

Network Rail's response to ORR's Draft Determination: System Operator

31 August 2023

Contents

Executive summary	2
Summary of draft decisions, proposals and responses.....	4
System Operator response to ORR’s PR23 draft determination settlement document	6
1. Safety.....	6
2. Performance.....	6
Delivering an effective timetable	7
Freight performance.....	12
National Passenger Operators’ (NPO) performance	13
Performance innovation	14
3. Freight growth.....	15
4. Asset sustainability (CP7 Measures)	17
5. Efficiency	19
6. Governance and stakeholder engagement.....	20
7. Other relevant information for our response.....	22
System Operator expenditure plans.....	22
Annex A: Updated financials and outcomes	24
Annex B: Sign-off	24

Executive summary

This document is our response to ORR's PR23 draft determination settlement document for System Operator (SO), issued as part of its overall 15 June 2023 draft determination on CP7.

Following the publication of ORR's draft determination, we have reviewed and considered ORR's draft proposals, decisions and actions, in relation to our activities. This document sets out our response on these areas. To inform this response, we have undertaken a targeted review of our CP7 strategic business plan (SBP), as part of our iterative CP7 plan development process. This update has also been reviewed and assured by subject matter experts where relevant. Recognising the limited time available to update, assure and consolidate CP7 plans, our approach has been necessarily targeted.

We cover GB-wide activities and have therefore considered how our updated plans and response to ORR's draft determination impacts delivery of both the UK and Scottish Governments' priorities within available funds, as set out in their respective High Level Output Specifications (HLOSs) and Statements of Funds Available (SoFAs).

This document is separated into seven different sections, responding to nine ORR draft decisions and one draft proposal. In summary, the sections covered are:

- Safety
- Performance
- Freight Growth
- Asset Sustainability
- Efficiency
- Governance & Stakeholder Engagement
- Additional Key Information

There have been some key changes to our SBP submitted to ORR in February this year. These changes are expanded on within the main document but in brief include:

1. The decision in May 2023, that the centralised technology driven programme approach to the Industry Timetable Technical Strategy (ITTS) would not deliver all the desired outcomes within the timescales needed, and given the pressures on the railway today, a move to refocus activity on a suite of smaller projects which deliver nearer term, known benefits, is underway.
2. A Performance Improvement and Innovation Fund (PIIF) has been re-introduced into Network Rail's plan, £20m for England & Wales, based on our CP6 experience and intent to maintain a balance with other expenditure / income demands in the plan. The administration and management of this fund will be built on lessons learnt from CP6 and best practice across Network Rail. This fund will sit within the Technical Authority plan.
3. Other financial changes include a further £20m centralised reduction identified as part of Network Rail's broader reprioritisation process and a £7m difference from round six to round seven due to a number of non-material movements/adjustments (Input Prices / Headwinds

/ Indicative Stretch). These are further detailed in the waterfall diagram shown in figure 1 below.

- SO aims to improve Network Rail's coordination and management of Network Capability information, recognising routes accountability for data accuracy. The approach consists of three workstreams: reviewing existing business processes, identifying short-term fixes for known issues, and developing a sustainable strategy for collecting, storing, managing, publishing, and using infrastructure data.

