
Subject: *HS1 Ltd Discount Policy*

Date: *February 2012*

1. Introduction

- 1.1 This annex to the HS1 Network Statement sets out HS1 Ltd's policy on offering discounted access charges on HS1 and the circumstances in which discounts may be offered.
- 1.2 In the main, HS1 Ltd only offers discounts in respect of the IRC element of access charges. While HS1 Ltd does currently provide a discount on OMRC for freight services, any resulting shortfall in the recovery of OMRC arising from these discounts is made up by a freight supplement on franchised TOCs operating on HS1. It is HS1 Ltd's policy not to offer further OMRC discounts as this would risk the under-recovery of costs for the operation, maintenance and renewal of HS1.
- 1.3 The legal basis for offering discounts on access charges is set out in Schedule 3 to the 2005 Railway Regulations.¹ Paragraph 6(3) provides that "The infrastructure manager may introduce schemes available to all users of the infrastructure, with reference to specified traffic flows, granting time-limited discounts to encourage the development of new rail services, or discounts encouraging the use of considerably under-utilised lines." Paragraph 6(2) provides that an infrastructure manager may also apply discounts by reference to administrative cost savings. HS1 Ltd does not offer discounts in line with paragraph 6(2) because any administrative cost savings would be reflected in the OMRC levels which are established through a periodic review every five years.
- 1.4 Any agreed discounts will be reflected in framework track access agreements. The Office of Rail Regulation (ORR) must approve new framework track access agreements (and amendments to existing agreements) and so will need to approve any discounts agreed by HS1 Ltd and TOCs. In considering whether to approve discount applications, and in considering any appeals by TOCs, the ORR has indicated that it would expect to take HS1 Ltd's published discounts policy into account.

2. Principles for the application of discounts on HS1

- 2.1 HS1 Ltd's policy on discounts is based on a set of principles.

Principle 1: Discounts will be offered on a fair, transparent and non-discriminatory basis

- 2.2 In line with paragraph 6(6) of Schedule 3 of the 2005 Railway Regulations, similar discount schemes will be applied to similar services, regardless of which TOC operates the relevant service.
- 2.3 By setting out its discount policy in this Annex to the HS1 Network Statement, the basis on which HS1 Ltd offers discounts will be clear to all potential and existing TOCs. The key terms of agreed discount schemes, including start and end dates, will also be published in

¹ Railways Infrastructure (Access and Management) Regulations 2005, as amended by the Railways Infrastructure (Access and Management) (Amendment) Regulations 2009.

the HS1 Network Statement, as will notifications of the general availability of discount schemes in specific years.

Principle 2: Specific criteria will be applied in order to determine whether or not a discount will be offered

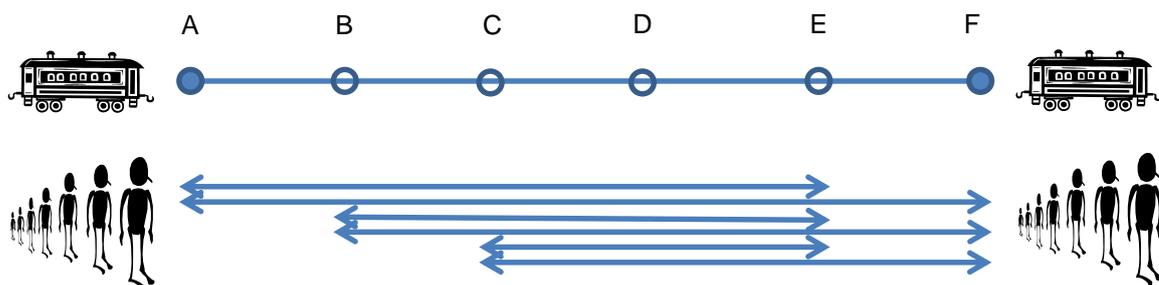
2.4 The criteria are aimed at encouraging the development of services that would not otherwise be viable, in order to improve the utilisation of HS1. This accords with the 2005 Railway Regulations provision that discounts may be offered “to encourage the development of new rail services, or discounts encouraging the use of considerably under-utilised lines”.²

