



OFFICE OF RAIL REGULATION

Guide to the route level efficiency benefit sharing (REBS) mechanism in CP5

March 2014

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1. Purpose of this document

Who should read this guide?

- 1.1 We have developed this guide to explain the key features of the new route level efficiency benefit sharing (REBS) mechanism and to provide examples of how REBS will work in practice during control period 5 (CP5), which runs from 1 April 2014 to 31 March 2019.
- 1.2 This guide is aimed at train operators (passenger and freight). However, it may also be of interest to other industry participants who want to understand the impact that this regulatory incentive may have on Network Rail and train operators.
- 1.3 The focus of this document is on the workings of REBS in CP5 and so we do not provide a detailed coverage of policy considerations¹, such as the underlying rationale, the potential benefits and costs, and the reasons for our decisions in relation to individual elements of the mechanism.
- 1.4 We will update this guide from time-to-time to include new information and to reflect feedback from stakeholders. If we do make changes to this guide, we will publish the updated guidance on our website (setting out clearly in the guide the changes that we have made) and send it to train operators (both passenger and freight) and Network Rail.

Any questions

- 1.5 If you have any questions or feedback in relation to the content of this guide, please contact:

The Customer Correspondence Team

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¹ We have previously set out the reasons for our decisions on REBS in Chapter 19 of our PR13 final determination, available at: http://orr.gov.uk/_data/assets/pdf_file/0011/452/pr13-final-determination.pdf, and in 'Aligning incentives: decisions on route level efficiency benefit sharing (REBS) and train operator exposure to Network Rail's costs at a periodic review', available at: <http://orr.gov.uk/consultations/policy-consultations/pr13-consultations/?a=194>.

2. Introduction

What is REBS?

- 2.1 In our 'Periodic Review 2013: Final determination of Network Rail's outputs and funding for 2014-19', we explained that in CP5 we are improving the existing efficiency benefit sharing mechanism (EBSM) by replacing it with a route level incentive mechanism. The route level efficiency benefit sharing (REBS) mechanism will encourage Network Rail and train operators (passenger and freight) to work together and allow both to share in Network Rail's efficiency gains or losses on an annual basis. REBS is designed to strengthen the alignment of incentives between Network Rail and train operators in order to support greater co-operation to drive down industry costs.
- 2.2 We see REBS as a default mechanism for those train operators that do not want to enter into direct commercial agreements with Network Rail, as well as being a stepping stone to the development of more commercial relationships within the industry. As our preference is for more commercial arrangements, we would be content to see train operators opting out of REBS to pursue their own commercially negotiated risk and reward sharing agreements with Network Rail, provided such arrangements were transparent and non-discriminatory.
- 2.3 Throughout the 2013 periodic review (PR13) we consulted extensively on our proposals for REBS and in developing REBS we have taken into account the feedback we have received from the industry.

Related documents

- 2.4 This guide draws together information from a number of different sources:
- our PR13 final determination (Chapter 19)²;
 - the version of Schedule 7 contained within train operators' track access contracts that will apply for CP5³;
 - Network Rail's draft CP5 delivery plan⁴; and
 - our CP5 regulatory accounting guidelines (RAGs)⁵.

² This is available at: http://orr.gov.uk/_data/assets/pdf_file/0011/452/pr13-final-determination.pdf.

³ The relevant review notices, published on 20 December 2013 are available at: <http://orr.gov.uk/what-and-how-we-regulate/regulation-of-network-rail/how-we-regulate-network-rail/periodic-review-2013/pr13-publications/pr13-legal-notices#reviewnot>.

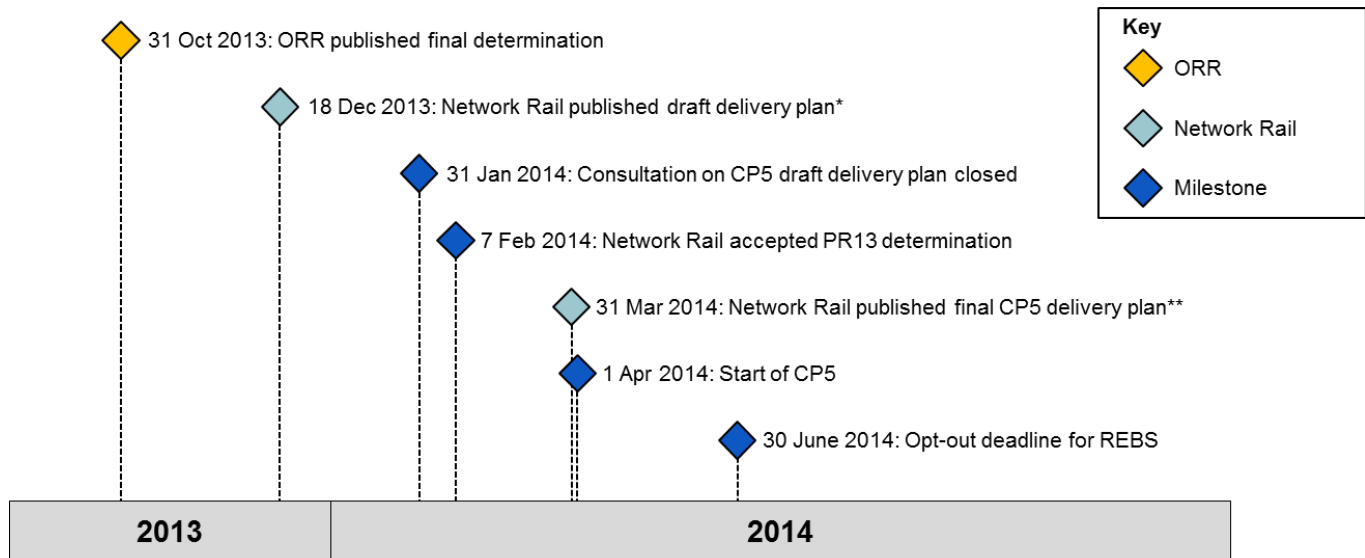
⁴ This is available at: <http://www.networkrail.co.uk/publications/delivery-plans/control-period-5/draft-cp5-delivery-plan/>.

⁵ This will be available in early April 2014 at: <http://orr.gov.uk/what-and-how-we-regulate/regulation-of-network-rail/network-licence/regulatory-accounts>.

What do train operators need to do at the start of CP5?

2.5 Train operators are able to opt-out of REBS at the start of CP5. In Figure 2.1, we show the timetable for the key activities and milestones in relation to REBS up to the opt-out deadline on 30 June 2014.

Figure 2.1: Key activities and milestones in relation to REBS



* CP5 draft delivery plan supporting information includes draft CP5 REBS baselines.

** CP5 final delivery plan supporting information includes final CP5 REBS baselines.

2.6 Train operators have had an opportunity to comment on the CP5 draft REBS baselines⁶ as part of Network Rail's draft delivery plan consultation, which closed on 31 January 2014. Following this consultation, Network Rail published its final CP5 delivery plan⁷, including finalised REBS baselines on 31 March 2014⁸.