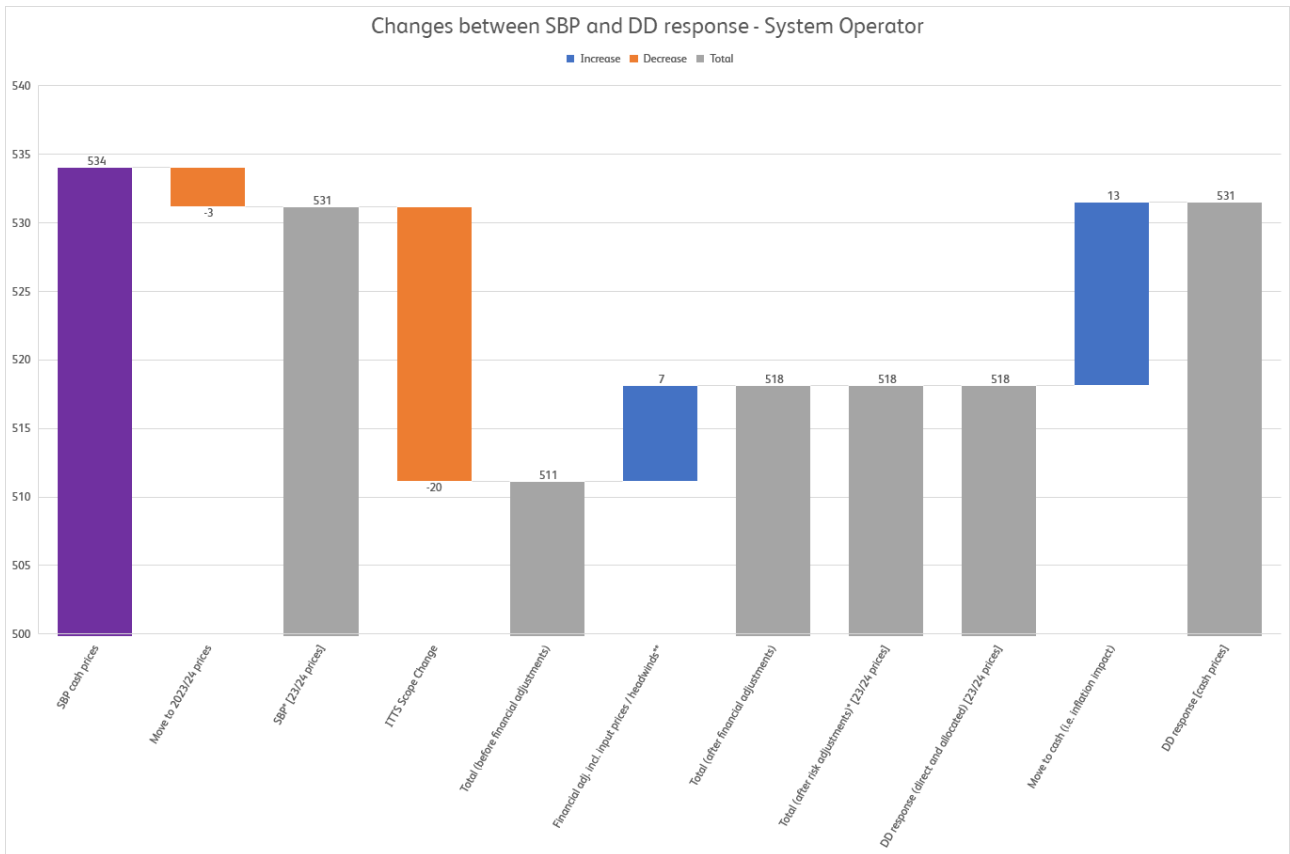


Figure 1: Waterfall of changes between SBP and DD response

Summary of draft decisions, proposals and responses

Draft decision / recommendation	ORR Narrative	SO Response
Draft decision 1	SO to return the timetable process to Network Code compliance by end of December 2024.	Click here to go to the SO response
Draft decision 2	<p>In our conclusions on the CP7 Outcomes Framework, we decided to monitor SO strategic projects. ITTS is the largest of these and progress will be monitored as a Tier 2 supporting measure. To do this:</p> <ul style="list-style-type: none"> • We require the SO to confirm, during summer 2023, what the scope and cost of ITTS will be and the implications for other deliverables, to inform our final determination, due to be published in October 2023; and • As part of this clarification, we require the SO to confirm how any reduction in planned spend on ITTS will be used. 	Click here to go to the SO response
Draft decision 3	We expect SO to confirm whether the development of a replacement Access Planning System will be undertaken and the consequences for performance of the approach chosen to inform our final determination in October 2023. Whatever approach is adopted, we would expect to see a plan adopted to minimise applications processed post industry standard within 1 year of CP7.	Click here to go to the SO response
Draft decision 4	We will hold the SO to account for the GB-level trajectories for freight cancellations and require the SO to set out more detail of how it will deliver its target in its delivery plan for CP7.	Click here to go to the SO response
Draft decision 5	We require the SO to develop and include updated On Time and Cancellations forecasts for each NPO in its delivery plan for CP7. Within this, we require the SO to set out much more detail on the impact of its actions on NPO stakeholders.	Click here to go to the SO response
Draft decision 6	<p>We have decided to accept Network Rail's forecasts for freight growth but require additional work in the following areas:</p> <ul style="list-style-type: none"> • Network Rail to develop GB-wide trajectories for freight growth to inform the final determination • The SO to clarify how it intends to use capacity planning to support reliability and bring growth in the delivery plan; and • The SO to detail the actions that it plans to take to deliver targeted freight growth across the whole of Great Britain in the delivery plan. 	Click here to go to the SO response

OFFICIAL

<p>Draft decision 7</p>	<p>We accept the SO’s planned efficiencies of £34 million but expect the SO to continue to develop its plans and provide clarification on the following specific points:</p> <ul style="list-style-type: none"> • Clarify how the planned savings from technology will be affected by decisions in relation to ITTS to inform the final determination in October 2023; and • Clarify the source of the £5 million unidentified efficiency in its delivery plan. 	<p>Click here to go to the SO response</p>
<p>Draft decision 8</p>	<p>We accept the SO’s expenditure plans but require the following clarification to inform our final determination in October 2023:</p> <ul style="list-style-type: none"> • The SO to justify its need for £24 million of unallocated opex, including the criteria for allocating it to projects, including Better Data for Better Operations. 	<p>Click here to go to the SO response</p>
<p>Draft decision 9</p>	<p>During summer 2023, we will work with the SO to finalise processes and measurement systems to enable monitoring of its performance in: management of network capability; management of the SoAR process; and strategic planning.</p>	<p>Click here to go to the SO response</p>
<p>Draft Proposal 1</p>	<p>The SO is to operate a Performance Improvement and Innovation Fund (PIIF) which allows funding specific for performance improvement and innovation schemes, in the England & Wales regions. This is intended to kick-start collaborative, cross-industry solutions with the aim of improving train performance between train operators and Network Rail. We expect to require Network Rail to confirm arrangements in the delivery plan with funding of £40 million to come from the financial adjustments proposed in our PR23 draft determination: supporting document on sustainable and efficient costs.</p>	<p>Click here to go to the SO response</p>

System Operator response to ORR's PR23 draft determination settlement document

1. Safety

The purpose of this section is to respond to ORR's findings in relation to safety, as set out in the System Operator settlement document.

The support in favour of The Weather Risk Task Force (WRTF) will ensure that Network Rail operates a safe, reliable, and more affordable railway during adverse and extreme weather. Its work addresses the operational and engineering changes needed to support a more robust and sustainable railway, aligned with the findings of several independent expert reviews.

The WRTF's core objective is to provide Network Rail with the tools it needs to better understand the operational implications of weather on its infrastructure and make effective, service-oriented, risk-based decisions and complementing the day-to-day leadership provided by SO in advance of and during extreme weather events. It incorporates the most recent scientific advances in monitoring, real-time data, weather forecasting, and risk-based decision making. As a result, our routes and regions will be empowered and enabled to provide a better service to passengers in the face of increasingly severe weather.

In addition to regional asset renewals and improvements, this initiative will increase safety and reduce the short-term performance impact of weather. Long term, the systems, tools, and procedures we create will make our operations more resilient to the challenging and extreme weather caused by climate change, aligned with the longer-term climate change adaptation work described in Network Rail's Environmental Sustainability strategy and led by our Technical Authority colleagues.

The Freight Safety Improvement Portfolio (FSIP) will continue to build on our achievements during CP6 to improve critical areas of safety risk, with a greater emphasis on strategic freight safety in CP7. FSIP is intended to target specific areas for improvement that would not otherwise be viable. It is a fund for the regions to use, but not a 'risk' fund nor does it fill shortfalls in maintenance funding. In CP7, especially with the lower level of funding, we intend to be stricter in selecting proposals, and we will pursue more strategic projects to leverage greater benefits. Many of the 'smaller' schemes offering early benefits have already been delivered, allowing the attention to shift to larger or more complex enhancements.

2. Performance

The purpose of this section is to respond to ORR's findings and draft decisions in relation to train performance, as set out in the System Operator settlement document.

We are committed to improving train performance but will need industry collaboration to do this, and we do not currently have a clear view of operator contributions.

With inherent uncertainty in performance forecasting and without a clear view of operator contributions to train performance, we do not think that performance can be accurately forecast for all of CP7. We have written to ORR to set out our concerns with the draft determination approach, metrics and baselines.

ORR has proposed an alternative approach to train performance target setting which would set point values for the first two years of CP7 and indicative trajectories for the final three years which are subject to a 'reset', codified in the Final Determination. Whilst this approach does not mitigate all the challenges and significant uncertainties remain, we recognise it as an improvement over the approach in the Draft Determination and we are working with ORR to provide the information required. Given the approach has only emerged in the last few weeks we have agreed with ORR that we will provide evidence to support credible passenger performance trajectories as an addendum to this document on 14 September.

We consider that ORR has not justified its proposed regulatory baselines with sufficient evidence and analysis, and it has not set out the assumptions it has made on operator contributions or on external factors (subject to letter response).

ORR's approach must incentivise appropriate behaviours, including how it uses metrics (such as the balance of On Time performance and revenue generating services, and the balance of On Time and Cancellations as a network management approach) and setting realistic baselines.

It is critical that we continue to work with operators to build robust train performance plans. Because the assumptions and plans will continue to evolve, flexibility is essential in CP7. This is wider than the Managing Change Policy, but it is likely that we will need to trigger managing change as operator and external assumptions impacting performance forecasts evolve.

Delivering an effective timetable

Draft decision 1: SO to return the timetable process to Network Code compliance by end of December 2024.

