

31 August 2007

Dear Colleague

Periodic Review 2008 - Network Rail's outputs

As you know, we are currently working to determine Network Rail's funding for the control period 2009-14 and what it must deliver in return. We expect to receive Network Rail's strategic business plan by the end of October 2007. The plan and our assessment of it are key inputs to the periodic review, and we have made it clear that we expect Network Rail to develop its plan in partnership with train operators and other stakeholders.

We also need to define the structure and form of the outputs Network Rail will be required to deliver and this letter and our consultation document, *Periodic Review 2008: Network Rail's outputs*, which is attached and will also be available on our website, are the start of that.

Some of the industry-wide outputs for the next control period have been specified by government in England and Wales and in Scotland. We propose to set further outputs for Network Rail because we consider:

- (a) that a wider range of priorities for passengers and freight customers must be reflected in Network Rail's outputs; and
- (b) we need to strengthen Network Rail's accountability for delivery and for the longer term sustainability of its network.

For example, we are examining ways to set targets for keeping the railway open for use while delivering the necessary level of maintenance and renewal. We are also considering how best to assess the longer term sustainability of the network, so that problems and costs are not stored up for the future.

Network Rail's behaviour will be influenced by the incentives it faces, by the obligations it has to meet, and by the outputs we set for it. We think it is important for Network Rail to focus on key areas and push itself to meet or beat both the targets we set and those it sets itself. We aim to ensure that incentives in contracts and licences and elsewhere and the structure of outputs are aligned.



We are looking at a structure which consists of:

- top level regulated outputs set by us (which will be enforceable and will ensure that Network Rail makes its full contribution to delivering the two high level output specifications(HLOSs) as well as covering other key areas not included in the HLOSs);
- disaggregated outputs and targets established by Network Rail and detailed in its 2009 business plan which will be regarded as customer reasonable requirements, and so potentially enforceable under the network licence;
- a suite of monitoring indicators and diagnostic tools to act as leading indicators and to understand trends in higher level outputs; and is

supported by the ongoing requirement for Network Rail to comply with its network licence, and in particular its stewardship of the network under Condition 7. This will be consistent with our plans to modify Network Rail's network licence to take a purposive format, following our review alongside the periodic review.

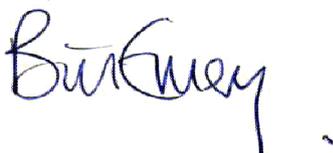
We are also proposing to increase the level of disaggregation of outputs to improve Network Rail's accountability at local level.

Our consultation document describes the structure in more detail. We are consulting you on the approach and would be grateful for responses by 31 October 2007.

We plan to hold a workshop to discuss our approach on 21 September 2007 here at One Kemble Street. The workshop will also cover our review of Network Rail's network licence, which is taking place alongside the Periodic Review. If you, or a representative from your company, should like to attend, please contact Sukhninder Mahi (sukhninder.mahi@orr.gsi.gov.uk; telephone 020 7282 2053).

We look forward to hearing your views.

Yours faithfully

A handwritten signature in blue ink that reads 'Bill Emery'.

Bill Emery