Principle 3: The criteria will be based on identifying rail services, rather than traffic flows

2.5 HS1 Ltd’s criteria for the application of discounts are based on the identification of rail services. Use is made of both the terms “services” and “traffic flows” in the 2005 Railway Regulations. While the concept of “traffic flows” has been used by UK and EU competition authorities, normally referring to passenger demand and to origin-destination or point-to-point passenger flows, it is considered by HS1 Ltd that specific and clear criteria for the application of discounts can be developed more readily by reference to rail services. HS1 Ltd is of the view that this is consistent with the 2005 Railway Regulations.

2.6 The term “traffic flow” is taken to represent individual point-to-point passenger flows, i.e. individual journeys by passengers from a defined origin to a defined destination. A rail service, by contrast, is defined by the starting point, end point and stopping pattern of that rail service – which may provide for a variety of different passenger traffic flows. In considering discounts, HS1 Ltd is prepared to differentiate between peak and off-peak services, daytime and night-time services and services that only operate on specific dates.

2.7 Even on a relatively simple rail service such as those which operate on HS1, given that there are intermediate station calls on many services, there is not necessarily an exact correspondence between rail services and traffic flows. For example, on the rail service below between destinations A and F, the passenger (traffic) flows include A – E, A – F, B – E, B – F, C – E and so on.



2.8 Given that a TOC’s profitability is much more readily determined at the rail service level than at the (passenger) traffic flow level, discount criteria have been developed by reference to rail services, in order to identify the likelihood that a service would not proceed in the absence of a discount. However, in doing so, HS1 Ltd will be mindful of ensuring that competition between TOCs in specific markets is not distorted.

² Paragraph 6(3) of Schedule 3 of the 2005 Railway Regulations.

Principle 4: Discounts should not prevent best use being made of HS1 capacity.

- 2.9 In particular, discounts will not be offered for new services where this risks crowding out other well-used and/or profitable services. This means that it may be necessary to restrict the availability of discounts to all TOCs when HS1 is approaching high levels of utilisation.

Principle 5: HS1 Ltd's commercial interests, as a private company with responsibilities to its shareholders, need to be protected.

- 2.10 In general, HS1 Ltd will offer discounts where this is expected to increase total revenues for HS1 Ltd, through encouraging more services to be operated than would otherwise be the case. This may mean, for example, that discounts for new services will not be offered when these would also apply to existing services on HS1 that do not currently benefit from discounts. Exclusions will also need to be made for those domestic services specified by Government in franchise agreements.
- 2.11 In addition, HS1 Ltd needs to protect its commercial position in the event of an adverse legal or regulatory decision in relation to discounts. HS1 Ltd therefore reserves the right to review and withdraw all discounts offered by it in the event of any regulatory or legal determination with respect to HS1 Ltd's obligations under the provisions of 2005 Railway Regulations relating to discounts or under EU or UK competition law relating to the discount principles, which would or is likely to have a material adverse impact on the economics of HS1 Ltd's business. These are the only circumstances in which it is envisaged that existing agreed discount schemes could be withdrawn.