System Operator: System Operator has been unable to resolve the legal issues with ORR over the last 8 months, and we are in the process of putting a plan in place to recover Network Code timescales by the end of 2024. The plan will be established in Autumn 23, and details have already been worked through established industry forums including the Operational Planning Strategy Group and the Industry Timetable Change PMO.

Permanent Timetable (New Working Timetable)

The recovery plan will move towards Network Code compliance for the December 24 timetable preparation period starting in March 2023; operators will be required to submit Priority Date Notification Statements (PDNS) at D-40, and the new working timetable will be published at D-26 in

line with current Network Code timescales. Funders will need to make decisions about the scope of timetable change in good time to be reflected in PDNS.

- June 24 timetable change date:
 - Timetable preparation period of D-32 to D-18
- December 24 timetable change date:
 - Timetable preparation period of D-40 to D-26 a return to elements of Network Code Part D compliance, including publication of the Prior Working Timetable at D-45
- May 25 timetable change date:
 - Timetable preparation period of D40 to D26 demonstrating full Network Code Part D compliance for the development of the New Working Timetable

Informed Traveller

For Informed Traveller, we will begin to recover to Network Code timescales from February 2024; we expect to recover TW-12 publication of weekly amended timetables in Summer 2024, and for operators to recover TW-18 bidding for changes in Autumn 2024.

The weeks of Informed Traveller that are planned between August 23 and February 24

- Continue with inputs at TW-12 and publication at T-W8
- **Implement the publication of unvalidated Informed Traveller Bids at TW-12 from September 23**

The weeks of Informed Traveller that are planned from February 24 onwards

- Informed Traveller recovery plan to push out to TW-18 bidding and TW-12 publication of the finalised timetable starts from February 24; recovery plan to be developed by an Operational Planning Practitioners Group (OPPG) subgroup.
- **Aim to recover finalised timetable publication at TW-12 by Summer 24**

SO aims to recover operator bids at TW-18 by Autumn 24

Draft decision 2: In our conclusions on the CP7 Outcomes Framework, we decided to monitor SO strategic projects. ITTS is the largest of these and progress will be monitored as a Tier 2 supporting measure. To do this:

- We require the SO to confirm, during summer 2023, what the scope and cost of ITTS will be and the implications for other deliverables, to inform our final determination, due to be published in October 2023; and
- As part of this clarification, we require the SO to confirm how any reduction in planned

System Operator: As part of the SO's preparations for CP7, we have been closely scrutinising all our delivery programmes, including testing that we continue to provide the best value for money and deliver the intended outcomes in the form of benefits for passengers and freight users.

The early benefits of the ITTS programme have been delivered in several aspects of how better data is presented to the operational railway systems. This includes specific improvements such as an increased automation of timetable production (reduced manual tasks). An example of this is

through the automatic identification of overlength trains in platforms and loops in TPS and automatic identification of misaligned track & route codes in Train Planning System (TPS). The programme also provided faster, more flexible performance modelling, this has been achieved by upgrading RailSys to the Enterprise version which allows multiple analysts to build and run simulations on the same model. The Performance Hub tools have also been enhanced to advance our use of Timetable Analytics, and better focus timetable improvements.

Although the ITTS programme delivered several early benefits, we have concluded that the centralised, technology-driven major programme approach we have been using will not deliver the desired outcomes within the CP7 timescales we expected when we set up the programme. Building on the success of some of the initial modules within ITTS, we have decided to revise the delivery methodology for some elements of work to focus on short-term deliverables providing earlier benefits. We will achieve these benefits by working closely with entrepreneurial SME suppliers and the industry, against an amended set of requirements and delivering through much smaller individual projects, instead of a major programme. These projects will be managed through the Capacity Planning teams from initiation to delivery with key decision points throughout, regularly monitoring project health and continuing to assess benefits deliverability to demonstrate confidence to funders and stakeholders. The Capacity Planning Controls team will provide a consistent approach to Sponsorship, governance and assurance of the projects.

The closure of the ITTS major programme prompted a review of upcoming planned activity within Capacity Planning, specifically on system and process enhancements that were due to take place to deliver cost efficiencies in CP7. The total spend for ITTS in CP7 is £38.7million, which is a circa £17.5million reduction in required Capex against the baseline SBP. Implications have been assessed and where we have committed to delivering efficiencies in CP7, we remain committed to realising the same efficiency numbers but through alternative methods including investigating automation or delivering technology improvements through smaller local projects.

Closure of the ITTS programme has implications for other Network Rail programmes including 'Target 190' and the 'East Coast Digital Programme'. Both programmes had made assumptions that the previously planned ITTS outcomes would be funded and delivered through the ITTS programme, though in reality these assumptions were not converted to firm committed deliverables by the ITTS client organisation. Both programmes understand that the ITTS delivery programme has been taken through closure, with locally led projects being stood up to progress some aspects of technology and data improvements. SO remain committed to working in collaboration with any other part of the industry to provide expert input to demands for further changes to timetable outputs, but we are not the default funder in all cases.

Where we know improvement activity must occur, we will include this in the new locally lead technology projects. The new locally lead projects are currently going through initiation within Capacity Planning and they will sit within the existing CP Functions, Timetable Production, Advanced Timetabling, Performance & Simulation and CP Data. The delivery of these projects will be managed by small project teams but will all follow the same assurance, governance and reporting methodology to support a single view of improvement activity within Capacity Planning. This is via an existing dedicated team that will support project initiation, the ongoing management, all the way through to delivery of the projects and realisation of benefits. Ensuring alignment between the

projects, we will track the benefits and compliance to governance with key stages to rigorously assess project health and deliverability. This will provide an opportunity to accelerate, pause or cease projects if required. This method offers critical steps to ensure the projects are managed effectively increasing certainty in project deliverables and benefits. The next step for the projects is the creation of a business case to define requirements, critical success factors, costs and outline benefits that can be shared and included within our efficiency plans. Projects currently being scoped and preparing for investment authority will establish the initial projects going into at least the first two years of CP7. A consistent set of decision criteria will be applied to ensure that any project taken forward to investment authority provides value for money through better performance, improved safety or efficiencies.

The new locally led technology projects will focus on a number of key areas that will deliver benefits to Capacity Planning, Network Rail and the wider industry. This project activity will sit within existing functions in CP and will focus on functional productivity, delivery of train service performance enhancements and safety improvements. Some of the projects that will be delivered in Capacity Planning include:

- **Performance & Simulation**

The Performance & Simulation team have identified a set of projects that they plan to develop business cases, scope and delivery plans for, in order to enable investment authority to be secured into the first two years of CP7. These include:

- Full capture of a refreshed RailSys Base Model for RailSys and other modelling purposes. This will effectively become the first stage of populating a Capability Network Model for wider timetable planning purposes, eventually providing an integrated set of quality data for the train planning system, modelling and simulation systems and the access planning system.
- Exploring the renewal and enhancement of the modelling software RailSys, upgrading to v14. Anticipated benefits include improvements to provide for the impact of driver behaviour in the modelling and the reduction of effort when undertaking performance modelling activity. This will increase model precision and reduce lead time in production of insight on timetable or infrastructure solutions and increase the overall service offering.
- Development of a TPR Analytics tool that exploits the Train Performance Insights database. The modern business analytics tool will provide insight into opportunities to improve the timetable to provide better operational performance.
- Full implementation of the Trenissimo tools, with standards and assurance regimes appropriate for a critical strategic modelling and simulation system. Implementation of this suite of systems will deliver a new power modelling capability for the SO.

