



Schedule 4 re-calibration

FOC Working Group

28 April 2017

Purpose of these sessions

- To agree the detailed scope of the re-calibration work by June to enable industry deliver the work needed.
- The focus is on re-calibration not policy i.e. it's about the specific numbers in the formula and detailed methodology rather than reviewing principles or fundamental aspects of the methodology that underpins the calculations.

Recap of where we are

- In our Dec consultation we set out our proposed priorities for policy work on Schedule 4 during PR18.
- We asked respondents to submit evidence if arguing for any change to these priorities.
- A number of issues were raised by respondents regarding the FOC regime (which we summarise as):
 - Within the scope of the recalibration exercise (and therefore relevant to this WG)
 - S4 compensation rates are not reflective of possessions disruption costs
 - Elements of the freight S4 payment rates criteria.
 - Outwith the scope of the recalibration exercise (but the responses will be considered as part of our policy work)
 - The need to ensure the freight S4 regime acts as an incentive on Network Rail to plan possessions efficiently and minimise disruption to freight services.
 - Interaction between Schedules 4 and 8 in respect for major disruptions
 - Improvements to Network Rail Possession planning, in particular Network Rail to be better incentivised to provide more diversionary routes rather than cancellations.

The options

- Today we are going to set out:
 - The base case for re-calibration.
 - The other areas the re-calibration could consider along with details of what evidence would be needed to support their recalibration.
- The base case should be viewed as the default position – it represents the minimum we think needs to happen.
- Industry support (and data) would be needed to go beyond the base case. Of particular interest would be:
 - The scale of the issue (ie how big an impact is this having)
 - The effect on the incentive to Network Rail (ie could re-calibrating this lead to a better incentive on Network Rail).

The base case

- Assumes no change in overall funding other than inflation.
- Uprate the freight schedule 4 budget and payment rates for inflation to deliver broadly the same level of compensation as in CP5.
- Identify any issues with contractual wording and if straightforward address.



Potential additional areas for re-calibration – based on issues raised by respondents

Schedule 4 payment rates are not cost reflective

- Stakeholders think that current rates do not reflect the costs of disruption faced by FOCs.
- **Current situation:** payment rates originally based on cost data supplied by FOCs
- Some Stakeholders think that current criteria does not reflect all drivers of possession disruption costs. Main circumstances identified, where possession disruption leads to additional costs not triggered by existing criteria:
 - Reduced terminal times
 - Impact of multiple route diversions
 - Additional reverse moves, requiring additional costs eg shunter?
 - Other?

What recalibration would entail

- Increase in payment rates would need to be funded:
 - ACS, paid by freight operators
 - Rebalancing of the package for freight, either within schedule 4 or potentially more widely (“overall impacts”)
 - Additional government funding.

- What information is needed to decide whether this needs to be re-calibrated?
 - Evidence of a systemic difference between compensation payments and FOC possession disruption costs
 - What impact any change (potentially taken with other changes in freight charges and incentives) would have on freight funding.

Claiming compensation for major disruptive incidents

■ Some stakeholders told us:

- that incidents of major disruptive events are increasing and are complex and time consuming for FOCs to claim compensation
- that this complexity is driven in part by Network Rail's ability to declare a **'restriction of use'** after a major disruptive event which means FOCs are unable to easily claim compensation under Schedule 4.
- And that Schedule 8 payments are more cost reflective of major disruptive events.

■ Our response:

- This is not an issue of the applicability of Schedules 4 and 8 issue, but consideration of additional criteria / higher payment rate 'for very late disruption'

NR Possession Planning process

- Stakeholders told us that Network Rail's planning process needs to be improved - with right incentives. Main concerns:
 - Network Rail plans too many possessions too early
 - Is not incentivised/ work to finding diversionary routes for freight
 - Is not incentivised to minimise disruption to freight services.
- PR18 review aims to improve these but we also recognise that processes outside Schedule 4 can support addressing this issue, including potentially better industry planning.