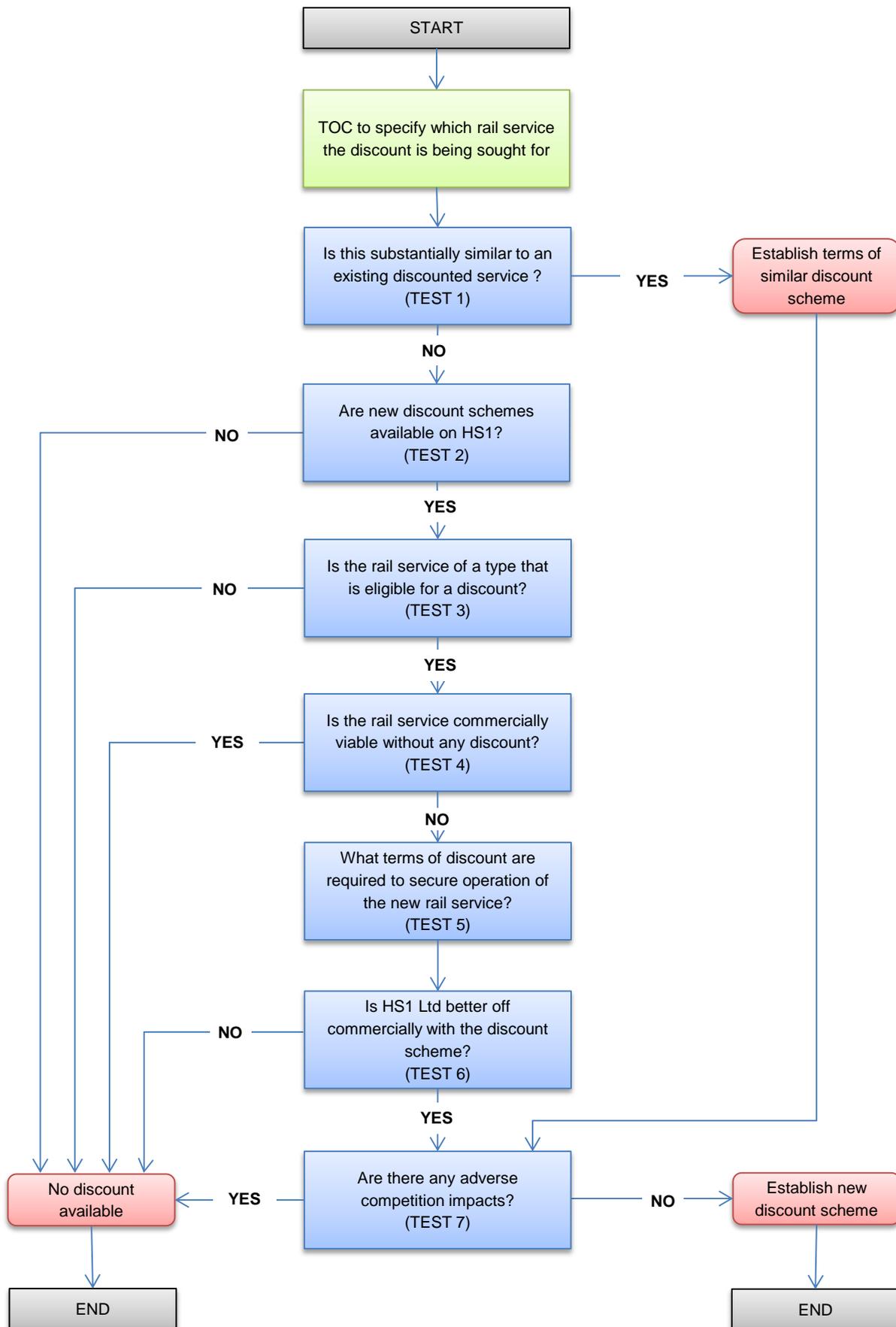
Principle 6: Discounts will be time-limited.

- 2.12 Through offering discounts, HS1 Ltd aims to facilitate the development of rail services that will be sustainable in the long-term, rather than subsidising services that are unlikely ever to be profitable. For this reason, discounts will only be offered for specific time periods, with clearly defined start and end dates.

3. Discounts criteria

- 3.1 The process for consideration of applications for IRC discounts is summarised in Figure 1 below. HS1 Ltd will apply a series of seven tests to determine whether a discount is applicable; each test is described further in the remainder of this section. The tests are sequential, and will be carried out in the order indicated in Figure 1.

Figure 1 – Decision process for consideration of discount applications



Test 1: Is the rail service substantially similar to an existing discounted rail service?