2.7 Train operators have three months from the start of CP5 to decide whether to participate in REBS for CP5, i.e. whether to exercise their right to opt-out of the mechanism. To opt out at the start CP5, train operators need to send an opt-out notice⁹ to Network Rail by 30 June 2013 setting out their intention to opt-out of REBS in CP5. **Train operators that do not opt-out will automatically be 'opted-in' to REBS for the whole of CP5.** However, there are some circumstances where train operators can opt-out of REBS within CP5. These circumstances are discussed further in Chapter 3.

⁶ Network Rail's consultation relates only to the England & Wales routes. This is because we have a separate determination for Scotland and so, for Scotland, our CP5 determination REBS baselines act as the final REBS route baselines for Scotland.

⁷ This is available at: <http://www.networkrail.co.uk/publications/better-railway/>.

⁸ The final REBS baselines are available at: <http://www.networkrail.co.uk/cp5-delivery-plan/route-level-efficiency-benefit-sharing-baselines.pdf>.

⁹ An opt-out notice is a letter from a train operator to Network Rail, stating that it is choosing to exercise its right to opt out of REBS in CP5. A template opt-out notice is provided in Appendix 7B of Schedule 7 of the franchised passenger operator model track access contracts and Appendix 2 of Schedule 7 in the freight operator model track access contract.

3. Key features of REBS

Introduction to this chapter

- 3.1 This chapter covers the following:
- (a) overview of REBS;
 - (b) setting REBS baselines;
 - (c) calculating REBS performance;
 - (d) calculating REBS payments;
 - (e) opting out of REBS;
 - (f) impact of alliance performance on REBS payments;
 - (g) retaining the costs and benefits from REBS; and
 - (h) adjusting REBS performance for under delivery of required outputs.

Overview of REBS

- 3.2 REBS is intended to strengthen the incentives on Network Rail and train operators (both passenger and freight) to work together, in order to drive down industry costs, by allowing train operators to share in Network Rail's efficiency gains or losses at a Network Rail operating route level, each year within CP5.
- 3.3 This means that where Network Rail has financially outperformed against the agreed route baseline, i.e. Network Rail's net expenditure (including elements of income) is less than the baseline, train operators will receive a 25% share of this financial outperformance in the form of a cash payment from Network Rail. However, where Network Rail has underperformed, i.e. Network Rail's net expenditure (including elements of income) is greater than the baseline, train operators will share 10% of this underperformance by making a payment to Network Rail¹⁰.
- 3.4 REBS has some key differences to the EBSM in control period 4 (CP4), which ran from 1 April 2009 to 31 March 2014. In particular, REBS will:
- (a) operate at a Network Rail operating route level, rather than at a national level;
 - (b) provide operators with both upside (25% share) and downside (10% share) exposure to Network Rail's cumulative financial performance, rather than just upside;
 - (c) have payments that are capped in relation to the level of REBS performance (capped at 10% of REBS outperformance and 10% of REBS underperformance);
 - (d) provide train operators with an opt-out from the mechanism (by route) at the start of CP5 and in certain circumstances during CP5; and

¹⁰ Our calculation of REBS performance will include any adjustments for under delivery of Network Rail's required PR13 outputs, including train performance and where Network Rail has not maintained the sustainability of the network appropriately. Please refer to Annex C of this guide or to the CP5 regulatory accounting guidelines for further information.

- (e) reflect the incentives that Network Rail faces in relation to its renewals expenditure, i.e. that under the 'RAB roll forward' policy, it retains only 25% of any efficient renewals underspend and bears 25% of any efficient overspend on renewals¹¹ (this is explained in more detail in question h) of Chapter 4).

3.5 The following elements of Network Rail's income and expenditure are included within the REBS calculation:

- (a) support costs;
- (b) Rail Safety and Standards Board (RSSB) and British Transport Police (BTP) costs;
- (c) network operations;
- (d) network maintenance;
- (e) renewals (excluding renewals under the spend-to-save mechanism^{12, 13});
- (f) schedule 4 and 8 costs;
- (g) property income (excluding telecoms property income and non-periodic review income);
- (h) variable usage charge (VUC) income;
- (i) capacity charge income; and
- (j) electrification asset usage charge (EAUC) income.

For the avoidance of doubt, the REBS calculation **does not** include any other Network Rail income and expenditure. For example, REBS does not include Network Rail's enhancements expenditure.

Setting REBS baselines

3.6 Our PR13 final determination income and expenditure assumptions for England & Wales and Scotland provide the total baselines for the calculation of REBS payments. However, Network Rail is able to set the REBS route baselines for each of the nine England & Wales operating routes, providing that these baselines reconcile, on a line-by-line and year-by-year basis¹⁴ to our national England & Wales PR13 income and expenditure assumptions. As we have a separate determination for Scotland, our PR13 final determination income and expenditure assumptions provide the REBS route baselines for Scotland.

3.7 Network Rail published its draft REBS baselines for the nine England & Wales routes on 18 December 2013, as part of the supporting information to its draft CP5 delivery plan. Network Rail then finalised the REBS baselines in the supporting information to its final CP5 delivery plan,

¹¹ For the avoidance of doubt, this 25% figure is different to the 25% sharing rule for REBS outperformance. The 25% rule applied to the assessment of renewals performance is also taken into account when calculating the REBS payment caps referred to in 3.4 (c), above.

¹² The spend-to-save mechanism allows Network Rail, in certain situations, to spend money on capital schemes that were not funded as part of PR13. These schemes are promoted by Network Rail and either generate additional income or reduce costs. For example, the spend to save mechanism applies to expenditure on information management renewals expenditure.

¹³ Due to the separate treatment of the renewal of civil structures in PR13, we will exclude the changes to civils volumes from REBS performance. We have also excluded changes in civils volumes from our calculation of total financial performance for CP5.

¹⁴ Paragraph 19.35 of our PR13 final determination refers to the requirement of REBS baselines to reconcile back to our final determination on a line-by-line basis. Since publishing our final determination, we have clarified with Network Rail that this reconciliation also extends to our year-by-year assumptions. We have set this constraint so that the CP5 baselines for total financial performance and REBS performance are set on a consistent basis.

published on 31 March 2014. So that train operators have sufficient time to decide on whether to enter into REBS, Network Rail is not able to make adjustments to REBS route baselines after the start of CP5.