- **Timetable Production**

The Timetable Production team have established a short-, medium- and long-term view to their data and technology improvements:

Short Term: (6-12 months) Improving the process used for compliance checking the timetable against the Timetable Planning Rules (TPRs), improving rules data, governance around it and the efficiency of automated checking. Main benefit areas will be efficiency and reduction in 502a delays, delivering a better timetable for passengers and freight. Efficiency benefits will be leveraged to improve timetable quality.

Medium Term: (12-18 months) Development of a TPR database to provide a single logic and human consumable version of the TPRs, available for the whole industry. This will include an investigation into a more granular TPR rule set i.e. signal overlaps, coding splits and joins, adjustments.

Longer Term: (18-36 months) Improvement in bid and offer data exchange across the industry. Changes in the environment in which we process TPR compliance checking to unlock greater levels of collaborative working and investigating automated links between the core TPS system and other systems and data sets in use in order to improve the efficiency of compliance checking and deliver further performance and safety improvements.

Existing CP6 funding has been reallocated within SO and/or Network Rail during our recent RF03 process with Group Finance. The value of funding returned has been partly offset by the cost of carrying the core ITTS programme team through opex since the closure decision was made, but the current allowance for that element has been included as a 'worst-case' position.

ITTS reduction in the SO plan in CP7 has been incorporated as part of Network Rail's broader funding prioritisation activity, to address additional company-wide funding and income pressures since the SBP.

Draft decision 3: We expect SO to confirm whether the development of a replacement Access Planning System will be undertaken and the consequences for performance of the approach chosen to inform our final determination in October 2023. Whatever approach is adopted, we would expect to see a plan adopted to minimise applications processed post industry standard within 1 year of CP7.

System Operator: A new Access Planning System programme will be created, sponsored within System Operator and currently proposed to be delivered through a programme manager led team within the Programme and Business Management team, with sponsorship by Capacity Planning. We will continue to seek opportunities to maintain alignment between the locally led projects and this centrally delivered programme. A full Discovery phase due for completion early in year one of CP7 will establish the full scope of work as a key stage in the journey to get to overall cost certainty.

The relationship between the project and programme teams, although separate, will be aligned with all Capex improvement activity under System Operator. This will prompt consistent reporting across the board as well as a common escalation structure.

This Access Planning System programme relates to the planning of worksites and possession planning, not the Access Rights application process.

Draft decision 4: We will hold the SO to account for the GB-level trajectories for freight cancellations and require the SO to set out more detail of how it will deliver its target in its delivery plan for CP7.

Freight performance

System Operator: SO acknowledges ORR decision to hold SO to account for the GB-level trajectories for freight cancellations and overseeing freight activity in CP7. However it is more accurate to state that SO is ‘primarily’ and not solely accountable for performance given the industry collaboration required and the many factors outside of SO’s direct control. SO also notes the Freight Cancellations target of 1.2% in each year of CP7. We understand that ORR has set the “GB trajectories based on freight cancellations that are 5% below the historical average performance over a four-year period” and that “this provides a stretching but realistic trajectory, given an anticipated increase in freight traffic consistent with freight growth” (2.16, ‘Settlement Document for System Operator’).

The target is based on the lowest end of the ranges that were submitted. Our view is that this point target is not the best approach, and a range would be a far more effective way of forecasting due to the volatility of the measure, especially when disaggregated to regional level, and the current challenges impacting upon freight performance. We also note that the target is applied across all regions and suggest that further work needs to be undertaken to understand the relative targets per region, as the increase in performance expected from the start of CP7 may not align to being “realistic but stretching” to achieve in the space of a year. We believe that due to the uncertain nature of the freight market it is unfeasible to set targets throughout CP7 at this stage.

The Freight team is continuing to work with our customers in the routes and regions to understand the detail behind their CP7 plans and how the proposed improvement schemes and plans will impact freight and where we can leverage opportunities for freight customers.

Whilst SO is committed to increasing freight growth, it is influenced significantly by the wider economic position and as such, we are currently seeing a reduction in freight services being run, and with the economic outlook uncertain, this position could be maintained well into the next control period. With the freight cancellations metric being sensitive to the overall number of trains that are run, any reduction in freight traffic can negatively impact the cancellation measure. Therefore, having a flat 1.2% target across the control period highlights a lack of recognition of the challenging market freight works within and how targets can be influenced by such factors.

With this target, there is also no regulatory floor, and it is unclear what the approach will be regarding escalation as concerns exist around the consistency of approach. We also consider that the target could be graded throughout the control period to provide a more realistic ambition, given the current performance trends, rather than 1.2% being the target from the outset of CP7.

We believe that a range would be the best way to target performance due to the variabilities involved, and if not then consideration of a graded approach would be appropriate.

