



5th Floor,
50 Eastbourne Terrace
Paddington
London
W2 6LG

Joel Strange
Network Rail
Kings Place
90 York Way
London
N1 9AG

24 May 2013

Dear Joel,

First Group response to Network Rail consultation on the principles for setting Network Rail Schedule 8 Benchmarks for CP4

Thank you for the opportunity to respond to your letter of 1 May. This response is made on behalf of FirstGroup and First Scotrail, First Capital Connect, First Great Western and First TransPennine Express. We have addressed each question in turn.

Question 1 Do you agree that Network Rail should lead the work to set Network Rail Schedule 8 benchmarks for CP5? Do you have any suggestions in relation to industry engagement around this process?

NR has much of the knowledge and expertise required to lead the technical work in setting the benchmarks. Therefore, it is likely that only NR could lead an efficient and timely process to set the benchmarks. Since NR will therefore have a significant degree of influence over setting its own benchmarks, it is important that the work is done correctly and reviewed by ORR.

NR should ensure that TOCs have agreed to their performance trajectories and the underlying analysis it is based on. NR should also ensure that they have agreed the benchmarks with TOCs and that in turn they are internally consistent against each NR Route's overall plan.

To aid this agreement, we suggest that NR HQ and NR Routes meet with each TOC to discuss, model and agree trajectories and assumptions at the appropriate level of detail. Depending on the TOC, this might include PPM, cancellations, delays, AML, and be disaggregated at a sector or service group level. TOC signoff of the trajectory

should be an integral part of the process. NR HQ may need to take a more active lead in engagement to ensure that all TOCs have sufficient information and time to engage effectively.

Question 2 Do you agree with each of the principles set out, above? If you do not agree with any of the principles, it would be helpful if you could explain why and suggest alternatives, if appropriate.

(i) CP5 Schedule 8 benchmarks should reflect expected CP5 performance by TOC.

Benchmarks should be further disaggregated below the TOC level where there are known impacts that have a materially different effect on different parts of a TOC's operation. In particular, FCC should have separate Great Northern and Thameslink trajectories, and FGW have separate Long Distance, London & SE and Regional trajectories. Benchmarks should reflect the particular focus in CP5 on the worst-performing routes.

(ii) For the financial year 2014-15, Schedule 8 benchmarks should be consistent with PPM performance trajectories contained in the JPIPs 2013-14 (published in March 2013).

Not all JPIP year two figures have been agreed between NR and the relevant TOCs, but in general these provide a reasonable starting point. This step between actual and planned performance may be large, so this should be reviewed carefully when setting the starting point benchmark for CP5.

(iii) For the financial years 2015-16 to 2018-19, Schedule 8 benchmarks should be consistent with Network Rail Routes' whole-CP5 PPM performance trajectories. These will be developed working with TOCs, agreed by Network Rail's central performance team and be consistent with achieving 92.5% PPM by 2018-19, as required by the HLOSs.

In general, the forecasts should be consistent with delivering 92.5% PPM. However, there are many ways in which performance of routes and TOCs could be combined to give a 92.5% average. The forecast should take into account the HLOS objective to increase the performance of the worst-

performing services. Particular account should be taken of funded projects and consistent assumptions when the elements of the forecast are generated. This will help to avoid the risk of significant net Schedule 8 payments even when delivery is in line with the CP5 plans.

It is also possible that there may need to be a divergence between the PPM trajectory and the Network Rail benchmarks. Increased traffic may be a risk to PPM, but the Schedule 8 effects are already compensated through the Capacity Charge. It would also not be appropriate to adjust benchmarks due to improvements in PPM due to investment in new rolling stock.

The assumptions should be clearly documented, and should also be consistent across the network (e.g. between FCC and Southern for Thameslink). Each TOC should be provided with a breakdown (a “waterfall chart”) of the extent to which the key factors affect the PPM trajectory, for example weather assumptions, project work, new infrastructure, asset reliability improvement and operations improvements. This is essential to provide understanding, allow meaningful challenge, and gain agreement from TOCs.

- (iv) **Schedule 8 benchmarks should be set on the basis of the most recent data and relationships between Schedule 8 AML and PPM and/or delay minutes (with the choice of PPM and/or delay minutes being decided on the basis of statistical and operational criteria, working with ORR).**

Cancellations should also be taken into account, since the Deemed minutes and Actual minutes may not follow the same pattern, and Deemed minutes are a significant proportion of overall regime ‘Performance Minutes’. Of particular importance in this regard will be the assumptions made regarding severe weather, which should be explicitly recognised.

The Network Rail benchmark also needs to split out the TOC-on-TOC element of the benchmark and treat it separately when applying the trajectory.

(v) **A rebenchmarking exercise should take place if there are material changes to timetables, for example as a result of refranchising.**
Recalibrations due to material timetable changes are already covered within Schedule 8 Para 17, and further opportunities are available for a rebasing of Schedule 8 when new access rights are sold. The benchmark period performance data needs to be produced and held in a manner to allow easy access for any rebenchmarking – it shouldn't require starting from scratch.

(vi) **If 'change control' is used in CP5 to adjust regulatory outputs, appropriate adjustments should also be applied to Schedule 8 benchmarks.**

It is possible that there may be a case for Schedule 8 adjustments in the event of a change to regulatory outputs. However, we would expect this would be limited to a material change in contractual interactions, for example with the advent of Crossrail.

It is important for Network Rail to have appropriate performance incentives when delivering projects. Frequent benchmark changes could undermine this, as performance improvements or deteriorations resulting from projects would be removed from the regime.

Question 3 Do you have any comments on engagement between Network Rail routes and TOCs in establishing PPM performance trajectories by TOC for CP5?

Little engagement has taken place until recently. In what has been shared, the model seen is simplistic and overly cautious with regard to expected performance improvements. We are keen to work with NR to improve this. Given the variation in response from NR Routes, it is particularly important that the CP5 trajectories for cross-route TOCs should be clearly owned. This may mean direct ownership from NR HQ for TOCs with many route interactions, such as FCC.

Question 4 Do you have any comments about the process for converting TOC-level PPM trajectories into Schedule 8 benchmarks?

The process should deal separately with the two elements: Actual Lateness (largely related to delays minutes and late trains within PPM); and Deemed Lateness (related to cancellations). The proposed regression relationships should provide the standard methodology, with the opportunity to take into account specific issues if they exist within individual TOCs, for example one-off severe weather events affecting relationships, or timetable changes. On top of that, there could be opportunity for adjustments to take account of a limited number of known schemes, providing they have material impacts. Following forecasts of Actual and Deemed Lateness, they will need to be split to take account of forecast attribution.

When performance is forecast to be getting worse in CP5 due to loss of infrastructure capacity issues, there should also be a worsenment trajectory of the TOC benchmark, in line with NR's, to maintain regime neutrality. (Previous Control Periods were on the basis of improved NR performance so this was not previously an issue.)

Question 5 Do you agree with our provisional proposals for timescales and processes for setting benchmarks in CP5? Do you have any further comments?

We are content with the timescales. It is important that TOCs are fully involved in all stages. The timings also need to fit in with any further changes to the Schedule 8 payment rate calculation for overall Regime sign-off.

First is committed to engagement on the CP5 Schedule 8 Regime, and we would like to emphasise the importance of industry engagement to ensure this process is successful.

Yours sincerely,

Martin Thornley
Performance Manager, First Great Western