Calculating REBS performance

- 3.8 Every year, after Network Rail has produced its annual regulatory financial statements (normally published in July), we will carry out an assessment of Network Rail's total financial performance for England & Wales and Scotland and at a route level. At the same time, we will also assess Network Rail's performance against the REBS baselines.
- 3.9 Each year, we will set our assessments in our annual efficiency and finance assessment of Network Rail. In CP5, we plan to issue our annual assessment in early autumn, following the end of the relevant financial year. However, we want our assessment to be as robust as possible and the speed at which we can finalise our assessment will depend on the quality of information provided in Network Rail's regulatory financial statements.
- 3.10 Our assessment of REBS performance will be based on Network Rail's cumulative financial performance, compared to REBS route baselines, for the control period up to the latest year of each assessment, i.e. our assessment considers REBS performance for the control period to date, rather than just the REBS performance in one year.
- 3.11 The approach to calculating REBS performance each year, for Scotland and each of the nine England & Wales operating routes, will be as follows:
- (a) identify the subset of Network Rail's income and expenditure that is included within REBS;
 - (b) calculate the variance between Network Rail's actual cumulative income and expenditure and the cumulative REBS baselines, for that subset of Network Rail's income and expenditure¹⁵ (Step 1);
 - (c) adjust REBS performance for any deferral or acceleration in Network Rail's renewal programme, where appropriate, and for any significant changes to Network Rail's route cost allocations (Step 2);
 - (d) adjust REBS performance to reflect how Network Rail is incentivised on capital expenditure, i.e. the RAB roll forward policy – this is explained later in this guide (Step 3); and
 - (e) assess whether Network Rail has delivered its regulatory requirements ('required outputs')¹⁶ and where it has not delivered its required outputs, make adjustments to REBS performance in line with our CP5 regulatory accounting guidelines (Step 4).
- 3.12 We have set out below an example of how REBS performance will be calculated using the Anglia route as an example. Please note that all numbers in the example below are purely indicative.

¹⁵ The variance is calculated net of alliance payments.

¹⁶ These outputs are set out within Chapter 3 of our PR13 final determination.

Step 1: Variance analysis

£m 2016-17 prices	Actual 2016-17	REBS baseline	Variance
Cumulative	(A)	(B)	(B-A)
Support costs	85	91	6
RSSB and BTP	18	17	(1)
Network operations	120	108	(12)
Network maintenance	220	248	28
Renewals	200	480	280
Schedule 4 and 8 costs	41	41	0
Total expenditure	684	985	301
Property income	(60)	(50)	10
VUC income	(55)	(61)	(6)
Capacity charge income	(120)	(117)	3
EAUC income	(5)	(5)	0
Total income	(240)	(233)	7
REBS baseline	444	752	308

Step 2: Adjust REBS performance for any deferral or acceleration in Network Rail's renewal programme, where appropriate, and for any significant changes to Network Rail's route cost allocations

£m 2016-17 prices	Variance	Acceleration / (deferral) of work	Outperformance (before RAB roll forward)
Renewals	280	(150)	130
Income and expenditure excluding renewals	28	-	28

Step 3: Adjust REBS performance for the impact of the RAB roll forward policy

£m 2016-17 prices	Outperformance (before RAB roll forward)	Impact of RAB roll forward policy	Outperformance (before adjustments)
Renewals outperformance	130	25% * 130	32.5
Outperformance excluding renewals	28	N/A	28.0
Cumulative REBS outperformance (before adjustments)			60.5

Step 4: Adjust REBS performance for Network Rail's under delivery of its required outputs

Adjustments	Outperformance
REBS performance before output adjustments	60.5
Missed train performance	(15.0)
Missed asset management milestones	(5.0)
Total cumulative REBS performance to end of 2016-17	40.5

Calculating REBS payments

- 3.13 Network Rail and train operators that have not opted out of REBS will be contractually required to make REBS payments within eight weeks after the date that we publish our annual efficiency and finance assessment of Network Rail, which is normally in the early autumn.
- 3.14 Network Rail will calculate payments to and from individual train operators as follows:
- (a) apply REBS sharing rules (25% of outperformance and 10% of underperformance) to cumulative REBS performance (Step 5);
 - (b) deduct any potential REBS payments (uncapped) from previous years (Step 6);
 - (c) check whether the total calculated potential REBS payment exceeds the value of the REBS cap for that route. The potential capped REBS payment is the lower of the capped amount (as published in Network Rail's CP5 delivery plan) and the calculated (uncapped) total potential REBS payment (Step 7); and
 - (d) allocate the total potential REBS payments for that route to train operators based on their share of total VUC income for the control period up to the year being assessed for that route (Step 8).
- 3.15 We have set out below two examples of the approach that Network Rail will take to calculate payments between itself and train operators in each year of CP5. We use the Anglia route as an example but the numbers presented below are purely indicative.

Example 1: Outperformance payment from Network Rail to train operators

Step 5, 6 and 7: Apply REBS sharing rules to cumulative REBS outperformance, deduct any uncapped potential REBS payments from previous years and check against caps

£m 2016-17 prices	Outperformance
Total cumulative REBS performance to end of 2016-17	40.5
Cumulative REBS performance after applying 25% ¹⁷ sharing rule (£40.5m x 25%)	10.1
Deduct: uncapped potential REBS payments from prior years	(5.0)
Uncapped potential REBS payments for 2016-17	5.1
Compare to REBS route upside cap	5.0
Resulting total Anglia potential REBS payments (lower of £5.1m and £5.0m)	5.0

Step 8: Allocate total potential REBS payments to train operators

£m 2016-17 prices	Potential REBS payments	Opt-out exercised?	Payments to operators
Total route REBS payments	5.0		3.2
TOC 1 (40% share of VUC income)	2.0	×	2.0
TOC 2 (25% share of VUC income)	1.3	✓	-
TOC 3 (15% share of VUC income)	0.7	×	0.7
FOC 1 (10% share of VUC income)	0.5	✓	-
FOC 2 (10% share of VUC income)	0.5	×	0.5

Example 2: Underperformance payment from train operators to Network Rail

Step 5, 6 and 7: Apply REBS sharing rules to cumulative REBS underperformance, deduct any uncapped potential REBS payments from previous years and check against caps

£m 2016-17 prices	Underperformance
Total cumulative REBS performance to end of 2016-17	20.0
Cumulative REBS performance after applying 10% sharing rule (£20m x 10%)	2.0
Deduct: uncapped potential REBS payments from prior years	(1.0)
Uncapped potential REBS payments for 2016-17	1.0
Compare to REBS route downside cap	2.0
Resulting total Anglia potential REBS payments (lower of £2.0m and £1.0m)	1.0

¹⁷ For the avoidance of doubt, this adjustment is not the same as the RAB-roll forward adjustment, which has already been taken into account in this example when calculating net REBS outperformance for 2016-17 in Step 3 on page 9, and in calculating the REBS payment caps.

Step 8: Allocate total potential REBS payments to train operators

£m 2016-17 prices	Potential REBS payments	Opt-out exercised?	Payments from operators
Total route REBS payments	1.00		0.65
TOC 1 (40% share of VUC income)	0.40	×	0.40
TOC 2 (25% share of VUC income)	0.25	✓	-
TOC 3 (15% share of VUC income)	0.15	×	0.15
FOC 1 (10% share of VUC income)	0.10	✓	-
FOC 2 (10% share of VUC income)	0.10	×	0.10

Opting out of REBS

3.16 Schedule 7 in train operators' CP5 access contracts sets out the circumstances where a train operator is able to opt-out of REBS. We have summarised the relevant provisions below.