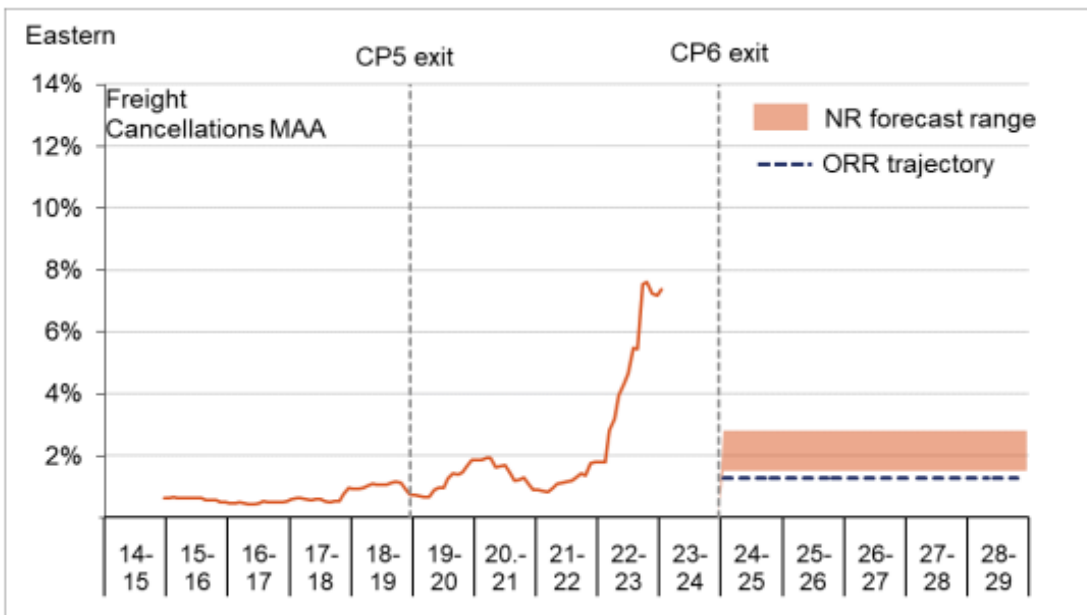


Figure 2: For example graph of Eastern freight cancellation forecasts

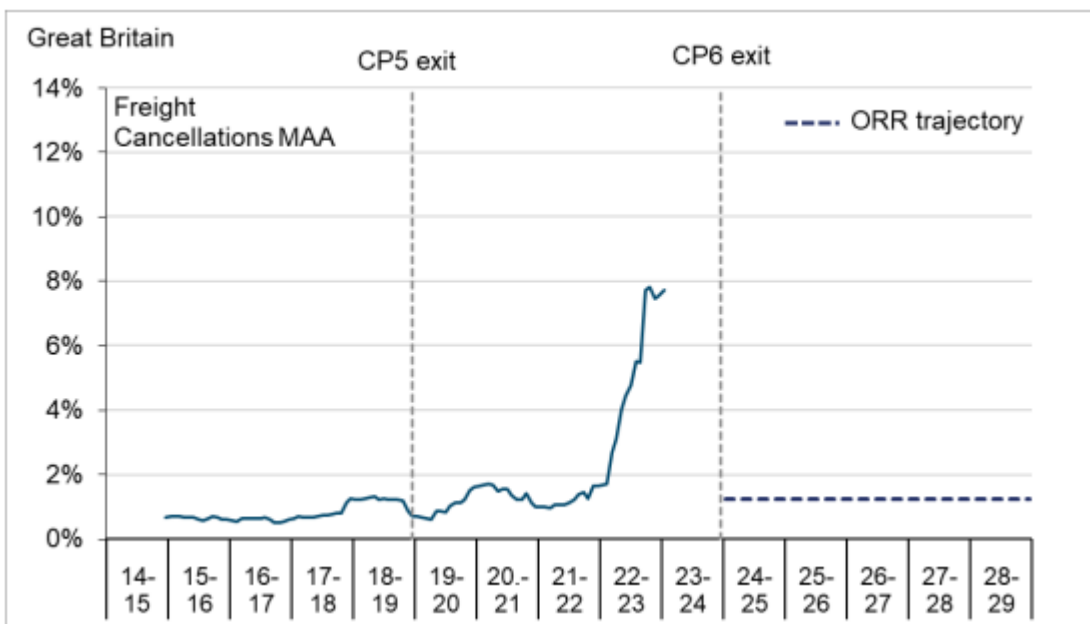


Figure 3: Graph of Network Rail freight cancellation forecasts

National Passenger Operators’ (NPO) performance

Draft decision 5: We require the SO to develop and include updated On Time and Cancellations forecasts for each NPO in its delivery plan for CP7. Within this, we require the SO to set out much more detail on the impact of its actions on NPO stakeholders.

System Operator: SO is continuing to engage with the regions to add further detail to their performance plans and to understand how these align with delivery. We note ORR’s performance targets, and as previously cited and detailed in supplementary correspondence between ORR and

Network Rail, believe these may not be suitable due to the difficulty of forecasting for the entirety of CP7.

NPOs are engaged with the regions through a variety of stakeholder forums and feedback sessions. These are supplemented by SO through the customer and commercial team meeting structure, where regular updates are provided on the progress of CP7 planning with feedback taken and disseminated to the regions as appropriate. NPOs also have a direct line into the CP7 leads within SO to further seek clarification and feedback.

SO is also requesting TOCs what plans they have to improve performance, particularly around cancellations as ORR's target vs our forecasts differ significantly. We propose that TOCs provide a more informed view of their plans as this will allow us to refine our target numbers further.

Performance innovation

Proposal 1: The SO is to operate a Performance Improvement and Innovation Fund (PIIF) which allows funding specific for performance improvement and innovation schemes, in the England & Wales regions. This is intended to kick-start collaborative, cross-industry solutions with the aim of improving train performance between train operators and Network Rail. We expect to require Network Rail to confirm arrangements in the delivery plan with funding of £40 million to come from the financial adjustments proposed in our [PR23 draft determination: supporting document on sustainable and efficient costs](#)

System Operator: ORR's PR23 draft determination sets out the case for including £40m in our E&W CP7 plan for a 'performance improvement and innovation fund' (PIIF)', and that this should be included in the System Operator's plan. This is consistent with the current approach to managing the CP6 performance innovation fund (PIF) which was established in CP6.

Whilst the CP6 PIF has provided seed funding to over 100 innovation projects with 65 being completed to date, there are opportunities to build on the CP6 use and management of the PIF. This includes how we can most effectively manage cross-industry investment in schemes which are innovative and / or seek to improve performance on the network.

In the Technical Authority's (TA) SBP, they included £165m funding for an RD&I fund in CP7 (GB wide, managed by our Technical Authority), of which £147m is allocated to E&W, with £18m allocated to Scotland. This will contribute towards delivery of an outcome-focused, balanced portfolio. Improving the performance, reliability and capability of infrastructure comprises one of four key objectives from our RD&I investment in CP7, enhancing operational performance and supporting freight traffic growth.

From an England & Wales perspective, there is a strong opportunity to align the management and governance of the RD&I funds and PIIF in CP7. Together with the TA we have considered the £40m proposed by ORR, alongside the other expenditure and income pressures set out in our response. Recognising these wider challenges, we have included an additional £20m in the Technical Authority's expenditure for E&W taking total RD&I in E&W to £170m – with the £20m funded in OPEX and the remainder in RD&I CAPEX. This will include a commitment to invest not less than £20m on performance improvement and innovation initiatives proposed by E&W regions and / or

passenger and freight operators. This will also complement the approximate £35m of infrastructure performance-focused schemes included in the RD&I pipeline (allocated to E&W). Allocating the PIIF to Technical Authority CP7 expenditure in this way will allow us to draw on cross-industry collaboration and engagement with TOCs and freight operators (including innovation boards), as well as benefiting from well-established Technical Authority RD&I governance arrangements.

While the £20m will be held in the Technical Authority's plan, it will be managed collaboratively with the System Operator, with allocation overseen through a new board (or separate part of an existing board) chaired by the Chief Network Operator which is an SO leadership team role. Ahead of the CP7 delivery plan we will review / revise the governance structure which will enable us to communicate to industry what PIIF will look like and what initiatives would likely be accepted for funding.

Looking ahead to the start of CP7, the SO will work with the Technical Authority on opportunities to align approaches to tracking and communicating benefits and supporting the business change associated with deploying new processes and technologies. We will set out further information on our approach to governance of the £20m PIIF element of the RD&I funds prior to the start of CP7 and will keep ORR updated as this work develops.

We note ORR's proposal to also set up a targeted performance fund for Scotland's Railway, that would apply to Scotland only and should be funded from any remaining unallocated funding once Scotland's Railway has considered ORR's other proposals to increase expenditure on core renewals and risk provision. Our response to this is set out in Scotland's Railway overall response document, and for clarity Scotland's Railway would be accountable for the governance and day-to-day management of any such fund.

