

Rail Delivery Group

Response to

ORR's Working paper 6: The volume incentive

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Organisation: Rail Delivery Group

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Business representative organisation

Introduction: The Rail Delivery Group (RDG) was established in May 2011. It brings together Network Rail and passenger and freight train operating companies to lead and enable improvements in the railway. The purpose of the RDG is to enable Network Rail and passenger and freight train operating companies to succeed by delivering better services for their customers. Ultimately this benefits taxpayers and the economy. We aim to meet the needs of:

- Our Members, by enabling them to deliver better outcomes for customers and the country;
- Government and regulators, by developing strategy, informing policy and confronting difficult decisions on choices, and
- Rail and non-rail users, by improving customer experience and building public trust

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1. This document outlines the key points from our members in response to the ORR's consultation on *Working paper 6: The volume incentive*. We are content for this response to be published on the ORR website.

Q1. *Do you think the volume incentive has made a significant contribution in CP5 to Network Rail's incentives to add services to the network?*

2. We do not think the volume incentive has made a significant contribution to Network Rail's incentives to increase services. There are several reasons for this as follows:
 - Incentives to improve punctuality and other incentives (both financial and reputational) outweigh the incentive to grow traffic.
 - The current volume incentive mechanism is too complex and may not be well understood across all routes.
 - The baselines are set too high.

Q2. *Which of the three high-level options we have set out above do you think we should take forward? Could you explain your main reasons for supporting this option?*

3. We believe that Network Rail should be incentivised to make the most effective use of network capacity. There should continue to be an incentive on Network Rail to grow passenger and freight traffic in CP6, as a balance to incentives on reliability and punctuality. In our view, the current volume incentive mechanism should be revised to overcome the problems identified above.
4. There should be a more immediate and direct financial impact of additional services in comparison to the current mechanism, which only comes into effect at the end of the 5-year control period.

Q3 and Q5. *If you think we should take forward the option to continue with a volume incentive but to revise the mechanism, do you have any views on the current design of the volume incentive, and how it could be improved going forward?*

5. We consider that the mechanism should be simplified, which could be achieved by removing the passenger farebox and freight train miles metrics and retaining the passenger train miles and freight gross tonne miles metrics.
6. The baseline for reporting should not be an aggressive target, but rather we suggest that all growth compared to current traffic is counted in the mechanism so that any growth above the existing level is incentivised.
7. We would support a stronger incentive whereby payments were made annually to each Route, hence as soon after the new traffic starts as possible. If traffic falls then that should not lead to an immediate reduction in Network Rail's funding.
8. We suggest that the System Operator takes more responsibility for facilitating growth by reporting the revised mechanism (disaggregated by route) on the SO scorecards for CP6.

Q4. *Do you think there are potential reputational incentives from Network Rail continuing to report on its performance against the volume metrics used to calculate the volume incentive, even if the financial aspect is removed?*

9. There are reputational incentives from reporting volume metrics but we believe they are relatively weak. As noted above, we would support an arrangement under which Network Rail is able to achieve an in-year financial reward for growing traffic above the baseline. However, we do recognise the financial constraints associated with Network Rail's fixed funding arrangements could make this challenging to implement. There should be a passenger and freight traffic growth metric on the System Operator scorecards for CP6 to help emphasise the importance of growth.