3.17 Trains operators have the right to opt-out of REBS in the following circumstances:

- (a) **at the start of CP5** (on or before 30 June 2014). Train operators can inform Network Rail within three months from the start of CP5 that they do not want to participate in REBS. This 'opt-out' can apply to individual routes, i.e. train operators can choose not to participate in one or more operating routes (called REBS routes in track access contracts); and
- (b) **during CP5, when:**
 - (i) **a train operator begins operating services on a new route.** This applies to new franchised or open access operators, or to existing operators that start operating services on a route where they have not previously operated. Also, where a new franchise is awarded to the incumbent franchisee, we treat this as a new franchise and so this provides an opportunity to opt-out¹⁸ of REBS; or
 - (ii) **a new material alliance¹⁹ agreement is agreed between Network Rail and one or more train operators for a route.** This opt-out applies where Network Rail has notified us and the affected train operators that it has entered into a new agreement and we agree that this agreement is a material alliance agreement^{20,21}.

For 'within control period' opt-outs, an opt-out notice²² must be served within two months after the date on which the train operator starts operating new services or after the date of receipt of our confirmation that we think an alliance agreement is 'material'²³.

¹⁸ In these circumstances an opt-out may be served only in respect of the route on which the train operator starts operating those services.

¹⁹ Track access contracts define an alliance as "...an agreement between Network Rail and one or more train operators establishing an alliance in which those parties work jointly to carry out or otherwise share the risk of activities on a part of the network".

²⁰ In these circumstances an opt-out may be served only in respect of the route to which the new material alliance agreement applies. For the avoidance of doubt, even if Network Rail has not notified us of an alliance that we would otherwise consider to be material, this does not prevent us from determining that the alliance is a material alliance agreement.

²¹ For the avoidance of doubt, this provision does not apply to existing or immaterial alliance agreements.

²² An opt-out notice is a letter from a train operator to Network Rail, stating that it is choosing to exercise its right to opt out of REBS in CP5. A template opt-out notice is provided in Appendix 7B of Schedule 7 of the franchised passenger operator model track access contracts and Appendix 2 of Schedule 7 in the freight operator model track access contract.

Impact of alliance performance on REBS payments

- 3.18 As with EBSM, REBS performance will include the efficiency gain (or loss) from any alliances that Network Rail has entered into on a route. Therefore, REBS payments include the financial consequences of any alliance payments, i.e. REBS payments will be calculated after any financial transfers between Network Rail and the alliance partner(s). This means that on operating routes where alliance agreements are in place, REBS performance (and therefore REBS payments) will be impacted by the performance of Network Rail's alliances.
- 3.19 For example, if Network Rail has outperformed a REBS baseline by £10m, excluding alliance payments, but has then paid £1m to the alliance partner, REBS outperformance will be £9m.
- 3.20 We expect Network Rail to be transparent about the impact of alliance agreements on its performance. We have required Network Rail, in its regulatory financial statements, to set out (by operating route) the financial consequences of payments between Network Rail and train operators from its alliances.
- 3.21 Some elements of alliance payments may relate to areas of income and expenditure that are not included in REBS baselines, e.g. train operators' income. However, for simplicity, and to avoid incentives for the alliance to make and book alliance performance to particular areas of income and expenditure, REBS performance will include all elements of alliance payments in relation to a particular REBS route.

Retaining the costs and benefits from REBS

- 3.22 For CP4, the majority of franchised train operators were not contractually eligible to retain payments under EBSM because the governments in England & Wales and in Scotland did not waive the Clause 18.1 / Schedule 9 (no net loss, no net gain) provisions in existing franchise agreements. However, in CP4, the Department for Transport (DfT) agreed to waive this provision for new franchises.
- 3.23 We asked DfT and Transport Scotland to provide information on whether they would allow franchised train operators to retain the costs and benefits of REBS in CP5. We have summarised their responses below:
- 3.24 For DfT:
- (a) new competitively let franchises. DfT will not require franchisees to opt-out of REBS. New franchisees will have the option to participate in REBS and retain the financial benefits and costs from the mechanism, i.e. franchises will be on risk for REBS if they do not opt-out of the mechanism;
 - (b) CP4 franchises. Franchises competitively let in CP4 are entitled to retain the financial benefits of EBSM and so franchisees will also be entitled to retain the costs and benefits of REBS in CP5 (given REBS replaces EBSM). However, this means that franchisees would be on risk for any REBS payments that they have to make to Network Rail. For CP4 franchises, DfT will not adjust franchise payments for REBS; and
 - (c) pre-CP4 franchises. If a franchisee, with a franchise let before CP4, does not opt-out of REBS in CP5, DfT will recover any REBS payments received by the franchisee by adjusting

²³ We explain the criteria we will use to assess whether an alliance is material in the 'Answers to common questions' section below.

franchise payments but the franchisee will be on risk for any REBS payments that it is required to pay to Network Rail.

- 3.25 Transport Scotland will allow its new ScotRail and Caledonian Sleeper franchises the option to participate in REBS. More generally, Transport Scotland is supportive of alliancing as a vehicle for greater industry collaboration and, through the current ScotRail franchise competition, has given the maximum possible flexibility for the next ScotRail franchisee to work in partnership with Network Rail as part of a deeper alliance arrangement to optimise performance, delivery of franchise obligations and drive down unit costs. ScotRail's participation in REBS would therefore only be likely if such an arrangement was not agreed.
- 3.26 If you require further information on the position of franchising authorities in relation to REBS, then please contact DfT and Transport Scotland directly.

Adjusting REBS performance for under delivery of required outputs

- 3.27 For CP4, we have adjusted our assessments of Network Rail's financial performance to take account of Network Rail's under delivery of its required outputs, e.g. train performance outputs and our concerns about the sustainability of aspects of its asset management. Quantifying these adjustments has been difficult because there is not yet a sufficient understanding of the relationship between the cost of Network Rail's activities and the impact those activities have on the performance of the network. For example, if Network Rail spends £100m on a renewal, it is not clear what impact that renewal would have on the performance of the network.
- 3.28 In CP5, Network Rail's total financial performance will be adjusted in respect of under delivery of its required outputs. During CP5, we will apply the same methodology for adjusting REBS performance for under delivery of outputs as we do for adjusting Network Rail's total financial performance.
- 3.29 In November 2013, we began a joint programme of work with Network Rail to determine a framework for adjusting our assessment of Network Rail's financial performance in CP5 where Network Rail has not delivered its required outputs.
- 3.30 Following this work, whilst it is not practicable to set out in detail our approach for every possible circumstance, we have set out the method for calculating these adjustments (and how these are allocated to routes), as far as possible, in our CP5 regulatory accounting guidelines²⁴, which will be published in early April 2014.
- 3.31 In Annex C, we present a summary of the adjustments that we expect will be made to REBS performance in CP5 if Network Rail does not deliver its required outputs. For further details, please consult the CP5 regulatory accounting guidelines.