3. Freight growth

We note ORR's recognition that Network Rail's overall SBP submission aligns well with the opportunity and requirements to drive freight growth across GB in CP7, and that ORR has accepted our forecasts for freight growth.

Draft decision 6: We have decided to accept Network Rail's forecasts for freight growth but require additional work in the following areas:

- Network Rail to develop GB-wide trajectories for freight growth to inform the final determination;
- The SO to clarify how it intends to use capacity planning to support reliability and bring growth in the delivery plan; and
- The SO to detail the actions that it plans to take to deliver targeted freight growth across the whole of Great Britain in the delivery plan

System Operator: Our SBP sets out a clear commitment to deliver our freight growth targets, which have been accepted in ORR's draft determination. Delivering our freight growth targets requires a combination of making sufficient paths available to freight operators and that demand is there for these paths from freight users. The wider funding pressures we face in our plan mean that we are

reviewing how we deliver the outcomes we set out in our SBP, including freight growth, and we will collaborate with stakeholders to understand how best to deliver the freight target we have set ourselves. Of course, there are many factors (e.g. wider economic) that will influence Freight growth going forward and we will continue to work with the sector (notably operators) to try to achieve the targets.

We are pleased that ORR are aligned with the freight growth forecasts that we suggested in line with the report from MDS Transmodal. These have provided the regions with a detailed breakdown of the growth trajectories of freight overall but also the different commodities and their relative growth. This, in conjunction with the topographic constraints on parts of the network have led to the regional differentials in growth forecasts.

	2024-25 (year 1)	2025-26 (year 2)	2026-27 (year 3)	2027-28 (year 4)	2028-29 (year 5)
Eastern	1.5%	3.0%	4.5%	6.0%	7.5%
North West & Central	1.7%	3.4%	5.1%	6.8%	8.6%
Southern	0.6%	1.2%	1.7%	2.3%	2.9%
Wales & Western	1.4%	2.8%	4.1%	5.5%	6.9%
England & Wales	1.5%	3.0%	4.5%	6.0%	7.5%
Scotland	3.8%	4.3%	5.7%	8.7%	8.7%

Figure 4: Table of regional growth forecasts

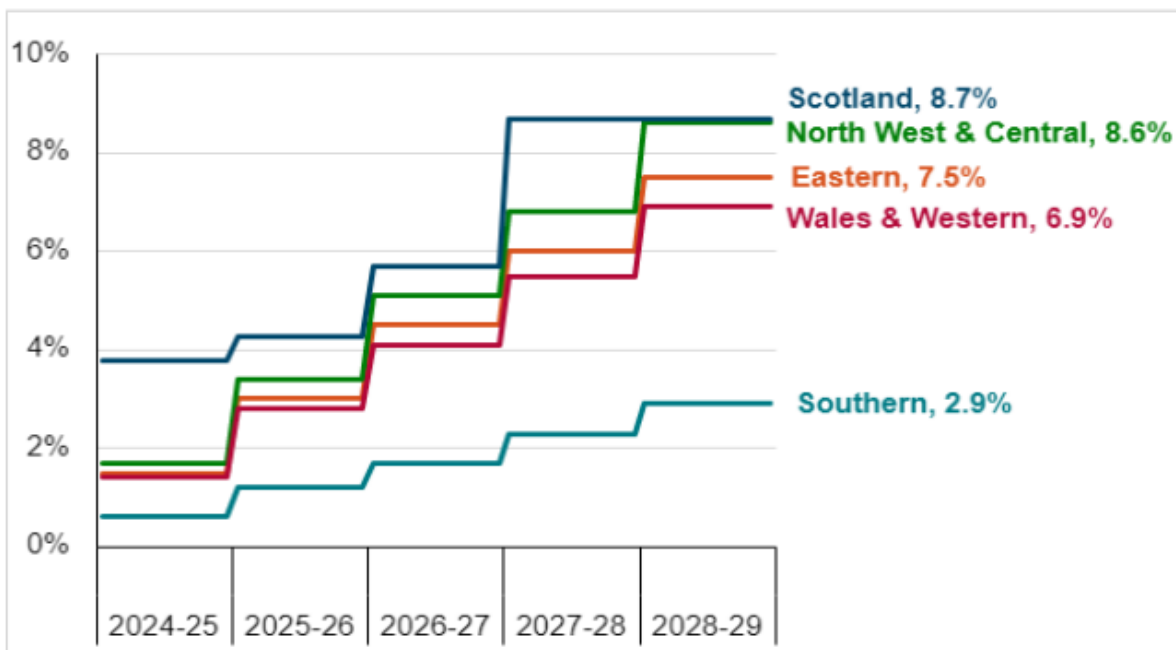


Figure 5: Graph of regional growth forecasts

SO has involved and continues to work closely with the GBR Transition Team (GBRTT), specifically on freight development, to inform and produce further detail regarding freight growth. This has included initial assessment of where growth may manifest and how and where this will impact upon the network, as well as possible areas of development. SO will continue to liaise with GBRTT on this work and to work closely with ORR on ensuring clarity on the measures and metrics to be used for freight growth.

Work is continuing with the regions to further hone the delivery plan for freight growth. The evidence of the MDS forecasts and the analysis from GBRTT then needs to be further overlaid by the 'local' knowledge of the regions and regional freight teams, in conjunction with the industry, to provide a detailed delivery plan. Regions have been provided with templates and an understanding of the level of detail required for these plans, and SO will continue to work with the regions to ensure these form a key part of the delivery plans and their assumptions.

One of the methods that freight growth can be enhanced is to ensure that capacity is used in the most efficient way possible. Regions have mentioned in their SBPs an ambition to further improve the efficiency of freight utilisation through reviewing and challenging current paths and this is something that SO would support. Regions, such as Southern for example, are producing Freight Strategies and overseeing Freight Strategy Groups to drive these improvements. It is an aspiration, working in conjunction with the regions and GBRTT, that we will review capacity on all regions to maximise the efficiency of freight paths and to create further room for growth.

SO will continue to liaise with regions, GBRTT and the wider industry to inform and formulate detailed delivery plans for freight growth, and drill into the detail to ensure that both GB-wide and regional freight growth delivery plans are ready for CP7.

4. Asset sustainability (CP7 Measures)

Draft decision 9: During summer 2023, we will work with the SO to finalise processes and measurement systems to enable monitoring of its performance in: management of network capability; management of the SoAR process; and strategic planning.

System Operator: SO has a key role in contributing to the long-term strategy for rail and will continue to liaise closely with GBRTT and believes that it should be contributing to this plan rather than producing it as it cited in the Draft Determination.

SO recognises that ORR supports the proposal for a £72m fund to target and address some of the 'Priority 1' structures. SO will continue to work with the regions to ensure that these delivery plans are robust, and these will also be cross-referenced and assessed by the wider industry through the Heavy Axle Weight Working Group ahead of publication in the delivery plan.

