

Deren Olgun
Principal Economist

11 October 2018

Dear Freight and Charter Schedule 8 Re-calibration Working Group,

Final decision: Approach to recalibrating the Class 0 trains element of the Network Rail benchmark in the freight regime

1. You asked us,¹ to determine how Network Rail delay minutes to Class 0 trains in the Network Rail Benchmark should be recalibrated for CP6. On 14 September 2018 we received submissions on this issue from both Network Rail and freight operators.
2. We have reviewed these submissions and our final decision is that the trajectory for the freight delivery metric (FDM) should be applied to the element of the Network Rail benchmark reflecting Network Rail delay minutes to Class 0 trains. In addition, the Network Rail delay minutes to Class 0 trains over the re-calibration period should be included in the regression analysis used to estimate the relationship between FDM and Network Rail-caused delay minutes to freight operators.
3. On 26th September 2018, I wrote to you stating this decision, in order to meet your timelines for the recalibration. The rest of this letter sets out the process we have followed to arrive at this decision and our rationale for it.

Background

4. The Network Rail benchmark in the freight regime sets the level of performance at which Network Rail will neither pay nor receive Schedule 8 payments in relation to the delay that it causes to freight operators.
5. The Network Rail benchmark in the freight regime should reflect Network Rail's expected performance for freight services in CP6. To achieve this the Freight and Charter Schedule 8 Re-calibration Working Group agreed to base the Network Rail benchmark in the freight regime for CP6 (for commercial services) on Network Rail's regulatory performance target for those services, FDM. The rationale being that FDM is the level of performance Network Rail is expected to deliver for those services.

¹ In your correspondence of 12th September 2018.

6. Class 0 freight services are ancillary movements of freight trains between a depot/stabling point and the terminal of a commercial freight service, as well as the return journey from the terminal to the depot/stabling point. Delays to these services are not included in FDM.
7. Network Rail and freight operators disagreed on the approach to forecasting Network Rail's expected performance for Class 0 trains in CP6, for the purpose of recalibrating the Network Rail benchmark. In light of this disagreement, we were asked to determine the matter.

Network Rail proposal

8. Network Rail's view is that the FDM trajectory, which will be applied to other Network Rail delay minutes to freight services, should not be applied to Network Rail delay minutes to Class 0 trains.
9. Network Rail's rationale is that it is funded to deliver the FDM trajectory, which does not include Network Rail delay minutes to Class 0 trains. Network Rail considers that it is not funded to deliver the same performance improvements over CP6 to Class 0 trains. Thus, Network Rail argues, if its performance for Class 0 trains were subject to the FDM trajectory then the Schedule 8 freight regime would not be financially neutral on expectation.
10. Network Rail also notes that: 'should ORR determine that Network Rail delays to Class 0 trains should be subject to the FDM trajectory, then we strongly consider that the Network Rail delay minutes to Class 0 trains need to be included in the regression analysis which underpins the CP6 Network Rail Benchmark.'
11. In its submission, Network Rail proposes to calculate the Class 0 component of the benchmark by uplifting Network Rail delay minutes to Class 0 trains for expected traffic growth in CP6. The traffic growth adjustment proposed is the same as the one used for the calculation of the freight operator benchmark. Under this proposal, expected traffic growth in CP6 would be calculated using the difference between average mileage over the 5-year re-calibration period and expected average mileage in CP6.

Freight operator proposal

12. Freight operators consider it appropriate to apply the FDM trajectory to Network Rail delay minutes to Class 0 trains.

13. They argue that the link between the performance of Class 0 and commercial freight services means it is not reasonable to expect the performance of the two to be different over CP6.

Our response

14. The element of the Network Rail benchmark relating to Class 0 trains should, as with other elements of Schedule 8 benchmarks, be set on the basis of expected performance.
15. Neither of the submissions provided any evidence on historical performance for Class 0 trains (i.e. delay per 100 miles). We would expect the forecast of performance for these services to be made with an understanding of historical performance and how it correlates with the performance of commercial services. We asked Network Rail to provide us with the information necessary to understand historical performance, but were told this could not be done within the timescales in which this decision was necessary.
16. In the absence of this information, and, in particular, in the light of the arguments submitted by freight operators concerning the interaction between Class 0 trains and commercial services, we have no reason to expect that performance of Class 0 trains will be very different from commercial services.
17. We note Network Rail's view that it is not funded to deliver improvements to Class 0 trains. With respect to this, we do not share Network Rail's restrictive interpretation of what it is funded to deliver and consider that although improvement to Class 0 trains is not included within FDM, it does not follow that Network Rail is not funded to improve them. Moreover, even disregarding the question of funding, what matters for the purpose of setting the benchmark is what the expected level of performance of Class 0 trains is, and Network Rail has provided no compelling reasons to believe that performance for Class 0 trains will differ from the performance of commercial services.
18. Given the timeframe for making this decision, the late stage we are at in the periodic review, and the fact that Class 0 trains account for a very small proportion of overall delay, we consider that, the lack of evidence on historical performance notwithstanding, the best available option is to set the Class 0 trains element of the Network Rail benchmark in line with the FDM.

Approach to estimating the relationship with FDM

19. This decision means that the forecast of performance for Class 0 trains will be determined by the FDM trajectory. For this to be done accurately, it is important that the relationship between delay to Class 0 trains and FDM is understood. Network Rail has proposed to do this by including delay to Class 0 trains in the regression analysis. We await a clear account of the specifics of the methodology for doing so, but we agree with the principle that the relationship between FDM and Class 0 trains should be understood for the purpose of setting the Network Rail benchmark.

Our decision

20. To summarise, on the basis of the submissions we received, we have decided that:
- a. the FDM trajectory should be applied to Network Rail delay minutes to Class 0 trains; and
 - b. Network Rail delay minutes to Class 0 trains should be included in the regression analysis for estimating the relationship between FDM and Network Rail delay minutes.

Next steps

21. This letter states our final decision on how Network Rail delay minutes to Class 0 trains in the Network Rail Benchmark should be recalibrated for CP6, which you asked us to determine. This decision is restricted only to the principle of how this should be done. You should note that we will still need to review and approve the detail of how the Class 0 component of the Network Rail benchmark in the freight regime has been calculated once it has been calculated (as per the general approach to the recalibration that we have previously discussed).

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Deren Olgun', is written over a light blue circular stamp.

Deren Olgun