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Dear Richard,

Periodic Review 2013 : Consultation on financial issues for Network Rail in CP5.

This letter contains the response by DB Schenker Rail (UK) Limited ("DB Schenker") to the consultation document entitled "Consultation on financial issues for Network Rail in CP5" issued by Office of Rail Regulation ("ORR") in August 2012.

Much of the consultation is highly technical and on areas where we have limited expertise, but we have comments on six areas;

1. Inflation and Indexing

DB Schenker is not convinced by ORR's proposals on indexing Network Rail's allowed revenue and RAB by setting an ex-ante assumption.

In general our attitude is strongly influenced by how ORR treats efficiency. If the efficiency target is challenging and, as with CP4, access charges for freight are set at end-CP4 efficient levels, then DB Schenker would regard it as reasonable that Network Rail not be set an additional risk/challenge by an ex-ante assumption on inflation.

2. Industry Costs

DB Schenker would support Network Rail being incentivised to lead for the industry on industry-wide costs such as the BTP and RSSB, and DB Schenker therefore supports the proposals to incentivise Network Rail by treating these sorts of costs as support costs.

3. Network Grant

DB Schenker supports the continuation of a network grant process.

4. Network Rail's Activities

DB Schenker is strongly of the belief that Network Rail must concentrate on its core activities of becoming a world class efficient rail infrastructure provider and not being distracted by undue diversification.

With respect to Investment Projects, it would be a concern if Network Rail became distracted by projects overseas or in other sectors or if private sector competitors became discouraged from bidding for Network Rail work.

5. Outperformance

DB Schenker would welcome out-performance of its objectives by Network Rail. CP4 experience has showed just how difficult it is to judge out-performance against business mix changes, so if ORR is to consider "game changing" initiatives DB Schenker would expect to see a much more transparent and easily measured system to enable genuine outperformance to be separated from "mix" changes.

6. Adjusted WACC approach

DB Schenker would have some concerns if by adopting this policy there were downstream industry issues in CP6 or subsequent control periods that might place the industry in a position where the financial requirement of the industry from Government appeared to rise. Such a position might, of course, be capable of misinterpretation as inefficiency rather than accounting change.

Yours sincerely,



Nigel Jones
Head of Planning & Strategy