

PR13: ORR Schedule 4 Workshop

London
1 Kemble Street

11th November 2011



First session of workshop – Background to Schedule 4, PR13 and Schedule 4 and the May consultation

- The workshop started with opening remarks from Paul McMahon, Deputy Director, Railway Markets and Economics, ORR who gave a brief introduction into Schedule 4 and outlined the objectives of the workshop.
- Paul Hadley, Head of Operations, ORR then gave a presentation on the background to Schedule 4 and outlining the main changes made at the last periodic review (CP4), and also highlighting key issues the workshop should consider as part of the discussion.
- Rob Mills, Senior Economist, ORR followed on with a presentation about Schedule 4 in PR13, providing an overview on the consultation responses that ORR received from its first consultation document on PR13, and outlining which issues ORR considered should be taken forward for review as of the PR13 and those we consider should not be taken further.
- Richard Wall, Commercial Advisor, Network Rail followed on with a presentation on Network Rail's response to the May consultation stating the areas Network Rail believes need to be resolved.
- The presentations were followed by a discussion. The key points made in the discussion are shown below:

Schedule 4 and the access charge supplement (ACS)

- One stakeholder's expressed the view that Schedule 4 in effect acted as an insurance scheme rather than an as incentive scheme, of which the access charge supplement, represented the 'premium', therefore ORR should not consider changing the way in which it is calculated.
- ORR explained that it was aware that the amount a franchised passenger train operator pays in ACS may not reflect the cost of the possession regime on a route basis, ORR was looking at ways to increase the incentive of schedule 4 without making the system overly complex.
- ORR noted that it is difficult for franchised passenger operators to plan 2 years ahead. ORR was also looking at the role of Clause 18.9 on franchise contracts.
- Others stated that the ACS should apply to passenger operators otherwise it is not fully understood, e.g. it may just be considered as a fixed cost that needs to be paid (rather than act as an incentive).

- Another delegate stated that the ACS should be reflected in fixed charge, wrapped into a 'path charge', this would provide stronger incentive to Network Rail.
- Network Rail countered that it did not consider Schedule 4 as an insurance scheme but as an incentive that acted on Network Rail to drive down possessions costs.
- Regarding the access charge supplement, Network Rail noted that there is a year by year possession plan and that they do not have numbers split by passenger operators.

Does Schedule 4 impose incentive on operators?

- A number of franchised passenger operators noted that operators have little incentive from Schedule 4. A number of operators consider Schedule 4 does not incentivise Network Rail to plan possessions efficiently either.
- Network Rail disagreed with the comments made by passenger operators and reminded delegates that Schedule 4 is a zero benchmarking regime.

Schedule 4 and possessions timetable

- Several representatives from rail construction/engineering industry felt that the current possession regime increases the cost of rail maintenance.
- They were also concerned that the requirement to plant possessions 2 years in advance does not allow for efficient planning, there is not enough knowledge of the extent and range of work required so far out which can lead to 'feast and famine' impacts due to troughs where planned engineering is subsequently cancelled where no longer required. Schedule 4 should act as a better driver to help efficient planning
- Others felt that Schedule 4 causes perverse incentives, for example heavy reliance on weekend / overnight working results in a 'transient' work force increasing employment costs because of the need for recruitment and retraining
- Other representatives supported this view stating that they feel that they cannot invest and train their employees due to peaks and troughs in maintenance activity due to Schedule 4.
- A franchised passenger operator noted that for long distance operators, Sunday remained a busy day and that passengers placed value on having a train service rather than a replacement buses. Therefore greater emphasis should be placed on running trains during engineering, e.g. by greater use of diversionary routes.
- ORR highlighted that its existing policy allowed for bespoke Schedule 4 arrangements and that it expected that this might have led to, for example, more overnight possessions, subject to the interests of freight operators remain protected.
- Another construction industry delegate pointed to the need for more joined up thinking, e.g. more electrification work could be carried out if for example first,

last train could be cancelled allowing more access time, including more weekday(night) engineering.

