

Caitlin Scarlett
Schedule 8 recalibration lead
Rail Delivery Group
Caitlin.Scarlett@raildeliverygroup.com

Pedro Abrantes
Head of Analysis and Rail Economics
Office of Rail and Road
Pedro.Abrantes@orr.gov.uk

8 November 2018

Dear Pedro

Schedule 8 Recalibration: Request for approval of TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP Thresholds

The purpose of this letter is to seek ORR's formal approval of the Schedule 8 TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP Thresholds for CP6. This letter contains the following information, to support your approval process:

- Annex 1: Results - TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP Thresholds
- Annex 2: Summary of TOC and Network Rail approval of TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP Thresholds
- Annex 3: Steer's final methodology document for all Schedule 8 parameters recalibrated as part of Phase 2
- Annex 4: Vivacity Rail's independent audit report
- Annex 5: Explanation of the calculation of uplifts applied to the Network Rail Benchmarks to take account of the FOC and Charter Benchmarks for CP6
- Annex 6: Conversation of TOC trajectories to NR delay/100km trajectories, for use in Schedule 8
- Annex 7: Northern Rail submission
- Annex 8: GWR submission
- Annex 9: Hull Trains submission

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 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 [COMPLETE]	Recalibration of Monitoring Point Weightings and Cancellation Minutes	June 2017 – March 2018	PricewaterhouseCoopers (PwC)
Phase 2 [COMPLETE]	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 [COMPLETE]	Audit of Phase 2 work	March 2018 – Nov 2018	Vivacity Rail Consulting (VRC)

Steer has completed the recalibration of the remaining parameters in Phase 2 of the recalibration, i.e. the TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP thresholds. The results are shown in Annex 1. The final methodology report for all the Phase 2 parameters is shown in Annex 3. Steer's work has been independently audited by VRC, and the final audit report is shown in Annex 4. In some cases, the Network Rail Route and/or the operator has requested an alternative approach to the recalibration. Where this is the case, this is explained later in the letter and where necessary, further details are contained in Annexes 7, 8 and 9.

Special treatment of Network Rail Benchmarks and SPP Thresholds

As ORR is aware, the Network Rail Benchmarks are based on the performance trajectories which ORR determined in its Final Determination on 31 October 2018. RDG wanted to provide operators and Network Rail Routes with at least 2 weeks to provide comments on the draft final results. Due to the need to provide ORR with the final results by no later than 9 November 2018, it was therefore not possible to allow Network Rail Routes and operators with the Network Rail Benchmarks consistent with the Final Determination trajectories applied within this timescale. Therefore, RDG circulated the Network Rail Benchmarks (and consequently the SPP thresholds) based on the Draft Determination response trajectories, and asked Network Rail Routes and operators to sign these off in principle. Therefore, any agreement (or otherwise) as set out in

Annex 2, is only in principle for the Network Rail Benchmarks and SPP thresholds for CP6.

Steer has now updated the Network Rail Benchmarks for the Final Determination performance trajectories, and shared these with affected operators and Network Rail Routes. The results provided to ORR in Annex 1 are consistent with the Final Determination performance trajectories.

Bespoke approach for Crossrail TOC Benchmark and Network Rail 'base position'

The bespoke recalibration for Crossrail did not provide the remapped TOC Benchmark and Network Rail base position for use in the Network Rail Benchmark recalibration. Steer completed the CP6 TOC Benchmark and Network Rail base position work for Crossrail West (EX02) in a condensed timescale in order to ensure all results were produced in the required timeframe. Steer were not contracted to do this work but stepped in to meet the overall project timescales. Steer adopted the following methodology to produce these outputs:

Step 1: Take the numbers Arup calculated for EX02 for May 18. Note: these are a restatement of CP5 benchmarks to account for differences in TOC-on-Self / TOC-on-TOC delay due to franchise remapping along with the inclusion of part of the GWR service.

Step 2: Use information on EE01 (Heathrow Connect) as a proxy for EX02 (TfL Rail West). Use this information to calculate the change in performance between the CP5 recalibration period (2010/11 and 2011/12) and the CP6 recalibration period (2015/16 and 2016/17).

Step 3: Apply the percentage change in performance from Step 2 to the benchmarks calculating in Step 1.

There are, however, some caveats attached to this work as set out below:

- The uplift from CP5 values to the start of CP6 uses the change in performance on former Heathrow Connect (EE01) services and does not account for any changes to the performance on the GWR services that have transferred. It uses the Arup work for Dec 17 for the split of TOC-on-TOC and TOC-on-Self of services that transfer.
- We acknowledge that the TOC-on-Self split of EE01 has a very different profile to that of EX01.
- Due to the short timescales required this has not been through the same level of internal and external audit as would be ideal – although through our management review we have not identified any errors.