- 3.2 The 2005 Railway Regulations require that Infrastructure Managers apply "similar discount schemes" to "similar services", so the first test determines whether an existing discount scheme will apply to a new rail service (rail service being defined as described in paragraph 2.6 above). If a new rail service is considered to be similar to an existing one that is in receipt of a discount, in order to act in a fair and non-discriminatory manner, HS1 Ltd will offer similar discounts regardless of whether or not the rail service satisfies the other tests.
- 3.3 There are three criteria that will be considered by HS1 Ltd in determining whether a new rail service is similar to an existing one:
- (i) The passenger traffic flows (origin-destination flows) served and whether they are similar;
 - By 'similar' this is generally taken to be the case if, in respect of each of the existing service and the new rail service, passenger revenues from traffic flows common to both services comprise at least 75% of total passenger revenues on the relevant service;³ and
 - In defining whether traffic flows are similar, the substitutability of stations or destinations will be taken into account. For example, Paris Gare du Nord will not be considered to be a substitutable destination for Marne la Vallée.
 - (ii) The rail service pattern and whether it is the same for most trains;
 - Taking into account the origins, destinations, stopping patterns and journey times of the rail services; and
 - Standard regular services will be taken into account, rather than infrequent variations in stopping patterns.
 - (iii) Any specific market segment(s) targeted by the rail service, such as the business or leisure markets, or special services operated only on specific days or at specific times (including peak or off-peak services).
- 3.4 If a TOC considers that it should receive a discount on the basis that its rail service is similar to an existing rail service that already benefits from a discount, then it should provide HS1 Ltd with details of the planned rail service and an analysis of expected traffic flows and revenues, as described above. HS1 Ltd will compare this with its own information on the relevant existing rail service in order to determine whether or not the two rail services are similar.
- 3.5 If a rail service is considered to be similar to an existing service that benefits from a discount, a similar discount scheme will be established, applying the terms of the existing discount to the new service, in terms of the level of discount and the start and end dates. In order to offer the same terms to TOCs serving the same markets, the end date for the new discount scheme will be the same as for the existing scheme regardless of the commencement date of the new service. For example, TOC 1 may be provided with a discount from December 2012 to December 2016 for a particular rail service. In December 2014 TOC 2 starts a new service that is considered by HS1 Ltd to be similar under the three criteria above. TOC 2 will receive the discount from the commencement of its service

³ Appendix A sets out an example of how this will be calculated.

through to December 2016, rather than for a four-year period. This will ensure that at any one point in time all TOCs receive similar discounts for similar services.

- 3.6 Any conditions to obtaining the discount will also apply to both services (see Test 5). In the case of a condition on minimum service levels, TOC-specific minimum levels will apply, based on the plans set out in the TOC's discount application. If a similar discount scheme is established under this Test 1, Tests 2-6 will not be applied but Test 7 will still be applied.
- 3.7 If a rail service is not considered to be similar to an existing rail service that benefits from a discount, Tests 2-7 will be applied, in sequential order, to determine whether or not a new discount scheme should be established by HS1 Ltd.

Test 2: Are new discount schemes available on HS1?

