

Iain Morgan
Economist
Office of Rail Regulation
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8 August 2005

Dear Iain,

DRAFT CONCLUSIONS – SCHEDULE 8 PERFORMANCE REGIME

Thank you for providing TfL with a copy of the draft conclusions of the Schedule 8 performance review.

TfL supports the majority of findings in the draft conclusions. In particular we welcome the ability to have TOC based performance trajectories commensurate with franchise periods. This alignment with local performance plans and obligations in franchises will assist clarity in performance management overall. However we note the ability to develop bespoke regimes to meet local requirements and support this flexibility in the arrangements.

We also note that the ORR intends to recalibrate payment rates to reflect appropriate compensation to train operators aligned to revenue impact. TfL broadly supports this proposal. However, it is unclear whether the ORR does intend to cap bonus payments to Network Rail in the event of consistently good performance as we note further work is being undertaken (paragraphs 2.5 and 3.16 refer). TfL believes that such bonus payments should be capped, as revenue improvements to operators (especially in Travelcard areas) may not necessarily reflect performance trajectories, especially if the mechanism is based primarily on short-term revenue loss in the event of poor performance.

We note that the findings of the review are to be implemented from 1 April 2006 (e.g. changes to payment rates) but that those changes which are considered to be franchise specific (e.g. performance trajectories) will be only reviewed at the commencement of a new franchise. However, we also note the ability to change payment rates between Periodic Reviews or within a franchise term if there are significant changes in operator revenue. TfL supports these implementation proposals.

That completes TfL's comments on the conclusions.

Yours sincerely,

Richard Wallace
Head of Rail Industry Liaison