



## **Charter regime Schedule 8 re-calibration**

27 June 2017

# Charter Schedule 8 regime

- Today we will discuss the approach to re-calibrating the following aspects of the Schedule 8 regime for charter operators:

## Network Rail

Payment rate

Benchmark

Annual caps

## Charter operators

Payment rate

Benchmark

Incident caps

Annual caps



# Payment rates

# Network Rail payment rate

- Current approach to setting Network Rail payment rate
  - The Network Rail payment rate in the charter Schedule 8 regime is set **equal to Network Rail payment in the freight regime.**
  - It is the same for all charter operators.
- Pros and cons of using Network Rail payment from the freight regime
  - ✓ Low cost and simple to use given the alternative would involve collecting data and evidence.
  - ✗ The Network Rail payment rate from the freight regime may not accurately reflect the impact of delay on charter operators' costs and revenues.
- What are we proposing?
  - For discussion: **Continue to use Network Rail payment rate from the freight regime as the basis for the Network Rail payment rate in the charter regime.**
  - Alternatively charter operators can collect evidence to set a specific Network Rail payment rate for the charter regime, any evidence used would have to be approved by ORR – although this work would need to be completed quickly.

# Charter operator payment rates

- Current approach to setting charter operator payments rate
  - Charter operators have a specific payment rate based on the Network Rail payment rates for passenger operators weighted by the amount of third party charter operator delay affecting each service group.
- What are we proposing?
  - For discussion: **Continue to use the current methodology to set a specific charter operator payment rate.**
- Industry involvement in the recalibration of payment rate
  - Work on the passenger operator payment rates has yet to start.
  - We suggest that charter operators could be updated on this work at the same time as freight operators, through whatever group is used for the freight re-calibration.



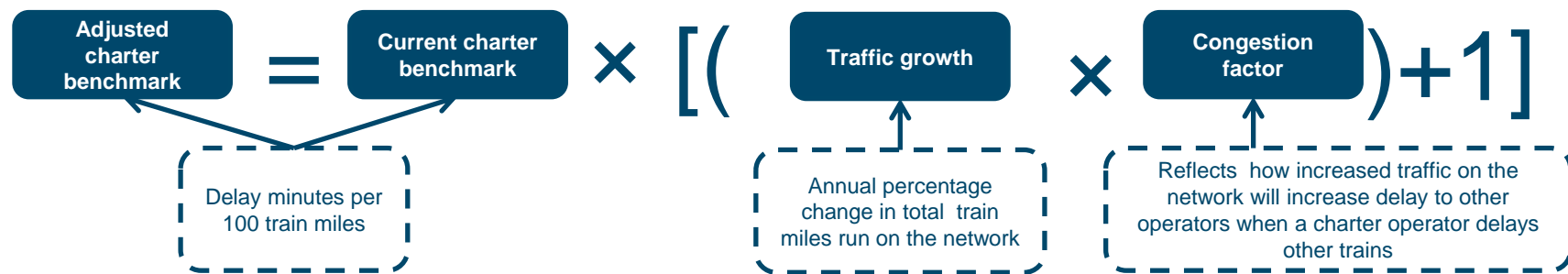
# Benchmarks

# Network Rail benchmark

- Current approach to setting the Network Rail benchmark
  - Network Rail's benchmark is set on the basis of its own past performance in relation to charter operators.
- What are we proposing?
  - For discussion: **We suggest keeping current methodology**

# Charter operator benchmark (1)

- Current approach to setting the charter operator benchmark
  - The charter operator benchmark is set based on the average performance across all charter operators.
  - The charter operator benchmark is adjusted each year (using the formula below) to reflect actual traffic growth or reduction.



- Illustrative example for year 2 of CP5 (based on actual traffic levels in the previous year)

$$5.82 \text{ delay minutes per 100 charter operator miles} \times \left[ \left( 0.63\% \times 1.044 \right) + 1 \right] = 5.86 \text{ delay minutes per 100 charter operator miles}$$



# Charter operator benchmark (2)

## ■ What are we proposing?

- For discussion: **Continue to set a single charter operator benchmark on the basis of average charter operator performance.**
- On the congestion factor:
  - ORR will decide what will happen on congestion factor owing to its dependence on the capacity charge modelling.



## Annual caps and incident caps

# Annual caps

## ■ Current approach to annual caps

- All charter operators and Network Rail have same annual cap and it is the same as the default annual cap for ‘small’ freight operators.
- The annual cap in the charter operator Schedule 8 regime is £547,000

## ■ What are we proposing?

- For discussion: **Continue to use the default annual cap for ‘small’ freight operators as the annual cap in the charter regime.**
- We expect Network Rail will be re-calibrating costs of providing caps.

# Incident caps

## ■ Current approach to incident caps

- An incident cap menu with associated Access Charge Supplements (ACSs) was introduced in CP5 allowing charter operators to choose the maximum amount they pay in a single incident.

## ■ What are we proposing?

- For discussion: **We are proposing to keep the existing regime although we expect ACSs to be updated to reflect cost of risk to which Network Rail is exposed.**



**Next steps**

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- Given the close relationship with the freight operator regime, we suggest that charter operators may wish to be involved in any on-going freight re-calibration working group.
- Alternatively charter operators may wish to work independently with Network Rail on the re-calibration of the regime.