- 3.8 To enable HS1 Ltd to decline to offer new discounts when HS1 is nearing capacity, Test 2 is designed to allow the general availability of discounts to be withdrawn. This may be necessary when there is a risk that the operation of discounted services could crowd out better used and/or more profitable undiscounted services. This test considers the general availability of discounts to all TOCs and will be applied consistently to all TOCs and all discount applications.⁴
- 3.9 The availability of new discount schemes will be reviewed internally by HS1 Ltd, normally on an annual basis, although the availability may also be changed by HS1 Ltd when there is a material change in circumstances, in particular which results or is expected to result in a significant change in the utilisation of HS1. HS1 Ltd's internal review of the availability of new discount schemes will not involve industry consultation, although the determinations, which will specify in which years discounts are available, will be notified to the ORR and set out in the HS1 Network Statement.
- 3.10 When determining whether or not new discount schemes should generally be available, HS1 Ltd will consider the availability of spare capacity on HS1. Where HS1 has been declared to be 'congested' (under Regulation 23 of the 2005 Railway Regulations), it is expected that new discount schemes will not be available, although HS1 Ltd may wish to restrict the availability of new discount schemes before HS1 becomes fully utilised. In general, if HS1 is considered to be 'considerably under-utilised', as referenced in the 2005 Railway Regulations, HS1 Ltd would expect to offer new discount schemes.
- 3.11 While in principle, HS1 has the capability for 20 international rail services or 16 domestic rail services per hour in each direction, in practice capacity on HS1 is more limited than this because of the mix of services, in terms of operating speeds and stopping patterns, or constraints on other railway infrastructure networks. Whether or not HS1 is considerably under-utilised will therefore be determined by HS1 Ltd by assessing:
- The proportion of capacity currently being utilised;
 - The ability to satisfy new requests for services without significant disruption to existing service patterns/timetables;
 - Likely future growth in demand for train paths for existing and planned rail services; and
 - Market conditions.

⁴ Except where a similar discount scheme is to be applied to a similar service, as under Test 1.

- 3.12 Ultimately, the decision whether or not to make discount schemes generally available will be at the commercial discretion of HS1 Ltd. If discount schemes are to be offered, they will be made available to all TOCs on a transparent and non-discriminatory basis, applying the criteria described in this Annex. If at any time, HS1 Ltd decides that new discount schemes are not to be offered, any existing discount schemes will remain in place until their agreed termination date, subject to paragraph 2.11 above.
- 3.13 Discount schemes will normally be offered over the entirety of HS1 infrastructure, for the purposes of defining the 'specified infrastructure section' under paragraph 6(6) of Schedule 3 of the 2005 Railway Regulations, although HS1 Ltd reserves the right to specify that discounts are only available over specific sub-sections depending on the assessment of capacity described above.

Test 3: Is the rail service of a type that is eligible for a discount?

- 3.14 Discounts will not be offered for domestic rail services that are specified by Government in the South Eastern franchise agreement (or in any equivalent instrument that replaces it) because the provision of discounts for such services would neither encourage the development of new services nor improve the utilisation of HS1. The only exception to this is where additional services are specified by Government over and above the services specified in the 2006-2014 South Eastern franchise agreement and where a case can be made by Government that these additional services are only viable with an IRC discount.
- 3.15 IRC discounts may also be available to a domestic franchise operator for services that are not specified by Government, where the effect of offering a discount would be to encourage the operation of additional services.
- 3.16 All other rail services, existing and proposed, that would normally be charged IRC are eligible to be considered for discounts.

Test 4: Is the rail service commercially viable without any discount?

- 3.17 This test is designed to ensure that discounts are targeted at encouraging rail services that might not otherwise have a commercial case and which could not operate sustainably without a discount. If, without being offered a discount by HS1 Ltd, a rail service is assessed as not being commercially viable in the short term (during the proposed discount period), taking into account revenues, costs and any public sector subsidy, but if it has reasonable prospects of long-term viability, then it will be eligible for a discount on IRC. TOCs will not normally be offered discounts for rail services that are commercially viable over the discount period and the full IRC is expected to be charged for profitable services.
- 3.18 Criteria that will be considered in determining whether or not a rail service is commercially viable over time include:
- Forecasts of passenger demand and revenues and any significant uncertainties in the forecasts;
 - Forecast operating costs, including staff costs, rolling stock costs and infrastructure charges (including any other discounts), together with any necessary investments and their payback period;
 - The availability of any public sector support – which may improve commercial viability for the TOC; and
 - The expected profit/loss of the rail services during the proposed discount period, taking into account the above factors, and expected changes over time.

