GB Performance regime

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Overview of presentation

• Background

• Objectives of GB performance regime

• How the regime works (including key structural features)

• Experience of GB performance regime over the last 10 years
Background

• Lateness and cancellations of rail services is a high profile issue - passenger priority

• With vertical separation in 1994, it was important to
  â‚¬ ensure that the infrastructure manager was still focused on performance and
  â‚¬ provide a clear basis for compensation to train operators for the effects of lateness and cancellations caused by the infrastructure manager or other train operators

• Our regime is a performance scheme consistent with Article 11 of Directive 2001/14/EC but including all the optional features
  â‚¬ penalties for actions which disrupt the operating of the network
  â‚¬ compensation for undertakings which suffer from disruption and
  â‚¬ bonuses that reward better than planned performance
Objectives of GB performance regime

• Compensate
  ⌂ Compensate passenger train operators for revenue lost in the event of lateness and cancellations attributed to Network Rail or other train operators
  ⌂ Compensate freight train operators for estimated costs and revenue loss from lateness and cancellations attributed to Network Rail or other train operators

• Incentivise
  ⌂ To incentivise train operators and Network Rail to improve operational performance through
    • Operational decision making
    • Investment appraisal
Structural features of the GB regime (1)

• Payment rates (passenger)
  - based on modelled impact of lateness and cancellations on train operators’ revenue (the marginal revenue effect)
  - data for impact of lateness/cancellations based on industry demand studies

• Payment rates (freight)
  - Based on broad estimate of cost and revenue impact of lateness and cancellations but little information available

• Benchmarks
  - Expected level of performance
  - Set using historic performance and (for Network Rail) assessment of expected performance improvement
  - If both Network Rail and train operator perform at benchmark level then no payments are due – this means that no additional funding to the infrastructure manager is needed to fund the regime (expect to cover risk)
Structural features of the GB regime (2)

• Payments are made per minutes lateness as the most passenger focused measure available

• Worse than benchmark performance by one of the parties incurs penalty payments while better than benchmark performance causes bonus payments to be received

• No direct arrangements between train operators – all payments made via infrastructure manager

• Weighted by monitoring points to focus payments on sections of route where most passengers are affected
**Structural features: delay attribution**

- Much of the complexity in the GB regime is perceived to relate to identifying who caused the lateness.
- Delay attribution process is source of crucial management information.
- Delay attribution involves significant resources 300 – 500 people in Network Rail and train operators and a delay attribution guide of 90 pages.
- All delays of more than 3 minutes are attributed to one party or another.
- We looked at taking out delays of under 5 minutes but this distorts the allocation because it takes out some whole classes of delay caused by one party or the other.
- You could categorise some delays as neutral but would need to recalibrate the rest of the regime accordingly and monitor incentive effects.
Network Rail’s actual performance versus target

2004-05 to 2008-09 Network Rail’s actual delay minutes against regulatory target (CP3)

Period

Rolling annul total delay minutes

ORR implied target

Network Rail achievement
Experience: benefits and problems

• **Benefits**
  - Network Rail performance pre Hatfield (October 2000) and since 2003 has improved significantly
  - Delay attribution/management has provided a new and significant information source to Network Rail and train operators in trying to manage and reduce delay
  - Known compensation has allowed franchise bidders to remove or significantly reduce any risk premium that might have otherwise been added
  - Performance regime benefits are included where investment projects are appraised

• **Problems**
  - When rates were unrealistic e.g. in CP2 (2001 - 2004) the money flows were very high - but reduced when benchmark was updated
  - Delay attribution for every delay above 3 minutes is time consuming and costly
  - Does it properly reflect impact on revenue for very long individual incidents of lateness or absence of step change of improvement?
Other performance incentive arrangements

- Performance regimes are not the only influence on Network Rail or train operators’ performance in GB
- Joint performance improvement plans
- Reputational incentive to minimise lateness/cancellations – high profile in media
- PPM target from Government
- Network Rail Management Incentive Plan includes performance metric that impacts on bonuses of Network Rail Executives
- ORR publishes Network Rail Monitor showing Network Rail performance over time (http://www.rail-reg.gov.uk/server/show/nav.293)