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Mark Preston  
Freight Connections Manager  
Network Rail

Dear Mark

### **CP7 Efficiency factor – connection contracts**

This letter sets out the efficiency factor to be used in the calculation of charges for Network Rail's connection contracts for CP7. In the model contract, charges are indexed using an adjustment factor. This reflects both changes in general inflation (using the Consumer Prices Index or "CPI") and Network Rail's efficiency improvements. The formula in the current model contract to be applied each year to charges is as follows:

$$\text{Adjustment factor} = 1 + \frac{((\text{CPI}^{(t-1)} - \text{CPI}^{(t-2)}) - X)}{\text{CPI}^{(t-2)}}$$

Further details are explained in Schedule 3 of the model and ORR's [guidance module](#). ORR has said that the efficiency factor ("X") used in the model contracts will reflect the efficiency target set for Network Rail at each Periodic Review.

Based on the ORR's final determination for CP7, Network Rail is assumed to save 12% on maintenance and renewals over the five-year period. As a result, we set the value of X to be used in the above formula during CP7 (1 April 2024 – 31 March 2029), at **2.31%**.

We will place a copy of this letter on our website. I am sending copies to Steve Rhymes and Dave Robertson in Network Rail's System Operator and to your Regulatory Reform Team.

Yours sincerely



Gordon Herbert