- 3.19 In order to satisfy these criteria, applicants will be expected to provide evidence of:
- The market for the rail service and forecasts of traffic and revenue;
 - The likely demand response to any reduction in fares facilitated by IRC discounts, such as fares elasticities;
 - Estimated operating costs and the relative importance of HS1 infrastructure costs;
 - Any expected public sector support, or requests for discounts from other infrastructure managers; and
 - The business case for the rail service.

3.20 Any evidence provided will be held in confidence by HS1 Ltd and will not be released other than to the ORR for the purposes of the approval of framework track access agreements or in the event of an appeal or dispute.

Test 5: What terms of discount are required to secure operation of the rail service?

3.21 Under this test, the appropriate level, profile and duration of any discount will be determined and, once agreed, will be published in the HS1 Network Statement. In general, HS1 Ltd will offer the minimum level and duration of discount required to secure the sustainable operation of the rail service, taking into account the following factors:

- Any financial contribution towards securing the viability of rail services is expected to be shared between HS1 Ltd (in the form of discounted IRC), the TOC, other infrastructure managers and, where appropriate, the relevant public authorities;
- The duration of the discount period will normally be between one and four years, unless a strong case for an alternative duration is put forward by the TOC. Discounts will always be time-limited;
- It may be appropriate to profile the level of discount over time to reflect anticipated improvements in commercial viability or major uncertainties in the forecasts; and
- Discount levels will be capped to reflect any Capacity Reservation Charge that may be foregone if new services are operated.

3.22 At the end of the discount period, the discount scheme will cease and a new application would need to be made in advance to secure any further continuation of discounts by way of a new discounting scheme. However, it is considered unlikely that discounts would be extended in this way as HS1 Ltd wishes to encourage the development of services that will be sustainable in the long run, rather than subsidise services that are unlikely ever to be profitable.

3.23 The terms of the discount may also include conditions on the TOC, such as:

- The operation of minimum rail service levels during the period of discount, based on the TOC's plans as submitted in the discount application, subject to a limited degree of flexibility for the TOC;
- The provision of appropriate information to HS1 Ltd, for monitoring the effects of any discount scheme, and to enable HS1 Ltd to better develop discount schemes in the future. This data, which will be held in confidence, may include:
 - Passenger numbers and revenue per seat; and

- Cost per seat.

3.24 If any agreed conditions are breached, HS1 Ltd will normally require to be held harmless financially. Subject to the agreement of the ORR, it therefore reserves the right to review and amend the terms of the discount scheme in order, for example, to adjust IRC discount levels to compensate for lower than agreed rail service levels or for costs incurred in data collection. In these circumstances, the adjusted IRC levels will not exceed the full undiscounted IRC on a per train basis.

Test 6: Is HS1 Ltd better off commercially with the discount scheme?

3.25 HS1 Ltd is a commercial company, with responsibilities to its shareholders, and needs to ensure that any agreed discount schemes are in its commercial interests. This means in practice that HS1 Ltd will require the impacts of any discount schemes to increase usage of HS1 in order to at least offset the impacts of discounting IRC for a particular service.

3.26 In determining the financial impacts on HS1 Ltd, the following factors will be taken into account:

- The number of trains that would be operated with the discount in place compared with the number of trains that would be operated in the absence of any discount;
- IRC revenues with and without the discount scheme, taking into account expected numbers of trains and discounted or full IRC levels;
- Any consequential impacts on the applicant's Capacity Reservation Charges; and
- The impact on HS1 Ltd's IRC revenues for any existing or planned rail services, including any discounts that might apply to those existing services.

3.27 In considering the final point above, HS1 Ltd may take into account any market information provided by other TOCs currently operating services on HS1 or by TOCs planning to operate such services in future.

3.28 It may also be necessary to consider any knock-on impacts on HS1 Ltd's revenues from OMRC payments or the performance regime, as these may change when new services are introduced. This is particularly the case if the introduction of a new service results in a change in total train movements of more than 4%, as this would result in recalibration of both OMRC and the performance regime.