We also note that the EX02 values would need to be adjusted for when through-running (i.e. Great Western Main Line – Crossrail core – Greater Anglia Main Line) is in place as at that point EX02 is merged with EX01.

Industry engagement process

RDG and Steer have sought engagement from train operators and Network Rail Routes throughout the recalibration of the TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP thresholds. 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.

In some cases, the Network Rail Route or train operator has not provided a response to the RDG letter. As set out above, there has been an extensive industry engagement process throughout the recalibration, and so we are confident that where train operators have wanted to engage, they have been able to do so.

Some operators and/or Network Rail Routes have requested an alternative approach to the recalibration of one or more of the Schedule 8 parameters compared to the national process, or have disagreed with the results from the national process. The operators impacted by this are:

1. **Northern Rail** – Northern Rail does not agree with the Network Rail Benchmarks and TOC Benchmarks, calculated by Steer using the national methodology. Northern Rail's reasons for not supporting this are set out in Annex 7. RDG asks that ORR determine how both sets of Benchmarks should be set, having consideration of Northern Rail's concerns.
2. **Chiltern** – the national default approach is to apply a “without regression” approach where the regression is deemed not to provide a good fit (see paragraph 3.52 of Steer's final methodology document for further information). Chiltern has stated the following:

“Chiltern's Service Group HO04 Oxford Off Peak has a 67% level of fit between AML and Delay per 100km, only slightly below Steer's 70% threshold. After discussions with David Ford of Steer, Chiltern Railways recommends using the “with regression” approach for this Service Group.”

The Network Rail Route is supportive of the national default “without regression” approach for this Service Group. Both results are shown in Annex 1. RDG asks that ORR determines which set of Network Rail Benchmarks should be used for CP6. The SPP thresholds shown in Annex 1 are consistent with the national default approach.

3. **c2c** – the national default approach is to apply a “without regression” approach where the regression is deemed not to provide a good fit (see paragraph 3.52 of Steer's final methodology document for further information). The adjusted R-squared for the regression on c2c's HT01 Peak Service Group fell below Steer's 70% threshold (at 54%). Steer provide a few options for the Network Rail Route and c2c to decide between: the national default “without regression” approach; a “with regression” approach using the original 2016/17 recalibration period; or a “with regression” approach using a new recalibration period of 2016/17 P10 – 2017/18 P09, resulting in an adjusted R-squared of 88%. c2c supports the “with regression” approach using the period 2016/17 P10 – 2017/18 P09. The Network Rail Route supports the “with regression” approach using the original recalibration period of 2016/17, on the basis that it sees no reason why the model should differ from the recalibration period. RDG asks that ORR determines which set of

Network Rail Benchmarks should be used for CP6. The SPP thresholds shown in Annex 1 are consistent with the national default approach.

4. **Great Western Railway** – Great Western Railway does not agree with the TOC Benchmarks calculated by Steer using the national methodology (based on historic performance from the recalibration period). Great Western Railway's reasons for not supporting this are set out in Annex 8. Great Western Railway does also not agree with the approach to setting SPP thresholds for year 1 of CP6, and has made a separate submission to ORR on this. RDG asks that ORR determine how the TOC Benchmarks should be set, having consideration of Great Western Railway's concerns (we note that ORR has already concluded how SPP thresholds should be set for year 1 of CP6).
5. **Hull Trains** – Hull Trains does not support the proposed TOC Benchmarks, as it does not consider that these will be reflective of its performance during CP6. Further details are set out in Annex 9. The Network Rail Route supports the national approach to the recalibration. RDG asks that ORR determine how the TOC Benchmarks should be set, having consideration of Hull Train's concerns.

ORR's approval of the TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP thresholds

RDG requires formal approval of the proposed CP6 TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP thresholds from ORR. ORR is requested to review the results (in Annex 1) and accompanying information, and respond **by 22 November 2018** setting out:

1. Whether ORR formally approves the TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP thresholds set out in Annex 1 (determining between the Network Rail Route and operator proposals, explained in Annexes 7, 8 and 9).
2. If ORR does not formally approve the TOC Payment Rates, TOC Benchmarks, Network Rail Benchmarks and SPP thresholds, we would require ORR's determination of the parameters that should apply for CP6.

We note that ORR has already seen a draft of Steer's final methodology note, has been involved throughout the recalibration process through the Schedule 8 Recalibration Working Group, and has had a one-on-one meeting with Steer to discuss the methodology adopted for the recalibration of these remaining Schedule 8 parameters (on 17 September 2018).

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. Please submit any queries by no later than 15 November 2018, to allow time for a prompt response prior to the 22 November deadline noted above.

Yours sincerely,

Caitlin Scarlett