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Dear Deren,

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

The purpose of this letter is to seek ORR's formal approval of Phase 1 of the Schedule 8 recalibration for CP6. This letter also provides ORR with details on the industry engagement process that was followed for Phase 1, to help ORR understand the industry's involvement and 'buy-in' to the work, and sets out key areas of future ORR involvement in the recalibration work. The annexes to this letter contain the following information:

- Annex 1: A summary of bespoke changes to the Monitoring Point Weightings (MPWs) and Cancellation Minutes (CMs) by operator.
- Annex 2: The proposed CP6 MPWs and CMs from the Phase 1 recalibration, for ORR's approval. These results include the bespoke changes (detailed in annex 1) where applicable.
- Annex 3: A summary of TOC and Network Rail approval of the Phase 1 results and, if approval has not been provided, the reasons why not.
- Annex 4: PwC's final report for the Phase 1 recalibration, including a methodology note and detail on PwC's Quality Assurance processes.
- Annex 5: The independent audit report for the Phase 1 recalibration, produced by Steer Davies Gleave.
- Annex 6: PwC's response to the Phase 1 audit findings.

### Context

The industry, through RDG, is undertaking the Schedule 8 recalibration for CP6. This will involve a recalibration of many of the Schedule 8 Appendix 1 parameters, and 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. The

technical recalibration work is being undertaken by consultants. However, as in previous control periods, ORR is responsible for the overall approval of the recalibrated Schedule 8 parameters for CP6.

The Schedule 8 recalibration work is split into 3 phases:

| Phase   | Description  | Estimated timeline <sup>1</sup> | Consultancy selected         |
|---------|--|---------------------------------|------------------------------|
| Phase 1 | Recalibration of Monitoring Point Weightings and Cancellation Minutes  | June 2017 – Oct 2017            | PricewaterhouseCoopers (PwC) |
| Phase 2 | Independent 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                          |

## Phase 1 industry engagement process

Industry engagement has been a vital element of the Phase 1 recalibration work. RDG has sought to engage all stakeholders throughout Phase 1, principally through the 4-weekly Schedule 8 recalibration working group which all industry parties have been invited to attend, but also through more specific, focused engagement. To facilitate this, PwC led an extensive engagement programme with the TOCs and Network Rail routes, which consisted of:

- One-to-one engagement with TOCs and Network Rail Routes prior to the technical work taking place, to discuss any specific requirements they may have, for example local circumstances which mean that the standard recalibration approach does not work;
- PwC attendance at the Schedule 8 recalibration working group on 3 July and 31 July to discuss its proposed methodology with industry. PwC made refinements to the methodology as a result of industry feedback;
- A PwC-hosted 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 following development of the methodology and models used in the recalibration, seeking feedback on the draft results.

<sup>1</sup> Please note, the timelines have changed slightly since the previous Schedule 8 letter due to extended procurement requirements.

In addition to this, PwC made itself available to all TOCs and Network Rail Routes to answer any ad hoc queries that arose during the recalibration work, and to amend the Phase 1 models where appropriate.

Following this engagement process, RDG also provided TOCs and Network Rail Routes with a final opportunity to express views on the Phase 1 parameters via a formal letter seeking sign-off. The feedback from this letter is summarised for ORR in Annex 3.

Whilst all Network Rail Routes and most TOCs have approved the final Phase 1 parameters shown in annex 2, there are a few cases where the TOC has not given formal approval of the parameters. As set out above, RDG and PwC have led an extensive engagement programme to ensure that all TOCs and Network Rail Routes have been given several opportunities to engage during the Phase 1 work, and so we are confident that where TOCs or Network Rail Routes have wanted to engage on the process, they have been able to do so.

## ORR's involvement in the recalibration

ORR's role in the CP6 Schedule 8 recalibration is to approve the final parameters for CP6. ORR's timely approval of the parameters is vital to the success of this recalibration. Absent timely decisions by ORR, the entire recalibration could be endangered. To support ORR's approval process, RDG has invited ORR to attend the 4-weekly RDG Schedule 8 recalibration working group. ORR's attendance at the working group should aid ORR's understanding of the methodology adopted for the recalibration and ensure that any concerns are raised at an early stage and addressed promptly. We welcome ORR's ongoing engagement in the working group.

As highlighted previously, for many of the Schedule 8 parameters ORR's approval will be critical to the timing of the Schedule 8 recalibration, due to the complex interactions between many of the Schedule 8 parameters. For example, the MPWs and CMs that ORR approves are required for the recalibration of the Network Rail and TOC Benchmarks.

RDG will endeavour to provide ORR with clear timescales for when ORR approval is required, and allow ORR as much time as possible to undertake its approval processes. Wherever possible, RDG will aim to give ORR 4 weeks to formally approve each of the parameters. If a 4 week approval is not possible, RDG will do everything it can to support ORR in a faster approval process, for example by submitting information prior to formal submission of results. If ORR believes that any parameter will take longer than 4 weeks to approve, we ask that ORR lets RDG know at the earliest opportunity such that this can be factored into the overall recalibration timescales.

RDG currently intends on seeking ORR's formal approval for the Schedule 8 parameters, at the following dates<sup>2</sup>:

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<sup>2</sup> Please note, these dates may change once the Phase 3 consultants (who will be leading the independent audit) have been commissioned and have confirmed timescales for their work.

| Parameter                    | Date of submission to ORR by RDG | Deadline for ORR sign-off |
|------------------------------|----------------------------------|---------------------------|
| MPWs and CMs                 | 5 February 2018                  | 5 March 2018              |
| Network Rail Payment Rates   | Late April 2018                  | Mid-May 2018              |
| Train Operator Payment Rates | End of September 2018            | End of October 2018       |
| Train Operator Benchmarks    | End of July 2018                 | End of August 2018        |
| Network Rail Benchmarks      | End of October 2018              | Mid-November 2018         |
| SPP thresholds               | End of October 2018              | Mid-November 2018         |

Should ORR have any concerns with the timeline set out above, RDG asks ORR to raise this as soon as possible to allow RDG to factor this into the overall recalibration timescales.

### Approval of Phase 1 parameters

RDG now requires formal approval of the Phase 1 results from ORR. ORR is requested to review the Phase 1 results and accompanying information, and respond **by 5 March 2018** setting out:

1. Whether or not you approve the Phase 1 results set out in Annex 2; and
2. If not, determine which MPWs and CMs should be used for CP6.

### Next steps

RDG has appointed SDG to carry out the technical work for Phase 2 of the Schedule 8 recalibration. Following ORR approval of the Phase 1 results, or determination of alternative parameters, SDG will use the confirmed MPWs and CMs as an input into the Phase 2 recalibration work, specifically the work to recalibrate the Network Rail and TOC Benchmarks. SDG will also complete the recalibration of the Network Rail and TOC Payment Rates, and the Sustained Poor Performance Thresholds over the coming year. Phase 3 will consist of an independent audit of the work completed in Phase 2, which will inform industry and ORR approval of the regime prior to the start of CP6.

RDG will continue to engage with ORR throughout Phase 2 and 3 of the Schedule 8 recalibration. Over the coming months, RDG will write to ORR to seek ORR's sign-off of each of the recalibrated parameters, as set out above.

Should you need any further clarification on any of the information set out above, or the accompanying annexes, please do not hesitate to contact me.

Yours sincerely,

Caitlin Scarlett