The Freight & National Passenger Operators (FNPO) team has worked together with regional teams to create a long-term programme to ensure the long-term ability to manage HAW traffic. Within the context of CP7's financial resources, we identified a list of high priority structures where the capability to manage HAW traffic has already decreased or is anticipated to degrade over the control period.

We agree to working with ORR to follow up on the Independent Reporter review of the Capacity Allocation Process and we will also finalise a range of measurements and processes to monitor the SOAR process, two of which we have agreed with ORR should be developed for reporting in CP7. We welcome the recognition by ORR in Paragraph 2.41 that not all relevant elements are under the SO's control – and this applies to the lateness of applications for access from operators and applicants. Metrics under consideration are:

- A tier two measure of the time to process applications within SO's part of the overarching Capacity Allocation Process (SO bringing forward measurement under development for consideration and agreement)
- A tier three measure of applications managed by key dates, showing numbers at national and regional level, recognising this is not fully under Network Rail's control.

During the summer, there are several suggested actions from the Independent Reporters that are jointly aimed at ORR and Network Rail for consideration and possible implementation. We will be working with ORR to consider the appropriateness of these and the potential benefits they may bring.

We recognise that the way we manage Network Capability in Network Rail and with our customers, the operators, needs to be improved. ORR and the Independent Reporters have identified some specific areas for improvement and proposed some measures for CP7, including the need for:

- a capability baseline for CP7;
- a clear set of responsibilities and accountabilities for network capability, supported by appropriate senior-level governance and oversight;
- a review the process for managing temporary speed restrictions, to improve consistency and experience for operators; and
- an improved feedback process for operators to flag inconsistencies between the National Electronic Sectional Appendix (NESA) and the actual infrastructure.

To address these issues, SO proposes to take a lead in Network Rail for improving the coordination and management of Network Capability information (recognising that the routes are accountable for the data and its accuracy). We are responding separately in detail to the Independent Reporter's recommendations and ORR's communication, including the proposed measures and process for escalating discrepancies. In summary our approach comprises three workstreams:

- Review and analysis of existing **business processes** and the standard associated with Network Capability, working with regions and operators, to identify issues and gaps, and development of new or refreshed processes as relevant;
- Identification of **short-term fixes** for known issues, for example by digitising existing drawings held in the NESA;
- Development and delivery of a **longer-term strategy** for collecting, storing, managing, publishing and using infrastructure data in a way which is sustainable and delivers efficiencies.

This is a complex and challenging area with several interdependencies and we are continuing to develop our plans in this area.

5. Efficiency

Draft decision 7: We accept the SO's planned efficiencies of £34 million but expect the SO to continue to develop its plans and provide clarification on the following specific points:

- Clarify how the planned savings from technology will be affected by decisions in relation to ITTS to inform the final determination in October 2023; and
- Clarify the source of the £5 million unidentified efficiency in its delivery plan.

System Operator: Although several of the proposed Capacity Planning CP7 efficiencies were a result of ITTS benefits, we stay committed to delivery of the efficiency numbers that have previously been shared. Timesaving as a result of automation benefits, reducing our reliance on the supply chain through increased modelling capability, and improving train performance through quality improvements are some of the planned efficiencies that we have previously detailed and committed to achieve. Some of these benefits are likely to be identified when defining new benefits for the locally led CP projects. When we have these detailed and included in our efficiency plans, we will monitor and track each one closely, sharing our updated plans to demonstrate confidence that these financial efficiency savings will be delivered.

Future mitigation – we have undertaken lessons learnt activity with colleagues in the ITTS programme as well as independent sessions with key customers to improve how we work in the future. Lessons have been understood with suggested activity implemented into governance/assurance frameworks, to support successful delivery in future.

The closure of the ITTS major programme may alter our approach to delivering these efficiencies but the Capacity Planning team remains committed to delivering the efficiency values shared in the previous submission of the SBP. Through our approach we are considering various initiatives, exploring income producing recoverable roles, the use of innovative technology when delivering training, the initiation of new locally led projects, which will seek to offer industry benefit and efficiency. We will be defining project benefits in the coming months and will undertake realisation planning activity and update the detail of our efficiency plans at this time. Project selection criteria and project initiation processes are being established to provide robust and consistent challenge and control over the portfolio of projects. Business cases and adherence to these selection criteria will be necessary steps before any attempt to secure investment authority.

We are committed to delivering the ambitious 10% opex and 15% capex efficiency targets by the final year of CP7, this will be achieved through incremental efficiency improvements each year that we set out in our SBP. However, achieving this level of efficiency will be increasingly challenging, because of the reduction that has already been made through modernisation in CP6, the reduction due to funding constraints in CP7 and the additional inflationary pressures. SO will continue to work on its efficiency plans in the led up to and during CP7 and commit to maturing these plans further. At this stage in the planning process the specific detail of all the efficiencies may not be mapped out, hence an assumed £5m efficiency without details, but we commit to achieving the level set out in our financial plans. Key areas where further efficiency may be generated include contracting rates

efficiencies, economies of scale such as working with the Technical Authority on safety and security programmes.

6. Governance and stakeholder engagement

There is a functional governance structure in place that feeds into Network Rail corporate governance. The functional governance structure has evolved throughout the final year of CP6, seeking to be more transparent yet robust in nature. An example of this evolution is the refreshed programme board which will continue to play a key role in reporting on and providing assurance of strategic projects into CP7 and maintaining oversight on key delivery metrics.

Engagement has multi-layers within the SO, Regional engagement sessions held quarterly seek to maintain alignment on priorities and capture emerging issues. The first of these was held in June 2023 and proved a valuable forum to be continued in Autumn.

Stakeholder mapping has informed our customer advocacy survey, the results from which are being reviewed and action plans to be rolled out into the first year of CP7. An opportunity to demonstrate continuous improvement in approach and action in response to stakeholder feedback.

Where we have localised or regional priorities, we align business change resource to support with this, to identify and engage with the right people at the right time. We have seen success in this space within the Weather Risk Task Force.

SO is well aligned with the objectives of the UK government and Transport Scotland, and we have continued to work together with Scotland's Railway partners as our plans have changed, striving to match costs to benefits for rail users in Scotland.