3.29 If it is not in HS1 Ltd's commercial interests to offer discounts for a specific service, then a discount scheme will not be established. This does not override the obligation to provide similar discounts for similar services (Test 1).

Test 7: Are there any adverse competition impacts?

3.30 The final test is to ensure that any discount awarded for the operation of services over HS1 would not infringe EU or UK competition law.

3.31 HS1 Ltd will assess discount schemes in order to identify whether they might result in HS1 Ltd charging one TOC a higher amount than another in relation to a relevant market on which both TOCs compete and, if so, whether the difference in charges is objectively justified. This assessment will be carried out using the market information provided by the applicant and also HS1 Ltd's knowledge of the rail markets served by other existing or potential TOCs on HS1. HS1 Ltd will not award a discount if it is considered likely to infringe EU or UK competition law, and where necessary it may modify the terms of a

proposed new discount scheme in order to ensure compliance with EU and UK competition law.

- 3.32 If there are considered to be no adverse competition impacts, then either a new discount scheme will be established under the terms determined in Test 5 or a discount scheme similar to an existing one will be established according to the terms in Test 1, as appropriate.

4. Process for applying for discounts

4.1 HS1 Ltd will be responsible for assessing TOCs' applications for discounts and determining whether or not a discount will be offered, in line with this discount policy. Discussions will be held between HS1 Ltd and TOCs where necessary to clarify any aspects of the application. Any discounts agreed between HS1 Ltd and a TOC will need approval from the ORR, as will new or amended framework track access agreements. TOCs can also appeal to the ORR if they are unable to reach agreement with HS1 Ltd on whether a discount should be provided, or the terms of such a discount. Approved discount schemes will be published in the HS1 Network Statement.

4.2 The discount application process for TOCs will be as follows:

- (i) **Informal discussions with HS1 Ltd.** TOCs are encouraged to engage informally with HS1 Ltd at an early stage in order to gain an understanding of whether a discount might be available in principle. If required, a meeting will also be held with ORR, at this stage or later in the process.
- (ii) **Formal application to HS1 Ltd.** HS1 Ltd does not require an application form or a specific format of application, but the information set out below in paragraph 4.5 should be provided.
- (iii) **HS1 Ltd indicative response and consultation.** Within six weeks of all necessary information being provided by the TOC, HS1 Ltd would generally expect to provide an indicative response to the applicant. At the same time, HS1 Ltd would generally expect to notify any TOCs that are currently operating rail services on HS1 (and any TOCs that HS1 Ltd is aware are considering operating rail services in future) that a discount has been requested for the relevant rail service. No confidential or more detailed information would be provided, but consultees would be invited to make any general representation to HS1 Ltd that they considered relevant to decision-making around the possible granting of the discount.
- (iv) **HS1 Ltd decision.** If, within two weeks of the indicative response and consultation, any new information is provided by TOCs in response to the consultation on the draft discount scheme, this will be reviewed and a final decision made on whether a discount scheme will be offered and on what terms.
- (v) **Request for approval of discount scheme to the ORR.** HS1 Ltd will draft the necessary elements of the track access agreements, or a supplemental agreement as appropriate, incorporating the terms agreed with the TOC. HS1 Ltd will need to consult on the framework track access agreement or supplemental agreement in accordance with ORR's criteria and procedures.⁵ HS1 Ltd will then submit a request

⁵ Office of Rail Regulation (January 2011), ORR's criteria and procedures for the approval of framework agreements for HS1.

to the ORR for approval of the proposed discount. This may include some or all of the information provided by the TOC in its application to HS1 Ltd.

- (vi) **ORR approval of framework track access agreement.** The ORR will determine whether it approves the framework track access agreement or supplemental agreement, including the proposed discount scheme, in accordance with its published criteria and procedures for the approval of framework agreements for HS1.

