



Freight Schedule 4 and 8 Re-calibration Working Group

Re-cap on what has been
agreed so far and next steps

June 2017

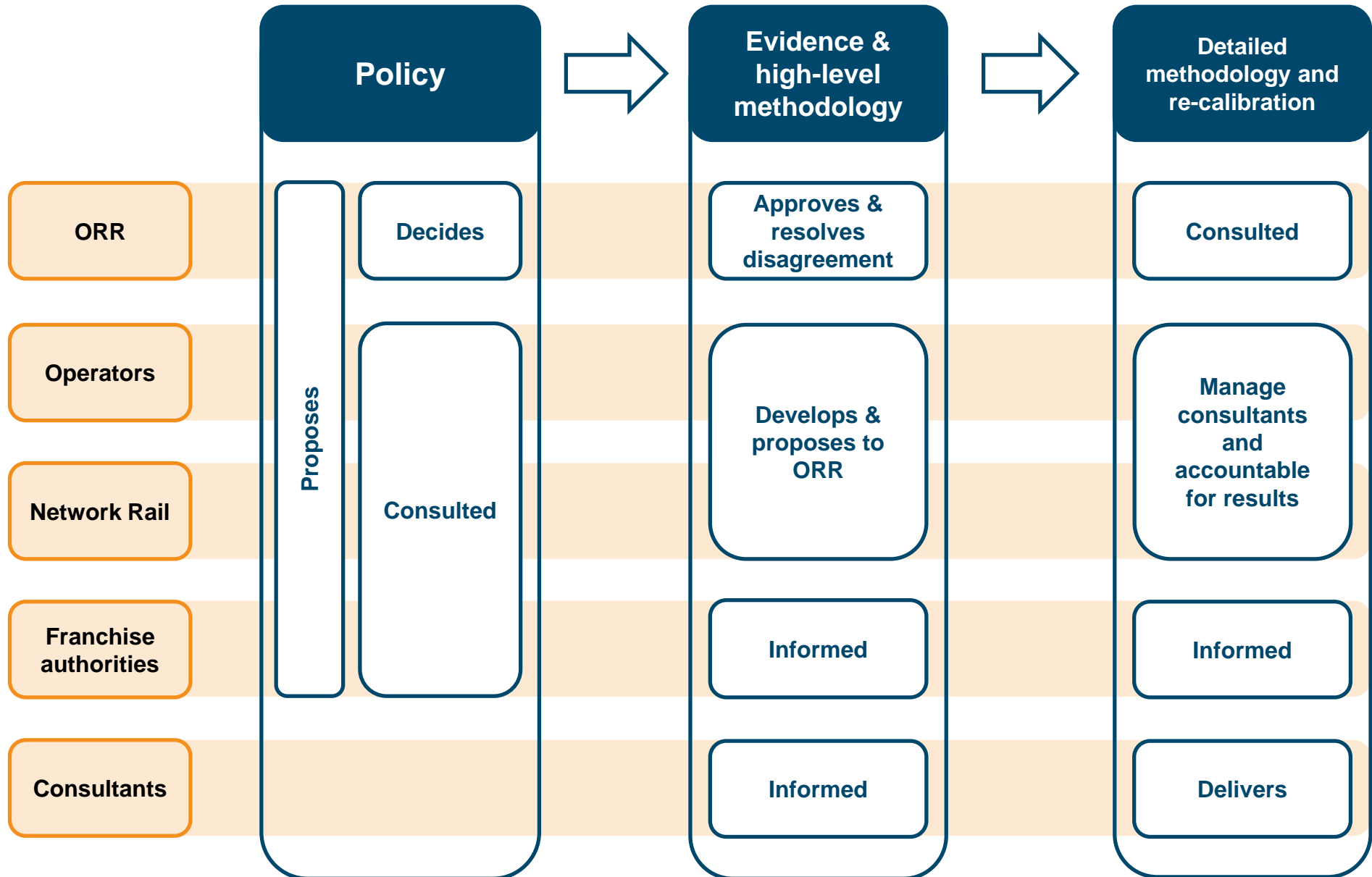


Schedule 8

Where we are on Schedule 8

- These slides set out what has been agreed so far in relation to each aspect of the re-calibration of Schedule 8 and the next steps.
- The slides cover:
 - The split of responsibilities
 - Payment rates
 - Benchmarks

The split of responsibilities



Payment rates

■ Network Rail payment rates

- The June 2017 conclusions document will **not** include any policy decisions that affect how the Network Rail delay or cancellation payment rates are set.

■ Freight operator payment rate

- The freight operator payment rate will be calculated using the current methodology.

■ Next steps

– Industry's role:

- If freight operators want new Network Rail delay and cancellation payment rates:
 - Develop any new evidence for revision to the rates.
 - Develop and agree methodology for calculating the rates.
 - Calculate revised payment rates .
- If no robust evidence on the financial impact of delay is developed, the CP5 rates should just be uplifted for inflation.

– ORR's role:

- ORR's role is to assess whether the evidence and methodology used is consistent with the principles of the policy, and to approve or reject the re-calibrated results accordingly. The best way to ensure ORR approves the results of an re-calibrated rates is to ensure that we are involved throughout the re-calibration process.
- To facilitate freight operator involvement in work being done to calculate the Network Rail payment rates in the passenger Schedule 8 regime.

Benchmarks

■ Network Rail benchmarks

- In our December 2016 consultation we proposed not to base Network Rail's benchmark solely on its past performance.
- We have discussed in these sessions the need to set Network Rail's benchmark on the basis of their expected performance. Whether or not this aligns with the regulated outputs will depend on how they are calibrated.

■ Freight operator benchmark

- In December 2016 we proposed to continue to set the freight operator benchmark on the basis of average freight industry performance. The June 2017 conclusions document will confirm that this is our decision.
- A decision on the approach to take with respect to the congestion adjustment to freight operator benchmarks will be made in the coming months.

■ Next steps

- **Industry's role:** (key tasks)
 - Develop and agree a methodology for setting the Network Rail benchmark.
 - Pick an appropriate re-calibration period for the freight operator benchmark.
 - Calculate the freight operator and Network Rail benchmark.
- **ORR's role:**
 - To assess whether the evidence and methodology used is consistent with the principles of the policy, and to approve or reject the re-calibrated results accordingly.



Next steps

ORR 'mini' consultation

- We previously discussed having a 'mini' consultation on Schedules 4 & 8 in June or July 2017.
- The purpose of this consultation was to hear industry's views on significant changes to policy or methodology that hadn't been formally consulted on, such as new approaches to setting benchmarks.
- As it does not appear that there will be any new significant changes to policy or methodology to discuss in this paper, it will likely not take the form of a consultation.
- Instead we intend to publish a summary on what has been agreed in these working group meetings.
- Are there particular points from these meetings that you would like that note to reflect?

Next steps

■ Working Group meetings

- This is the last Working Group meeting that will be led by ORR.
- ORR's role at any future Working Group meetings will be to oversee the work to ensure it is in line with the principles that have previously been agreed and to step in if there are any disputes.
- How would you like these meetings to be taken forward?