²⁴ The CP5 regulatory accounting guidelines will be available in early April 2014 at: <http://orr.gov.uk/what-and-how-we-regulate/regulation-of-network-rail/network-licence/regulatory-accounts>.

4. Answers to common questions

4.1 In this chapter we have included answers to some of the questions that we have been asked in relation to REBS over the course of PR13. This list is not exhaustive and we may add to the list below when we update this guide.

Measuring performance

- (a) **Question:** *What happens if a year of cumulative REBS outperformance is followed by a year of REBS underperformance?*

Answer: REBS performance is calculated on a cumulative basis but payments are made on an annual basis. Therefore, depending on the level of underperformance and outperformance in a particular year, one year's outperformance could be offset, fully or partially, by the next year's underperformance. Please see Annex B for examples of how payments are impacted by the cumulative approach to calculating REBS performance.

- (b) **Question:** *How will we make sure that REBS performance is measured correctly?*

Answer: Network Rail has a legal duty to provide information to us that is in all material respects accurate, complete and is fairly presented²⁵. Its regulatory financial statements, which form the basis of the calculation of REBS performance, are subject to an external audit, with independent reporters reviewing other technical aspects of Network Rail's estimate of its performance. As part of our annual assessment, we review Network Rail's estimate of its REBS performance and we can make changes to the value of REBS performance before we finalise it in each year.

- (c) **Question:** *What happens if Network Rail defers or accelerates significant levels of work? How does this affect the REBS baselines?*

Answer: REBS baselines will not be adjusted in these situations. However, when calculating REBS performance, we will adjust performance for the level of deferrals and acceleration. By a deferral, we mean that Network Rail has completed less work than is required so the work that has not been done is a deferral. For example, if Network Rail has deferred £100m of renewals expenditure in the control period to date, we will reduce the initial variance by this amount. By acceleration, we mean that Network Rail has brought forward planned work to an earlier point in time. Further details of how we deal with this issue can be found in the CP5 regulatory accounting guidelines.

- (d) **Question:** *How is inflation treated within REBS performance?*

Answer: Our REBS baselines (and baselines for total financial performance) will be adjusted each year for inflation, based on the movement in the November to November RPI CHAW index. REBS performance (and total financial performance) will be reported on a real basis, i.e. in the price base for the year in which the assessment takes place. Appropriate inflation uplifts will be applied to all figures carried forward from previous years so that performance is

²⁵ Part D of Network Rail's licence states that: "The licence holder shall maintain all systems of control and other governance arrangements that ensure the information collected and reported to ORR is in all material respects accurate, complete and is fairly presented and that all control and other governance arrangements are kept under regular review by the directors of the licence holder so that they remain effective for this purpose."

presented in a consistent price base. Further details can be found in the CP5 regulatory accounting guidelines and in Schedule 7 of train operators' track access contracts.

(e) **Question:** *What happens if Network Rail's financial performance changes dramatically?*

Answer: REBS is designed to limit financial risk to both Network Rail and train operators. Train operators share in a lower percentage of Network Rail's underperformance than outperformance and there are monetary caps that limit REBS payments each year.

For certain situations, there are mechanisms (re-openers) that can be used to re-open the price control (i.e. our determination) in certain situations to allow changes to be made to the revenues that Network Rail is allowed to recover, e.g. where material events have happened that are beyond reasonable management control or could not have reasonably been foreseen. In the event of our PR13 determination being re-opened, we would also review the appropriateness of the existing REBS baselines.

Calculating payments

(f) **Questions:** *How have you calculated the caps in relation to REBS payments?*

Answer: In addition to the final CP5 REBS baselines, Network Rail has published REBS caps for each year of CP5 in the supporting information to its CP5 delivery plan. Caps are calculated as follows:

The **upside** cap is calculated as the sum of:

- the element of the cap relating to renewals: baseline renewals expenditure x 25% (share of renewals outperformance based on RAB roll forward) x 25% (share of outperformance) x 10% (upside cap); and
- the element of the cap relating to other income and expenditure: baseline income and expenditure (excluding renewals) x 25% (share of outperformance) x 10% (upside cap).

The **downside** cap is calculated as the sum of

- the element of the cap relating to renewals: baseline renewals expenditure x 25% (share of renewals underperformance based on RAB roll forward) x 10% (share of underperformance) x 10% (downside cap); and
- the element of the cap relating to other income and expenditure: baseline income and expenditure (excluding renewals) x 10% (share of underperformance) x 10% (downside cap).

Please note that the cap on REBS payments applies at the total baseline level and not on a line-by-line basis for each element of income and expenditure.

(g) **Question:** *When will you declare REBS payments each year?*

Answer: For each year of CP5, Network Rail will report its estimate of REBS performance in its regulatory financial statements, which are normally published in July. We will then review Network Rail's analysis and set out our own assessment in our annual finance and efficiency assessment, normally published in early autumn. Our annual efficiency and finance assessment will act as the final assessment of REBS performance. Network Rail will calculate individual payments for train operators based on our assessment.

(h) **Question:** *What is the RAB-roll forward policy and how does this impact on REBS payments?*

Answer: The RAB roll forward policy is the process for updating the value of (or rolling forward) Network Rail's regulatory asset base in each year of the control period, e.g. for inflation, additional efficient capital expenditure, under delivery of required outputs and amortisation. An explanation of the process can be found in our CP5 regulatory accounting guidelines and in Chapter 12 of our PR13 final determination.

Under the RAB roll forward pain/gain sharing mechanism, Network Rail is able to retain 25% of an efficient underspend on renewals (and enhancements) expenditure. Where an efficient overspend is eligible for a RAB addition, Network Rail will generally bear 25% of the overspend. However, if the overspend is not eligible for a RAB addition, Network Rail will bear 100% of the cost of the overspend.

To reflect the 25% pain/gain sharing mechanism, REBS performance will include 25% of any underspend or overspend on renewals expenditure and 100% of any renewals expenditure not eligible for a RAB addition.

(i) **Question:** *What happens if I do not agree with the REBS payment that has been calculated?*

Answer: There are essentially three stages in calculating REBS payments where train operators could challenge the assessment of REBS performance and REBS payments: a) Network Rail's estimate of REBS performance in its regulatory financial statements; b) our own assessment of REBS performance in our annual efficiency and finance assessment; and c) Network Rail's calculation of REBS payments (based on our assessment of REBS performance).

The publication of Network Rail's regulatory financial statements will provide an opportunity for train operators to raise any issues they have with us before we finalise our assessment of REBS performance in our annual efficiency and finance assessment. If train operators think that there has been an error in Network Rail's calculation of REBS payments, then they should raise any issues with Network Rail in the first instance.

(j) **Question:** *How will output adjustments be allocated to routes from the national level?*

Answer: In Annex C, we summarise the output adjustments that we may make in CP5 and how these adjustments will be allocated to routes. Further information is also contained in the CP5 regulatory accounting guidelines.