4.3 The minimum time required to reach agreement on a discount application, from receipt by HS1 Ltd of a fully detailed application to approval by the ORR of the framework track access agreement, is expected to be around four months. If the discount scheme application refers to a new service, requiring a new framework track access agreement, the process will take longer, in line with the general procedures set out in ORR's criteria and procedures.

4.4 The discount application process will need to take place in parallel with processes for the application for track and station access and, in the case of a new TOC, any required operating licences, vehicle acceptance processes and other general safety requirements.

4.5 The information that will need to be provided to HS1 Ltd in a discount application has already been described in section 3 above, but for completeness is summarised below:

- Details of the proposed rail service:
 - Origin, destination, stopping pattern, frequency, duration, nature of service; and
 - Level of service that will be operated if discount is not offered.
- Evidence that the proposed rail service is not commercially viable without discounted charges, including in relation to:
 - The market for the rail service and detailed forecasts of traffic and revenue;
 - The likely demand response to any reduction in fares facilitated by discounted access charges;
 - Estimated operating costs and relative importance of HS1 infrastructure costs;
 - Any expected public sector support or contribution from other infrastructure manager(s); and
 - Business case for the proposed rail service – presenting the case with and without the discount.
- Proposed terms of discount:
 - Percentage discount on IRC; and
 - Profile and duration of discount.

4.6 Information provided by TOCs in support of applications for discounts will be held in confidence by HS1 Ltd except if it is required to be released to the ORR as part of the approval process of a framework track access agreement or supplemental agreement as appropriate (or in relation to any dispute or appeal).

Appendix A: Calculation of Common Traffic Flows under Test 1

Example 1: Common traffic flows provide more than 75% of revenues on both services.

- In this example, TOC X operates service 1 and currently benefits from a discount scheme for the service. TOC Y is planning to start a new service, service 2, to the same origins and destinations, with only minor differences in stopping patterns (service 2 does not serve station C) and wishes to understand whether a similar scheme would apply to service 2 on the basis that it is a similar service.
- The flows common to both services are A – B, A – D and B – D. These comprise 78% of revenues on service 1 and 100% of revenues on service 2 as the services are targeting similar markets. Therefore, for the purposes of criteria (i) of Test 1, the two services are considered to be similar and a similar discount scheme may be established. An assessment would also need to be made as to whether the services are similar under criteria (ii) and (iii) of Test 1, although that is not considered here.

TOC X: Service 1			TOC Y: Service 2		
					
Flow	Revenue	% of total revenue	Flow	Revenue	% of total revenue
Flow A – B	50	11%	Flow A – B	20	9%
Flow A – C	50	11%			
Flow A – D	200	44%	Flow A – D	150	68%
Flow B – C	50	11%			
Flow B – D	100	22%	Flow B – D	50	23%
Total revenue	450	100%	Total revenue	220	100%
Common traffic flows	350	78%	Common traffic flows	220	100%

Example 2: Common traffic flows do not provide more than 75% of revenues on both services.

- In this example, the two services again serve a set of common traffic flows, A – B, A – D and B – D. However, in this instance, traffic flow A – C is much more important in the overall route economics of service 1, contributing half of total revenue, and this means that common traffic flows only provide 33% of revenue for this service. HS1 Ltd would therefore assess that services 1 and 2 are not similar as they are focusing on different markets and so a similar discount scheme will not be applied to service 2, regardless of whether it satisfies the other two criteria of Test 1.

TOC X: Service 1			TOC Y: Service 2		
					
Flow	Revenue	% of total revenue	Flow	Revenue	% of total revenue
Flow A – B	50	8%	Flow A – B	20	9%
Flow A – C	300	50%			
Flow A – D	50	8%	Flow A – D	150	68%
Flow B – C	100	17%			
Flow B – D	100	17%	Flow B – D	50	23%
Total revenue	600	100%	Total revenue	220	100%
Common traffic flows	200	33%	Common traffic flows	220	100%

4. Service 2 may nevertheless be eligible for a new discount scheme, if TOC Y can demonstrate that it satisfies Tests 2 – 7.