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OFFICE OF RAIL REGULATION

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Dear *Iain*

Final guidance on your Strategic Business Plan

The Secretary of State for Transport and Scottish Ministers have both provided us with their high level output specifications and statements of funds available. This marks a crucial stage in our 2008 periodic review.

Staff from Network Rail and my colleagues have been working closely with DfT and Transport Scotland during the development of the HLOSs. The process has been conducted in an open and constructive manner and we are pleased that Network Rail has played a full role.

We are now sending you the two HLOSs and asking you to set out - in your October Strategic Business Plan (SBP) - robust and efficient plans for delivery of the specified outputs - including your assumptions about the contributions to be made by other industry parties.

In February 2007 we published guidance to you¹ on what we considered you needed to do to develop your SBP. This guidance still applies and the five high level points we made then remain relevant. That is, your plan must:

- represent your contribution to an efficient whole industry strategy and command substantial support from your industry partners;
- show significant improvements in accuracy and robustness compared to your initial plan;

¹ Advice to Ministers and framework for setting access charges, February 2007

- provide a fuller justification for the activities and expenditure in your plan;
- be based on fully justified technical strategies and asset policies; and
- demonstrate how you are pursuing increased efficiency and improved network availability.

Your plan will carry more weight if it represents a response on behalf of the industry and not just a Network Rail view. Indeed there are areas, including safety, where it will be essential that other industry parties endorse the proposals. Please tell us in the plan how you have engaged with train operators and other stakeholders and the outcomes of this engagement.

While your plan must respond to the two HLOSs, its scope must be broader. You need to demonstrate how you will meet the reasonable requirements of all your customers and identify projects which are expected to be funded from sources other than the SoFAs.

Equally, we must be clear on what you do not need to cover. You are not required to provide comprehensive whole industry financial projections for delivering the HLOSs. We will combine our view of your revenue requirements with information from DfT and Transport Scotland on franchising costs to produce an assessment of the most likely overall cost.

This remainder of this letter sets out in more detail:

- how you should respond to some of the specific aspects of the HLOSs;
- further guidance on the content of your plan; and
- the timetable after we receive the plan.

Responding to the HLOSs

Transport Scotland HLOS

The Transport Scotland specification is in three Tiers. Tier 1 requires you to set out clearly what the base network capability and capacity will be at the end of CP3 and how this will be documented. Similarly on station condition. In response to para 20 of the HLOS you will need to describe how you would use a £20m fund for small scale enhancements to

Scotland's railways. And you need to show how you would work with the franchised operator to deliver PPM improvements.

For Tier 2, you will need to describe your role in each of the projects, and cost Tier 2 separately from Tier 1 to help us carry out a matching process against Tier 1 and 2 funds.

Tier 3 only requires you to produce a plan – you are not required to undertake detailed development or implement the projects. Tier 3 has no funding allocated to it because Transport Scotland has assumed that you should be able to fund a plan from within your core resources.

DfT HLOS

The Secretary of State has set outputs for safety, reliability and capacity, together with a supplementary specification for major projects and investments. These generally apply to England and Wales, although the safety specification also covers Scotland.

She has specified a 3% reduction in safety risk for passengers and rail workers over CP4. Delivery of these will require the involvement of the whole industry. We expect you, working closely with RSSB and the train operating companies, to set out a plan for how the industry would meet the specification.

On reliability she has specified sector based targets for PPM and long delays. Again, we would expect to see a robust plan to deliver the improvements, drawing on your discussions and analytical work with the train operating companies.

The capacity specification sets out demand to be accommodated and load factors for London and other major urban areas. You need to set out how these requirements are to be met, identifying (and justifying) where you believe additional rolling stock and infrastructure is required. The DfT is working on a rolling stock plan designed to help deliver this aspect of the capacity specification. It will be important for you and the TOCs to work closely with the Department to ensure that, as far as possible, your plans align and are efficient at the whole-industry level.

In addition to Thameslink, the supplementary specification identifies Birmingham New Street station and Reading station as specific locations where action is required. In both cases maximum CP4 expenditure has been set, but you need to clarify and justify each scheme's objectives, activities and outputs, identifying where you are expecting inputs from third parties. You will need to do similar work on the Strategic Freight Network.

The position on the stations improvement fund is different. Here, the Secretary of State only wishes to progress the improvements if we determine that your proposals are

deliverable, efficient and affordable within the Secretary of State's funding. Discussions are underway on how we would judge whether you have submitted a deliverable plan, for example in terms of ensuring it represents a joint Network Rail/TOC approach. We will publish our assessment of your plan in our February review of the SBP.

Further guidance

In our February guidance we asked you to set out expenditure and outputs which could qualify for our early start programme. You will now also want to consider what aspects of the HLOSs should be proposed for early start, including the more recent areas such as the stations improvement fund.

There is only one area of our guidance which we believe has been overtaken by events. This is where we asked you to 'present a range of distinct options which could be adopted...for reducing the CP4 public funding requirement below the core plan'. It is now clear from the shape of the HLOSs that we do not need this specific additional information at this stage.

Timetable

You must submit your plan to us by 31 October 2007. The main subsequent steps in our process are:

- November –December 2007: we will carry out an initial review of your plan which will, in conjunction with other information, allow us to give an initial view to the governments on whether the HLOSs and SoFAs match.
- 20 December 2007: we will publish our initial assessment to the governments of whether the HLOSs and SoFAs match. We must do this to give governments (and Network Rail) sufficient time to respond if there is a mismatch.
- 14 February 2008: we publish our 'SBP assessment and update on the framework for setting access charges'. This will include our decisions on further aspects of the framework for setting access charges, principally the outputs framework and the financial framework, which we are consulting on in August.

A list of key dates is in annex A.

Yours sincerely

A handwritten signature in black ink that reads "Bill Emery". The signature is written in a cursive style with a long, vertical tail on the letter 'y'.

Bill Emery

Annex A: high-level timetable for the formal phase of PR08

Date	Milestone
28 February 2007	We publish our 'Advice to Ministers and framework for setting access charges'.
July 2007	Secretary of State and Scottish Ministers publish their high level output specifications (HLOSs) and statements of public funds available (SoFAs).
30 August 2007	<p>We publish a consultation on detailed issues relating to Network Rail's financial framework, including the treatment of taxation and pensions.</p> <p>We publish a consultation on the structure of Network Rail's CP4 outputs.</p>
31 October 2007	Network Rail publishes its strategic business plan (SBP), including indicative levels of individual access charges.
6 November 2007	We launch a public consultation on Network Rail's SBP.
20 December 2007	We complete our initial assessment of whether the HLOSs can be delivered for the available public funds and publish letters on this.
14 February 2008	We publish our assessment of Network Rail's SBP, including decisions on the financial framework and the structure of outputs following the August 2007 consultations, and decisions on the early start programme for 2009-10.
By 3 April 2008	Network Rail provides revisions to the SBP if necessary.
5 June 2008	We publish our draft determinations for CP4.
30 October 2008	We publish our final determinations for CP4.

Date	Milestone
18 December 2008	Final access charges (price lists/charge schedules) are audited and approved. Review notice is served starting implementation of PR08.
By 5 February 2009	Final point at which objections could be made to our review notice starting implementation, leading to a revised notice or possible Competition Commission reference.
By 31 March 2009	Network Rail publishes CP4 business plan.