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Dear Train Operating Companies (TOCs) and Network Rail Routes

Schedule 8 Recalibration: Request for approval of Phase 1 parameters.

The purpose of this letter is to seek your approval of the finalised parameters from Phase 1 of the Schedule 8 recalibration for CP6. This letter contains the following information:

- Annex 1: A summary of bespoke changes to the Monitoring Point Weightings (MPWs) and Cancellation Minutes (CMs), agreed by the TOC and the Network Rail Route.

- Annex 2: The results from the Phase 1 recalibration, including adjustments made for bespoke changes.

- Annex 3: PwC's final report for the Phase 1 recalibration, including a detailed methodology note.

- Annex 4: The independent audit report for the Phase 1 recalibration, produced by Steer Davies Gleave.

Context

The purpose of the Schedule 8 regime is to hold train operators financially neutral to the long-term impact of fluctuations in performance which they are not directly responsible for. It does this by providing compensation to operators for future lost farebox revenues as a result of disruption that they have not caused.

The Office of Rail and Road (ORR) is currently in the process of its 2018 Periodic Review of Network Rail (PR18). This will set the outputs and funding for Network Rail for Control Period 6 (CP6). As part of this process, ORR has reviewed the structure of the Schedule 8 regime (building on the work done through RDG's Review of Charges), and has concluded not to make any changes to its structure for CP6¹.

The industry, through RDG, is undertaking a recalibration of the Schedule 8 Appendix 1 parameters. The recalibration will ensure that the Schedule 8 regime for CP6 is up-to-date, accurate and consistent with ORR's conclusions. The RDG PR18 Coordination Group (consisting of representatives from Network Rail, train operators and freight operators) is overseeing the Schedule 8 recalibration for CP6, with the technical recalibration work being

¹ Further information on ORR's conclusions can be found at:
http://orr.gov.uk/_data/assets/pdf_file/0008/24992/conclusions-on-consultation-on-charges-and-contractual-incentives-june-2017.pdf

undertaken by consultants. As in previous control periods, ORR will be responsible for overall approval of the recalibrated Schedule 8 parameters to be used for CP6.

Schedule 8 recalibration

The Schedule 8 recalibration work is split into 3 phases:

Phase	Description	Estimated timeline ²	Consultancy selected
Phase 1	Recalibration of Monitoring Point Weightings and Cancellation Minutes	June 2017 – Oct 2017	PricewaterhouseCoopers (PwC)
Phase 2	Audit of the Phase 1 work. Recalibration of Network Rail and Train Operator Benchmarks and Payment Rates, and Sustained Poor Performance thresholds.	Nov 2017 – Nov 2018	Steer Davies Gleave (SDG)
Phase 3	Independent audit of the Phase 2 work	March 2018 – Nov 2018	TBC

RDG commissioned PwC to undertake Phase 1 of the recalibration, which is now complete. SDG has been selected to lead Phase 2 and has conducted its independent audit of the Phase 1 work. The Phase 1 results and SDG's audit report are set out in Annexes 2 and 4, respectively.

Engagement with TOCs and Network Rail Routes

Throughout Phase 1, RDG and PwC sought engagement from TOCs and Network Rail Routes. PwC led an extensive engagement programme which consisted of:

- One-to-one engagement with TOCs and Network Rail Routes to discuss any specific requirements they may have, for example local circumstances which mean that the standard recalibration approach does not work;
- PwC attended the Schedule 8 recalibration working group on 2 occasions (on 3 July and 31 July) to discuss its proposed methodology with industry, and made refinements to the methodology as a result of industry feedback;
- PwC hosted a Webex session on 17 August to take the industry through detailed worked examples of its calculations. Again, this session resulted in further refinement to the methodology, reflecting feedback from the industry; and
- One-to-one engagement with TOCs and Network Rail Routes seeking feedback on the draft results.

This industry engagement has been valuable to determine the appropriate methodology for calculating the MPWs and CMs and enabling TOC-specific issues to be reflected. We hope

² Please note, the timelines have changed slightly since the previous Schedule 8 letter due to extended procurement requirements.

that the industry has also found this engagement helpful, and that it has improved understanding of the approach the consultants took towards Phase 1. We consider that good industry engagement is vital to the success of the recalibration, and hope to continue this level of industry engagement going forward.

Approval of Phase 1 parameters

As the key stakeholders of the Schedule 8 recalibration, please can you review the Phase 1 results and any bespoke changes, and respond to this letter setting out:

1. Whether or not you approve the Phase 1 results set out in Annex 2; and
2. If not, please explain the reason why and provide alternative Phase 1 parameters with justification for the alternative results.

All responses should be sent Caitlin Scarlett (using the details above) by 26 January 2018.

Please note these responses will be collated and submitted to ORR by RDG. ORR will ultimately be responsible for the approval of all Schedule 8 Appendix 1 data.

Next steps

TOCs and Network Rail Routes are requested to respond to this letter by 26 January, in line with the section above.

Following this, RDG will submit the Phase 1 results, including any bespoke changes, to ORR. This submission will set out whether TOCs and Network Rail Routes have given their approval of the Phase 1 results and if not, the reasons why. Where appropriate, the RDG submission will also provide alternative, TOC-specific calculations to ORR for formal sign-off.

Following approval of the Phase 1 results from ORR, SDG will use these parameters to complete Phase 2 of the Schedule 8 recalibration. Phase 3 will consist of an independent audit of the work completed in Phase 2, which will inform industry and ORR sign-off of the regime prior to the start of CP6.

Yours faithfully,

Caitlin Scarlett