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Dear Train Operating Companies and Network Rail Routes

## **CP6 Schedule 8 Recalibration: Request for approval of TOC Payment Rates and TOC Benchmarks, and approval in principle of Network Rail Benchmarks and SPP Thresholds**

The purpose of this letter is to seek your approval of the final Schedule 8 TOC Payment Rate and TOC Benchmarks for CP6. This letter also seeks your approval in principle of the draft Network Rail Benchmarks and Sustained Poor Performance (SPP) Thresholds for CP6. The Network Rail Benchmarks (and therefore the SPP Thresholds) may change following ORR's Final Determination<sup>1</sup>, in which ORR will set out Network Rail's CP6 performance trajectories which will be used in the recalibration of the final Network Rail Benchmarks.

Steer circulated results to all train operators and Network Rail routes earlier this week. We note that Steer has invited final comments on the Network Rail Benchmarks and SPP Thresholds by 25 October. If you would like to provide final comment on these, please do so directly to Steer by no later than 25 October. You may also wish to highlight any comments in response to this letter. Further details on responding to this letter are set out below.

To support the approval process, this letter contains the following:

- Annex 1: Results - final TOC Payment Rates, final TOC Benchmarks, draft Network Rail Benchmarks and draft SPP Thresholds.
- Annex 2: Steer's draft (near final) methodology document for all Schedule 8 parameters recalibrated as part of Phase 2.
- Annex 3: Explanation of the calculation of uplifts applied to the Network Rail Benchmarks to take account of the FOC and Charter Benchmarks for CP6
- Annex 4: Conversation of TOC trajectories to NR delay/100km trajectories, for use in Schedule 8

### **Context**

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

The industry, through RDG, is undertaking a recalibration of the Schedule 8 Appendix 1 and 3 parameters. The recalibration will ensure that the Schedule 8 regime for CP6 is up-to-date, accurate and consistent with ORR's conclusions on the structure and policy of Schedule 8. The

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<sup>1</sup> Due to be published on 31 October 2018.

Schedule 8 recalibration work reports to the RDG Reform Board, with the technical recalibration work being undertaken by consultants. As in previous control periods, ORR is responsible for overall approval of the recalibrated Schedule 8 parameters to be used for CP6.

## Schedule 8 recalibration

The Schedule 8 recalibration work has been split into 3 phases:

Phase	Description	Indicative timeline	Consultancy selected
Phase 1 <b>[COMPLETE]</b>	Recalibration of Monitoring Point Weightings and Cancellation Minutes	June 2017 – March 2018	PricewaterhouseCoopers (PwC)
Phase 2	Audit of Phase 1 work Recalibration of Network Rail and Train Operator Benchmarks, Train Operator Payment Rates, and Sustained Poor Performance Thresholds	Nov 2017 – Nov 2018	Steer, formerly Steer Davies Gleave (SDG)
Phase 3	Audit of Phase 2 work	March 2018 – Nov 2018	Vivacity Rail Consulting (VRC)

Phase 1 of the recalibration is now complete, including the audit, and has been formally approved by ORR. The Network Rail Payment Rates are also complete, and have also been approved by ORR.

Steer has completed the recalibration of the TOC Payment Rates and TOC Benchmarks, and has produced draft Network Rail Benchmarks and SPP thresholds (please refer to the section below for further information). The methodology report for all these parameters is shown in Annex 2. Steer's work has been independently audited by VRC, and it has been confirmed (in relation to Steer):

*“...that they have followed their stated methodology, and that we have found no significant issue or cause for concern. In particular, we have verified the following:*

- PEARS monitoring point data for the calibration period for each operator have been adjusted for new CP6 MP weightings*
- PSS-sourced timings have been used to synthesise data for new monitoring points for CP6*
- service groups have been remapped as specified for Scotrail, East Coast and TPE*
- cancellation minutes changes for CP6 have been incorporated in the calculation of deemed minutes late*

- *berthing offset changes have been applied where appropriate*
- *the impact of freight / charter performance change has been incorporated.*

*We can therefore be satisfied that the models and code are doing the correct calculation for benchmarks.”*

VRC has been unable to produce a full audit report at this stage, due to delays in the bespoke Thameslink recalibration which they were required to audit. A full audit report will be circulated to all parties once complete.

The final TOC Payment Rates, final TOC Benchmarks, draft Network Rail Benchmarks and draft SPP Thresholds are shown in Annex 1 for your consideration.

## **Draft results for Network Rail Benchmarks and SPP Thresholds**

Steer has also completed the draft Network Rail Benchmarks, based on the performance trajectories submitted by Network Rail in its Draft Determination response. Network Rail's confirmed CP6 performance trajectories will be set out in ORR's Final Determination, to be published on 31 October 2018. Steer will update the Network Rail Benchmarks once the final performance trajectories are known. However, due to the need to submit results to ORR for approval on 2 November 2018, it will not be possible to allow TOCs and Routes time to review and approve these prior to submitting to ORR. We therefore ask that you review the draft Network Rail Benchmarks, and respond to this letter setting out whether or not you approve of these in principle. Further details of how to respond are set out later in this letter. As the SPP Thresholds are a function of the C6 Network Rail Benchmarks (and CP6 Network Rail Payment Rates), these may also change following publication of ORR's Final Determination. Your approval (or otherwise) or the SPP Thresholds will therefore have to be in principle only. RDG will share the final Network Rail Benchmarks and SPP Thresholds with TOCs and Routes at the same time as we submit these to ORR for approval.

