

**Head of Rail Strategy and Finance
Rail**

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Joel Strange
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Date:
11 June 2013

By email

Dear Joel

SCHEDULE 8 COMPENSATION PAYMENT RATES IN CONTROL PERIOD 5

Thank you for the opportunity to respond to this consultation. Whilst this has a particular focus around commuting services in London and the South East there are also significant implications for Scotland.

Transport Scotland notes that the Schedule 8 performance regime for passenger operators was last updated during the previous Periodic Review in 2008 although certain elements, including payment rates, were last reviewed in 2005. We therefore understand the need for review and potential recalibration to take account of the most recent evidence available.

Since Schedule 8 is intended to be revenue neutral it is vital that rates are set appropriately and trigger the right behaviours across the industry. This will help ensure that both Network Rail and Train Operating Companies (TOCs) are appropriately incentivised to minimise disruption across the network. It will also reduce the risks of over or under compensation, and associated financial risks to Transport Scotland as the principal specifier and funder of the railways in Scotland, including in relation to the procurement and management of the ScotRail and Caledonian Sleeper franchises.

Transport Scotland has particular concerns around the evidence base underpinning the analysis in your consultation and we understand these are shared by the Department for Transport. Specifically, the PDFH 5.1 recommendations on delay multipliers and generalised journey time and the increases to Schedule 8 rates resulting from these changes are substantial and carry significant financial risks to Transport Scotland. Whilst the consultation focuses on the application of these to London and South East services and the potential for overstating these flows, we remain concerned that similar risks would apply for other sectors, including those relevant to the network in Scotland.

We understand that the DfT is yet to reach a formal view on PDFH 5.1. Given the concerns shared by funders we would ask the ORR and Network Rail to reconsider the adoption of this for the calculation of Schedule 8 until further reviews are completed. Given our interests as funders,

Transport Scotland would welcome further discussions before final decisions are taken as part of PR13.

I am copying this response to Rob Mills at the ORR.

I can confirm that Transport Scotland does not require any of this response to remain confidential.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steven McMahon', written in a cursive style.

STEVEN McMAHON