Within-control period changes

(k) **Question:** *What happens if there is a significant change to the structure of the industry?*

Answer: Generally, we will not change CP5 REBS baselines or make any adjustments to REBS performance as a result of changes in industry structure, unless they lead us to re-open our PR13 determination. However, if a change in industry structure leads to significant changes to Network Rail's methodology for allocating costs between operating routes, we will consider making adjustments to REBS performance (see next question for further details).

- (l) **Question:** *What is the impact on REBS if Network Rail makes changes to its route boundaries or changes to its approach to allocating costs to routes?*

Answer: REBS baselines are fixed at the start of CP5. This means that if Network Rail changes the scope of its operating routes, e.g. if it merges two routes, then it will still have to report against the baselines and operating routes that it set at the start of CP5.

However, where Network Rail makes material changes to the methodology for allocating costs between operating routes, we will consider the impact of these changes and we may make adjustments to REBS performance to reflect these changes, where appropriate. For example, if during CP5, Network Rail decides to allocate more costs to one route and less to another, compared to its CP5 REBS baselines, we may adjust REBS performance in those routes to reflect that some of the underspend or overspend in those routes is not reflective of true outperformance or underperformance.

- (m) **Question:** *What does ORR consider to be a material alliance agreement?*

Answer: We have not set out any specific rules for determining a material alliance agreement as we will consider each alliance agreement on a case-by-case basis. However, in our assessment, we will consider the following criteria: the scope of Network Rail's route income and expenditure covered by the alliance; the time period of the alliance agreement; the alliance partner's share of traffic on the route; the extent to which the alliance is expected to impact existing route expenditure plans; the degree of shared control within the alliance; the degree of shared resources within the alliance; and the nature of risk sharing within the alliance.

We will work with Network Rail, as soon as possible after it has entered an alliance, to determine the information that we will require to assess the financial impact on a REBS route baseline from a new alliance.

- (n) **Question:** *Although you have included a summary of potential output adjustments in this guide, do you expect to agree additional adjustments within the control period?*

Answer: We consider that the type of adjustments set out in our CP5 regulatory accounting guidelines will cover the majority of the adjustments to total financial performance and to REBS performance that may be needed in CP5. However, over the next five years there may be circumstances where we need to make other adjustments to Network Rail's total financial performance, that are not currently set out in the CP5 regulatory accounting guidelines.

- (o) **Question:** *If a new franchise is awarded during the control period, is that new franchised train operator bound by the decision of the previous franchise holder to opt-in or opt-out of REBS?*

Answer: No. A new franchised train operator has an opportunity to opt-out of REBS within two months after the date on which it starts operating the new services. Essentially the opt-out decision resets for a new franchise. As mentioned above, where a new franchise is awarded to the incumbent franchisee, we also treat this as a new franchise and so this provides an opportunity to opt-out of REBS.

Other

(p) **Question:** *What will happen to the Efficiency Benefit Sharing Mechanism (EBSM) from CP4?*

Answer: EBSM will no longer apply for CP5. However, we have retained the provision on the 'Efficiency Benefit Share' within Schedule 7 of passenger and freight track access contracts so that train operators are able to receive any EBSM payments in relation to the final year of CP4 as we will not have determined whether there is a payment under EBSM for 2013-14 before the start of CP5.

(q) **Question:** *What types of income and expenditure are included within the high-level category descriptions?*

Answer: The following elements of Network Rail's CP5 income and expenditure are included within REBS baselines:

Support costs: all support costs (e.g. finance, human resources, information management, insurance and group strategy) in Statement 7a of the regulatory financial statements.

Industry costs: RSSB and BTP costs in Statement 7a of the regulatory financial statements.

Network operations: all network operations and customer services signalling and non-signalling costs in Statement 7a of the regulatory financial statements.

Network maintenance: all network maintenance costs (e.g. including track, structures, signalling, telecoms, electrification, plant and machinery and operational property) in Statement 8a of the regulatory financial statements.

Renewals: all renewals costs (e.g. including track, structures, signalling, telecoms, electrification, plant and machinery and operational property) in Statement 9a of the regulatory financial statements, but excluding renewals under the spend-to-save mechanism (this includes information management renewals).

Schedule 4 and 8 costs: all Schedule 4 & 8 costs in Statement 10 of the regulatory financial statements.

Property income: includes advertising income, retail income, concessions income, other property income, property sales and developments and property operating costs but excludes telecoms property income and non-periodic review income, in Statement 6b of the regulatory financial statements.

Variable usage charge income: all variable usage charge income from passenger and freight operators, including default charge income, in Statement 6b of the regulatory financial statements.

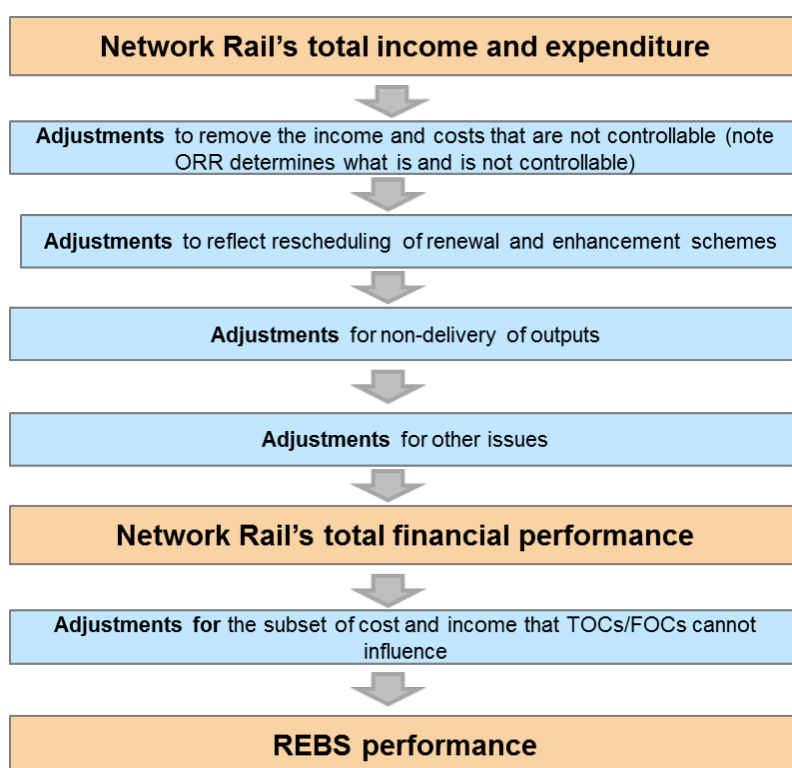
Capacity charge income: all capacity charging income in Statement 6b of the regulatory financial statements.

Electrification asset usage charge income: all electrification asset usage charge income in Statement 6b of the regulatory financial statements.