## **Engagement with TOCs and Network Rail Routes**

RDG and Steer have sought engagement from train operators and Network Rail Routes throughout the recalibration of the TOC Payment Rates, TOC Benchmarks and provisional Network Rail Benchmarks. This engagement included:

- Steer held one-on-one engagement sessions jointly with each train operator and Network Rail Route between January and May 2018. The purpose of these sessions was to discuss the methodology used in the recalibration of the TOC Benchmarks, NR Benchmarks and TOC Payment Rates and to understand any local issues that needed to be accounted for in the recalibration.
- Multiple discussions on the high-level methodology at the Schedule 8 working group – 8 May 2018, 4 June 2018, 2 July 2018, 30 July 2018 and 24 September 2018.
- Steer has attended all Schedule 8 recalibration working groups since starting the project (Nov 2017), with the exception of 28 August 2018 (which they joined via telephone), to provide updates on the progress of the recalibration and seek stakeholder's input into methodological issues.

- On 8 May 2018, the Schedule 8 working group discussed the treatment of disputed delay minutes in the recalibration. On 15 May 2018, Network Rail circulated a spreadsheet showing the level of disputed delay minutes for each Service Group and period during 2015/16 and 2016/17 (the recalibration period). RDG then sought views from working group members regarding the preferred default position to dealing with disputed delay minutes by 25 May 2018. The working group concluded that, if local agreement could not be reached on the treatment of disputed delay minutes that the default approach would be to allocate the disputed delay minutes in line with the allocation of undisputed delays on that Service Group, within that period.
- On 8 May and 4 June 2018, the Schedule 8 working group discussed how to reflect changes to the freight and charter operator benchmarks in the passenger Schedule 8 regime, as these changes will impact on the star model for CP6. Specifically, on 11 May 2018 the Schedule 8 working group made a submission to ORR, proposing that the TOC-on-TOC performance minutes within the Network Rail Benchmarks fully reflect the expected level of all operators' performance in CP6. ORR approved this proposal on 17 May 2018. On 4 June 2018, the Schedule 8 working group discussed how this proposal could be implemented for CP6, and were given until 22 June to provide comments on the approach. The agreed approach, and the Schedule 8 working group's proposal to ORR, is set out in Annex 3. Steer's final methodology (contained in Annex 2) sets out how this is applied to the Network Rail Benchmarks for CP6.
- On 24 September 2018, the Schedule 8 working group discussed how to apply the CRM-P trajectory to the "Deemed Minutes Lateness" (DML) part of the Network Rail Benchmark. Steer recommended that the same trajectory should be applied to DML as to AML, since there is not a cancellation forecast for CP6. The Schedule 8 working group was given the opportunity to highlight concerns with this approach, but no concerns were raised.
- Steer shared two sets of draft results with train operators and Network Rail routes in July and September 2018. Each set of draft results was accompanied by the draft methodology document, as well as explanatory charts and graphs which showed the impact of each major stage in the recalibration (e.g. the impact of using the CP6 Monitoring Point Weightings). The full model for the recalibration of the results has not been shared with operators, as the models contain commercially confidential information. Steer shared the full TOC Benchmark and TOC Payment Rate model with Network Rail in September, for Network Rail to review.
- Subsequent to circulating the results, Steer had many follow-up discussions with the train operators and Network Rail Routes to work through issues that are particular to the train operator's characteristics.

## **Approval of the final TOC Payment Rates, the final TOC Benchmarks and the provisional Network Rail Benchmarks**

As the key stakeholders of the Schedule 8 recalibration for CP6, RDG requests that you review the TOC Payment Rates, TOC Benchmarks, draft Network Rail Benchmarks and draft SPP

Thresholds, and respond to this letter setting out:

1. Whether you give your approval of the final TOC Payment Rates and TOC Benchmarks, and your approval in principle of the draft Network Rail Benchmarks and SPP Thresholds set out in Annex 1; and
2. If you do not give approval (or approval in principle) of any of these parameters, you will need to explain the reasons why. In this instance it will also be necessary for you to provide an alternative set of results with an explanation of how these were calculated and justification for why these alternative results should be used.

**All responses should be sent to Caitlin Scarlett (details above) by 12pm 2 November 2018.**

RDG will collate all responses and submit a final set of TOC Payment Rates and TOC Benchmarks to ORR for approval. ORR will ultimately be responsible for the approval of all Schedule 8 Appendix 1 and 3 data.

RDG will also submit the final Network Rail Benchmarks and SPP Thresholds to ORR following the publication of ORR's Final Determination on 31 October 2018. The Network Rail Benchmarks, and consequently the SPP Thresholds, may change from these shown in Annex 1 if ORR determines alternate performance trajectories for Network Rail in CP6.

## **Next steps**

RDG will consider the responses received to this letter, and make a submission to ORR which will include details of whether the train operator and Network Rail Routes have given their approval of the final TOC Payment Rates and TOC Benchmarks, and the draft Network Rail Benchmarks and SPP Thresholds and if not, will set out the reasons why.

If train operators and Network Rail Routes approve the final TOC Payment Rates and TOC Benchmarks, and draft Network Rail Benchmarks and SPP Thresholds set out in Annex 1 (or do not provide a response), RDG will submit these to ORR for formal sign-off for CP6.

If train operators and/or Network Rail Routes do not approve the final TOC Payment Rates, TOC Benchmarks, or the draft Network Rail Benchmarks and SPP Thresholds in Annex 1, RDG will consolidate views and submit these to ORR, alongside the alternative figures provided in response to this letter, for ORR's consideration.

We will confirm the final Network Rail Benchmarks (consistent with ORR's Final Determination) and SPP Thresholds at the same time as these are submitted to ORR.

We will communicate the outcome of ORR's review, subject to commercial confidentiality, to the Schedule 8 recalibration working group.

Yours faithfully,

Caitlin Scarlett