Please see the table below for a breakdown of how our plans align with the Scotland CP7 High Level Specification Output (HLOS):

HLOS ref	HLOS theme	Scotland's Railway ref	Scottish Ministers' Control Period 7 High Level Output Specification requirement	System Operator response;
3.4	Working together to deliver - learning lessons	4	To establish and operate (with ScotRail Trains Ltd.) a joint Scotland-based timetabling team to deliver all activity on the Scottish network. The team should be operational by the start of CP7 and co-located, with one management structure responsible for the delivery of the timetable product, with a demonstrable understanding of Scotland's geography, economy and network operating characteristics.	<i>During CP6, the SO transferred to Scotland's Railway all roles relating to strategic development of the timetable in Scotland. All analytical capability and decision making on the timetable that impacts only Scotland is already located in Scotland following this change. In addition, the SO relocated analytical and decision-making roles on Train Planning Rules to Scotland at the same time. The roles remaining within the SO that work on timetable Production for Scotland are predominantly</i>
3.14		16	In support of performance, during CP7, Network Rail is required to ensure train connectivity, during unperturbed periods, between services and other modes, such as bus or tram. Such connectivity must result in timetables demonstrating good	

			connections from one service to another with a focus on the needs of passengers.	<p><i>focused on 1.) the deconfliction of operators that run cross border services – with ScotRail services and 2.) data tasks relating to the timely Production and Publication of a National UK wide Timetable. Accordingly, we remain compliant with our obligations under the Network Code and under our Licence Conditions. As evidenced by the changes achieved with Scotland’s Railway in CP6, the SO has consistently shown an appetite to review the best options for delivery of timetables both in Scotland and interfacing with Scotland whilst meeting our obligations. Recently set up initiatives include altering our approach to Train Planning Rule changes, to ensure Scotland’s Railway has a lead role in identifying priorities for change. We are also introducing new processes to give Scotland’s Railway greater visibility of and input to minor alterations made to timetables in the production process.</i></p>
3.15	Maintaining and improving journey times	17	Rail travel, especially on Scotland’s increasingly electrified rail network, offers passengers and business a highly attractive mode of transport which is quick and efficient but also has low or net zero emissions. To retain those advantages over other modes (including the growing electric car market), the rail network must continue to modernise and in Scotland will be required to deliver competitive journey times.	
3.16	Maintaining and improving journey times	18	Scottish Ministers require Network Rail to take full advantage of maintenance and renewal works and timetable development processes to enable ScotRail Trains Ltd. to achieve improved journey times. This should be based on a decrease in the average minutes per mile measured across all ScotRail services in the current timetable (in January 2023). Maintaining safety, Scottish Ministers expect that Network Rail will work with Scottish Rail Holdings and ScotRail Trains Ltd. on a plan to deliver this outcome, to be in place for the start of Control Period 7.	
3.17	Maintaining and improving journey times	19	In addition, during Control Period 7, Network Rail will work with Scottish Rail Holdings and ScotRail Trains Ltd. to develop a plan safely to achieve improved journey times based on a “mile a minute” target on ScotRail Trains Ltd. Intercity services by 2030.	
3.30	Cross-border routes	34	Scottish Ministers require Network Rail to ensure that at least one cross border route is available for passenger and freight services at all times other than in unforeseen or exceptional circumstances. Where that is not possible, Scottish Ministers should be notified in advance and would expect to be assured that all options had been thoroughly investigated	
3.24	Growing rail freight to support our environment and economy	26	Network Rail must also safely deliver an increase in the average speed of freight trains through good operational practices, including timetabling exercises and programmes, and through collaboration with passenger and freight operators and customers.	

				<i>well as this, the Freight Service Delivery Management 24/7 resource is solely focused on facilitating smooth operation of freight and national passenger operators and assisting in real time.</i>
--	--	--	--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Figure 6: Table breakdown of how our plans align with the Scotland CP7 HLOS

SO and Scotland’s Railway held an all-operator session with ORR present as an observer to discuss the present process and any options for further change and their implications. The initial workshop discussion took place on 23 August 2023 with follow-up sessions held in September for operators unable to attend. Operators indicated they were content with the present role of SO and Scotland’s Railway in the timetable process. The new initiatives set out in the table above were agreed at these sessions.

7. Other relevant information for our response

System Operator expenditure plans

Draft decision 8: We accept the SO’s expenditure plans but require the following clarification to inform our final determination in October 2023:

- The SO to justify its need for £24 million of unallocated opex, including the criteria for allocating it to projects, including Better Data for Better Operations.

System Operator:

A key learning from CP6 has been the lack of flexibility to progress/support innovation and locally led improvement projects, potentially missing opportunities, which is why we have sought to include a funding provision in CP7 of circa £5m per year to support these initiatives.

The governance of the fund will be incorporated into System Operator functional governance structures. This includes 'in the line' management through informal endorsement from the Group Director, through to System Operator Programme Board where a formal submission will be made and subsequently assessed by panel. Should this be approved then corporate investment panel processes would kick in as appropriate. These steps will provide a clear and auditable trail around the allocation of funding against a clear set of criteria.

To provide transparency on approved schemes and allocation of funds the System Operator will report in alignment to the RF process.

Annex A: Updated financials and outcomes

System Operator	£m in 2023/24 prices	Direct costs			Allocated costs			Total costs		
		CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response
		Operations	192	0	0	-192	0	0	0	0
Maintenance	2	0	0	-2	0	0	0	0	0	
Support	256	424	431	-256	-424	-431	0	0	0	
Industry costs and rates*	0	0	0	0	0	0	0	0	0	
Electricity for traction (EC4T)	0	0	0	0	0	0	0	0	0	
Total operating expenditure (excl. EC4T)	449	424	431	-449	-424	-431	0	0	0	
Renewals	51	0	0	-51	0	0	0	0	0	
Other capital expenditure	144	107	87	-144	-107	-87	0	0	0	
Total capital expenditure	195	107	87	-195	-107	-87	0	0	0	
ETCSenablers	0	0	0	0	0	0	0	0	0	
Risk funding	0	0	0	0	0	0	0	0	0	
Total Expenditure (excl. EC4T)	645	531	518	-645	-531	-518	0	0	0	
Input prices moved to risk funding				4			-4			
* Excluding BTP										
System Operator	£m in 2023/24 prices	Direct costs			Allocated costs			Total costs		
		CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response	CP6 (RF3)	SBP	DD Response
		Passenger access charges (VUC, EAUC, FTAC)	-301	-287	-287	301	287	287	0	0
Stations and Depots: Station LTC, Stations Lease, QX and Depots	0	0	0	0	0	0	0	0	0	
Freight and open access track access charges	-2	0	0	2	0	0	0	0	0	
Electricity for Traction (EC4T)	0	0	0	0	0	0	0	0	0	
Property and other income	-2	0	0	2	0	0	0	0	0	
Schedule 4 access charge supplement**	-342	-303	0	342	303	0	0	0	0	
Schedule 4 and 8	1	0	0	-1	0	0	0	0	0	
Network grant	0	0	0	0	0	0	0	0	0	
Total Income	-644	-590	-287	644	590	287	0	0	0	
Total Income (excl. EC4T)	-644	-590	-287	644	590	287	0	0	0	

**Our CP6 and CP7 SBP forecast for Schedule 4 ACS are shown on a lead TOC basis, which includes income from Caledonian Sleeper and Cross Country as System Operator has responsibility for those train operators. However, in CP7 we are moving to a traded approach for Schedule 4, which allocates costs and income on a geographical basis (i.e., where train services run). Therefore, our draft determination response does not show any income associated with System Operator for CP7 as it is allocated to the regions where Caledonian Sleeper and Cross Country services run.

Annex B: Sign-off

Job Title	Name	Date
Group Director, System Operator	Lawrence Bowman, pp Jake Kelly	30/08/23