Annex A: Approach to assessing Network Rail's total financial performance

- A.1. Working with Network Rail, we have developed a new measure for reporting financial performance in CP5 which more clearly links Network Rail's reporting to the financial assumptions included in our PR13 determination. This is explained in more detail in our CP5 regulatory accounting guidelines.
- A.2. The approach to calculating financial performance, and how this links with REBS performance, is shown below in Figure A.1 and in the CP5 regulatory accounting guidelines.

Figure A.1: Approach to calculating total financial performance in CP5



- A.3. In Table A.1, we show an example of how Network Rail's total financial performance will be calculated in CP5. All numbers are purely indicative. As this is an example of Network Rail's total financial performance, this includes elements of income and expenditure that are not included within REBS baselines.

Table A.1: Example statement of total financial performance

£m, 2016-17 prices	Actual	PR13	Variance to PR13	Less:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance	Notes
	A	B	C: Favourable/ (Adverse)		D	E	F	G = C - D - E - F	H = G or H = G*25%	
Income										
Grant income	4,900	4,970	-70		-70	-	-	-	-	-
Fixed charges	560	572	-12		-12	-	-	-	-	-
Variable charges	3,500	3,555	-55		-50	-	-	-5	-5	-5
Other single till income	3,000	2,667	333		30	-	-	303	303	303
Opex memorandum account	30	-	30		-	-	-	30	30	30
Total Income	11,990	11,764	226		-102	-	-	328	328	
Expenditure										
Network operations	1,200	1,232	32		-	-	-	32	32	32
Support costs	1,300	1,330	30		-	-	-	30	30	30
Industry costs and rates	263	274	11		10	-	-	1	1	1
Reporter's fees	30	17	-13		-	-	-	-13	-3	=[G]*25%
Network maintenance	3,030	3,198	168		-	-	30	138	138	138
Traction electricity	155	100	-55		-50	-	-	-5	-5	-5
Schedule 4 costs	650	611	-39		-	10	-	-49	-49	-49
Schedule 8 costs	50	40	-10		-	-	-	-10	-10	-10
Renewals	6,000	7,560	1,560		-	780	-	780	195	=[G]*25%
PR13 Enhancements	7,500	8,448	948		50	50	150	698	175	=[G]*25%
Non PR13 Enhancements	102	-	-102		-102	-	-	-	-	-
Financing Costs	1,200	1,215	15		15	-	-	-	-	-
Financial penalties	10	0	-10		-	-	-	-10	-10	-10
Corporation Tax	50	0	-50		-	-	-	-50	-50	-50
Total expenditure	21,530	24,025	2,485		-77	840	180	1,542	504	
Total	-9,550	-12,261	2,711		-179	840	180	1,870	832	
Total financial out / (under) performance before adjusting for under delivery of outputs and adjustments for other matters									832	
<i>[If appropriate] Less adjustments for under delivery of outputs and reduced sustainability</i>										
[For example] Under-delivery of train performance requirements									-50	
[For example] Missed enhancement milestones									-60	
[For example] Asset management sustainability									-70	
Total adjustment for missed outputs									-180	
<i>[If appropriate] Less adjustments for other matters</i>										
[For example] Inadequate explanation to support financial outperformance									-50	
Total other adjustments									-50	
Total financial out / (under) performance to be recognised									602	

Annex B: Impact of cumulative approach to measuring REBS performance

- B.1 In this annex, we provide four indicative examples of total REBS payments over CP5 under the following scenarios:
- (a) hitting CP5 baselines over CP5 in total: underperformance in the first half of the control period followed by outperformance in the second half of the control period;
 - (b) hitting CP5 baselines over CP5 in total: outperformance in the first half of the control period followed by underperformance in the second half of the control period;
 - (c) outperformance over CP5: underperformance at the beginning of the control period more than offset by outperformance towards the end of the control period; and
 - (d) underperformance over CP5: outperformance at the beginning of the control period more than offset by underperformance towards the end of the control period.
- B.2 In the examples below, we have not allocated REBS payments to individual train operators and instead show only total annual payments relating to the indicative route. For simplicity we have not assumed any output adjustments or deferral of expenditure over CP5.
- B.3 These four examples help to illustrate the impact of the cumulative assessment of REBS performance on REBS payments, i.e. our assessment considers Network Rail's performance for the control period up to and including the year we are assessing, rather than just considering Network Rail's in-year performance.
- B.4 In the notes to Table B.1, we explain the calculation of the cumulative variance and also the calculation of annual potential REBS payments. Also, in the notes to Table B.2, we explain the impact of the caps on annual potential REBS payments.
- B.5 Please note that in the tables below, a negative REBS payment value is a payment from train operators to Network Rail and a positive payment value is a payment from Network Rail to train operators.

Table B.1: REBS payments under Scenario (a)

£m 2012-13 prices	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 total
Cumulative baseline	323	668	1,043	1,370	1,628	1,628
Cumulative actuals	348	718	1,093	1,395	1,628	1,628
Cumulative variance	(25)	(50)	(50)	(25)	-	-
Cumulative variance (including renewals adjustment for RAB roll forward)	(17.7)*	(35.8)	(35.8)	(18.2)	-	-
Cumulative potential payments	(1.8)	(3.6)	(3.6)	(1.8)	(0.0)	-
Annual potential payments (uncapped)	(1.8)	(1.8)	-	1.8**	1.8	-
<i>Upside cap</i>	4.7	4.7	4.8	4.2	3.4	21.7
<i>Downside cap</i>	(1.9)	(1.9)	(1.9)	(1.7)	(1.4)	(8.7)
Annual potential payments (capped)	(1.8)	(1.8)	-	1.8	1.8	-

Notes:

* As an example of how this would work, the cumulative variance (including renewals adjustment for RAB roll forward) of -£17.7m for 2014-15 is calculated as follows: £2.3m variance in relation to renewals expenditure (this is 25% of the £9.1m renewals expenditure variance) + £15.5m variance on other income and expenditure.

** The annual (uncapped) payment of £1.8m is calculated as follows: cumulative potential payments at end of 2017-18 (£1.8m) less cumulative potential payments at end of 2016-17 (-£3.6m), i.e. -£1.8m - -£3.6m = £1.8m.

Table B.2: REBS payments under Scenario (b)

£m 2012-13 prices	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 total
Cumulative baseline	323	668	1,043	1,370	1,628	1,628
Cumulative actuals	298	618	993	1,345	1,628	1,628
Cumulative variance	25	50	50	25	-	-
Cumulative variance (including renewals adjustment for RAB roll forward)	17.7	35.8	35.8	18.2	-	-
Cumulative potential payments	4.4	8.9	8.9	4.6	-	-
Annual potential payments (uncapped)	4.4	4.5	-	(4.4)	(4.5)	-
<i>Upside cap</i>	4.7	4.7	4.8	4.2	3.4	21.7
<i>Downside cap</i>	(1.9)	(1.9)	(1.9)	(1.7)	(1.4)	(8.7)
Annual potential payments (capped)	4.4	4.5	-	(1.7)***	(1.4)	5.9

Notes: *** In 2017-18, the annual potential payment (capped) of -£1.7m is calculated as the lower of the downside cap for that year (-£1.7m) and the annual potential payment (uncapped) in the same year (-£4.4m).

