schedule 4 a little less contentious. As Network Rail continues to develop its strategies towards shorter but more intensive Restrictions of Use ORR should look at allowing the industry to come up with agreed 'fixed' price compensation arrangements for regular work packages where a TOC's additional costs of bussing (or out-stabling) a handful of late night services are relatively high.

Yours faithfully,

Gordon Dudman

G J DUDMAN

¹¹ CP71 for example set out what should happen if the route was closed at Beattock and diversions were required via Dumfries.