



OFFICE OF RAIL REGULATION

Bill Emery
Chief Executive
Telephone 020 7282 2006
Fax 020 7282 2043
E-mail bill.emery@orr.gsi.gov.uk

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Iain Coucher
Chief Executive
Network Rail Infrastructure Limited
40 Melton Street
London NW1 2EE

Dear Iain

Periodic review 2008: strategic business plan update

As you know, on or before 3 April 2008 you must provide us with your strategic business plan update. I am writing to summarise our expectations for your update. Michael Lee is writing to Paul Plummer with a detailed list of our requirements.

Since we received your strategic business plan at the end of October 2007 we have completed our preliminary assessment of the plan, which fed into our announcements on 20 December 2007 on the affordability of the governments' high level output specifications. This phase of our assessment involved a significant amount of engagement between my colleagues and your staff on all aspects of the plan. We appreciate the positive way your staff have approached these meetings and responded to our initial review, questions and requests in a timely way. There are some further meetings arranged for early 2008 continuing our review of the plan.

On 14 February 2008 we will publish our assessment of the strategic business plan, final details on the framework for setting access charges and we will summarise what we are asking you to provide in your April update.

The purpose of the April update is to enable you to ensure that we have all the information we require to enable us to complete our draft determinations. We will publish our draft determinations on 5 June 2008. Therefore your update:

- gives you an opportunity to provide us with your proposals for the parts of the plan that were not properly developed in time for full inclusion in October;



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- provides you with an opportunity to update key parts of the plan where the justification provided in it, or through the subsequent clarification and challenge meeting process, was inadequate or unconvincing; and
- should cover only those issues which could have a material impact on your revenue requirements in England & Wales or in Scotland for the next control period.

In preparing your update we would expect you to build on the good engagement with the industry that informed development of the plan.

The key parts of the plan that we are expecting you to update are:

- **performance:** an update of your performance analysis in order to provide a robust plan to deliver the sector performance targets;
- **maintenance and renewals:** (1) a fuller justification and robust costing of your proposals to implement the 'seven day railway' concept through your engineering access strategy, including economic justification of the benefits to the industry of this; (2) a fuller justification and updated costs (as necessary) of the implications of the intercity express programme; and (3) the activity, expenditure and revenue requirement implications of any update to your asset policies following our review of these since October;
- **enhancements:** updated scheme justifications and cost proposals, in particular including more detail for the Reading scheme, implementation of the 'seven day railway' concept and proposals for development of the strategic freight network;
- **structure of charges:** updated and complete proposals for all access charges following our review of your initial indicative charges and your consultation with the industry; and
- a full **financing plan** for the next control period and its longer term implications.

We are discussing with your staff your approach to **safety assurance/audit**, covering both validation of your policies and independent verification that you are putting in place to ensure they are being implemented effectively by your front-line staff. We expect you to provide further information on these issues as part of your update or earlier.

We expect you to provide us with assurances on the **deliverability** of your plan. You will need to demonstrate how you will be able to deliver the renewal and enhancement work on the scale envisaged in your plan efficiently and without causing undue disruption to train services and passengers and enterprises wanting to move freight on the railway.

We understand that you have no plans to update your proposals for efficiency improvement. You know that we consider that you could and should improve efficiency by a far greater amount than you are projecting in your plan. We are continuing discussion with your staff on these issues, particularly to understand better your explanations for the significant gap in expenditure levels between Network Rail and other European infrastructure managers exposed by our econometric analysis of the cost benchmarking data collected by the International Union of Railways.

I am copying this letter to DfT (Mike Mitchell), Transport Scotland (Malcolm Reed), ATOC (George Muir) and Rail Freight Operators Association (Graham Smith). I am also placing a copy of this letter on our website.

Yours sincerely

A handwritten signature in black ink that reads "Bill Emery". The signature is written in a cursive style with a long vertical stroke extending downwards from the end of the name.

Bill Emery