- One delegate noted that collaboration is needed to resolve these issues, with emphasis on a need for whole industry collaboration. It was also felt that there are a number of issues which need to be addressed about Schedule 4, such as is whether or not it is an incentive regime
- ORR suggested that instead of weekend work, late week days could be used instead as this was done in CP2 and informed stakeholders that it was not ORR's intention for Schedule 4 to shift work to the weekend.
- One stakeholder stressed the point that an incentive hasn't always been there for planning two years in advance. The stakeholder noted that West Coast Main Line always runs a Sunday service and if work needs to be done which disrupts the service then there is a revenue loss all around.

Schedule 4 and joint up work

- Several engineering delegates stressed that there is no joined up work, and for work to be completed on time there may need to be cancellations. It was suggested that 2 years isn't suitable and that a shorter time scale is required.
- Network Rail cautioned against placing too great a burden on Schedule 4 to resolving too many of these issues, for example long term impact on demand / revenue loss of revenue from passengers reaction to engineering – difficult to model / compensate through Schedule 4.
- Also that the industry needs to make a window for possessions to take place and that not all of the issues raised are solely due to Schedule 4.
- A freight operating company expressed its concern of a lack of a joined up policy between engineering companies and franchised passenger operators when planning and operating possessions.

Schedule 4 freight regime

- A freight operating company stated the regime needs to have a link from the beginning to the end and that currently the regime is too short term. Regarding incentives, it noted that the regime should incorporate incentives for positive behaviour as all the incentives are negative and also expressed its concern that the freight regime does not cover the cost to freight operators due to possessions.

Process of Schedule 4 used in PR08 and how this process can be moved forward for the next periodic review

- Network Rail noted that in the last periodic review, the passenger work was delivered on time but the framework was delivered later than scheduled, however the process seemed to work reasonably well. The process used in PR13 will depend upon the agenda however.
- Network Rail noted that all the issues raised will be looked in to, with some being related to Schedule 4 and some relating to a wider context. Network Rail considers that there is a cumulative impact, which is difficult to understand clearly. Network Rail highlighted the issue that people are

expecting too much of Schedule 4, and the incentives involved do not have the primary purpose to drive performance.

Second session of workshop

- The second session was started with a presentation by Rob Mills, Senior Economist, about Schedule 4 in a more joined up industry.
- Richard Wall, Commercial Advisor, Network Rail and Jonathan Pugh, Senior Policy Manager, Association of Train Operating Companies followed on by giving presentations on their view of Schedule 4 within a more joined up industry.
- After the presentations, a second discussion was open for the attendees. The key points made in the discussion can be seen below:

Problems and issues with Schedule 4

- One franchised passenger operator noted that Schedule 4 is worth only 1% of its revenue, so the regime should be simple and straightforward. Another however, considered that it might be worth more than 1% depending on whether a fixed charge is involved.

Schedule 4 and alliancing

- A freight operating company noted that there is a need for a greater alliancing between operators and Network rail in the management of possessions.
- Network Rail highlighted that there is a move towards alliancing occurring.

Schedule 4 freight regime

- A freight operator stressed the fact that the freight regime in Schedule 4 does not cover the cost to freight operators, which is a big worry for freight operators.

Schedule 4; a compensation or an incentive regime?

- A franchised passenger operator questioned whether Schedule 4 is compensation or an incentive regime. They expressed the concern that if the regime is ex post, then how franchised operators give financial signals in 2 years time. They consider that the regime needs to be more transparent and clear.
- In respect of the mid-point notification, the franchised operator considered that because of advances in information technology in respect of timetable information does not mean that the time horizon for informing passengers about disruption due to possessions should be reduced.

Schedule 4 and planning the possessions

- One franchised operator said that even where they notify passengers about possessions early, not all passengers will put off their travel until after the possession, they will find an alternative mode of transport. Customers want notification of planned disruptions but it does not mean they travel by rail, in particular for the same fare level.

- One stakeholder noted that there should be a different approach to this and that there should be incentives to plan and to get the right possessions.
- Network Rail noted that the difference planned disruptions make to customers is great, and that there is value in planning a year ahead. Network Rail agreed that it is difficult to plan timetable possessions two years in advance but asked what delegates would consider as a better way around this.
- One delegate suggested Schedule 4 should be more radical.

Close of workshop

- At the end of the workshop, Paul McMahon, Deputy Director, Railway Markets and Economics made a closing statement about the issues raised in the discussions and thanked all attendees.