Table B.3: REBS payments under Scenario (c)

£m 2012-13 prices	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 total
Cumulative baseline	323	668	1,043	1,370	1,628	1,628
Cumulative actuals	338	698	1,073	1,364	1,600	1,600
Cumulative variance	(15)	(30)	(30)	6	28	28
Cumulative variance (including renewals adjustment for RAB roll forward)	(10.6)	(21.5)	(21.5)	3.1	19.5	19.5
Cumulative potential payments	(1.1)	(2.1)	(2.1)	0.8	4.9	4.9
Annual potential payments (uncapped)	(1.1)	(1.1)	-	2.9	4.1	4.9
<i>Upside cap</i>	4.7	4.7	4.8	4.2	3.4	21.7
<i>Downside cap</i>	(1.9)	(1.9)	(1.9)	(1.7)	(1.4)	(8.7)
Annual potential payments (capped)	(1.1)	(1.1)	-	2.9	3.4	4.2

Table B.4: REBS payments under Scenario (d)

£m 2012-13 prices	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 total
Cumulative baseline	323	668	1,043	1,370	1,628	1,628
Cumulative actuals	298	628	1,003	1,366	1,646	1,646
Cumulative variance	24.6	40.1	40.1	4.3	(18.2)	(18.2)
Cumulative variance (including renewals adjustment for RAB roll forward)	17.7	28.6	28.6	4.0	(12.4)	(12.4)
Cumulative potential payments	4.4	7.1	7.1	1.0	(1.2)	(1.2)
Annual potential payments (uncapped)	4.4	2.7	-	(6.1)	(2.2)	(1.2)
<i>Upside cap</i>	4.7	4.7	4.8	4.2	3.4	21.7
<i>Downside cap</i>	(1.9)	(1.9)	(1.9)	(1.7)	(1.4)	(8.7)
Annual potential payments (capped)	4.4	2.7	-	(1.7)	(1.4)	4.1

Annex C: Adjusting Network Rail's financial performance for under delivery of required outputs

- C.1 In Table C.1, we have provided a high level summary of the adjustments to total financial performance in CP5 if Network Rail under delivers against its required outputs. Adjustments to REBS performance will be consistent with adjustments to total financial performance.
- C.2 Further details on the approach to adjusting Network Rail's performance are set out in the CP5 regulatory accounting guidelines.

Table C.1: High level summary of the adjustments to total financial performance and REBS performance

Regulated output/ licence condition	Approach
Train performance	<p>We will adjust financial performance for the under delivery of the national outputs for train performance.</p> <p>For passenger performance, adjustments will be based on: lateness minutes; passenger numbers; category (business, commuter, leisure); and lateness multipliers. These measures will be combined to identify a calculation per 1% of PPM which is then split between PPM and CaSL.</p> <p>For freight performance, adjustments will be based on: an estimate of the total economic impact of delays to freight services from our freight user value of time study, with Schedule 8 Network Rail payment rates netted off (which represents the part of the total economic impact of freight service delays that is incurred by freight operations).</p> <p>These adjustments will be reduced to reflect the level of uncertainty and subjectivity in the calculation and the degree of control that Network Rail has over these measures.</p> <p>Route-level adjustments: Adjustments for PPM and CaSL will be allocated between train operators, based on their actual PPM and CaSL, compared to the assumptions in the CP5 delivery plan. Where train operators run over more than one route, the adjustment will be allocated between routes using the same methodology as that used for allocating Schedule 8 payments between routes. The resulting adjustments will then be summed by route, to give an overall adjustment for each route.</p> <p>Any adjustment in respect of freight performance will be allocated to routes in proportion to the allocation of freight Schedule 8 payments between routes.</p>
Sustainability	<p>Where sustainable delivery has not been achieved, a cost based approach to adjusting financial performance will be used. If Network Rail has not demonstrated that it has maintained the sustainability of the network appropriately, the adjustment will be consistent with the RAB roll forward policy, i.e. the adjustment is based on the cost of work not done adjusted at an incentive rate of 25% to be consistent with the rest of the determination.</p> <p>Route-level adjustments: Sustainability applies at asset group level and at route level. Therefore, any adjustments to route performance will reflect the route-specific assessment of sustainability.</p>

Regulated output/ licence condition	Approach
Asset management	<p><i>Asset Management Excellence Model (AMEM)</i>: A total monetary value is assigned to the six AMEM categories on the basis of the improvement from Network Rail's CP4 exit positions (PR13 strategic business plan (SBP)) to its PR18 SBP targets. The monetary value is then related to the gap between current scores and targets in a weighted manner, placing greater significance on the scores that are further from their target. At the PR18 SBP, any AMEM scores that fall below target would trigger a financial adjustment commensurate with the remaining gap at that time. Please note that there is no adjustment for outperformance of targets, i.e. if Network Rail achieves a score above its CP5 target then there will be no positive adjustment.</p> <p><i>Data Quality</i>: A total monetary value is assigned to the improvement of Network Rail's CP4 exit positions (PR13 SBP) to its PR18 SBP targets. This monetary value is then related to the gap between current scores and targets in a weighted manner, placing greater significance on the score the further it is from target. At the PR18 SBP, any data quality measure that falls below target would trigger a financial adjustment commensurate with the remaining gap at that time.</p> <p><i>ORBIS</i>: Given the importance of this programme, for each of its nine milestones, where a milestone is not achieved an adjustment will be made to financial performance.</p> <p>Route-level adjustments: Adjustment for AMEM, data quality and ORBIS will be done in proportion to the relative size of each route. Thus the total Great Britain adjustment would be divided between operating routes using the proportion of train miles attributable to that route.</p>
Network Availability	<p>A value-based approach will be used for network availability, given the similarity of the issues to train performance. For passenger disruption (PDI-P) adjustments will incorporate: additional length in journey time; number of passenger journeys; the type of journeys that are being made (business, commuter and leisure); lateness multipliers; and amount of notification given for the possessions.</p> <p>For freight disruption (PDI-F), adjustments will be based on the passenger network availability adjustment but will take account of the expected value of freight Schedule 4 payments as a proportion of passenger Schedule 4 payments and the absolute value of PDI-F relative to PDI-P.</p> <p>As with train performance, these adjustments will be reduced to reflect the level of uncertainty and subjectivity in the calculation and the degree of control that Network Rail has over these measures.</p> <p>Route-level adjustments: Network Rail is making changes to the way it produces and reports PDI-P and PDI-F that will enable it to report values by operating route in CP5. Network Rail will therefore be able to make a direct comparison to the target without the need for allocation assumptions.</p>
Network Capability	<p>We do not propose to make any adjustment in addition to the existing compensation arrangements for network capability. However, if there was a material reduction in Network capability (e.g. a route was closed) this could be revisited.</p>