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Feras Alshaker
Director, Planning and Performance

Jo Lewington
Chief Environmental and Sustainability Officer
Assad Parvez
Regulatory Compliance and Reporting Manager

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Dear Jo and Assad

ORR's Response to Network Rail's Managing Change Environmental Sustainability Tier 2 Supporting Measures Proposals

Thank you for submitting the proposals to define the approach for reporting against the Tier 2 (Supporting Measures) for Environmental Sustainability (Air Quality at Stations, Circular Economy (Material Reuse), Scope 3 Carbon Emissions (Scotland) and Whole Life Infrastructure Carbon (WLIC)). We welcome the work undertaken to develop and refine these measures and the collaborative work to provide responses to ORR's queries in advance of Network Rail's submission of proposals.

Our Final Determination for PR23 set out the metrics that will be used to assess delivery against targets for environmental sustainability performance. We also detailed a number of expectations reinforcing an increased focus on environmental sustainability. These expectations included a requirement for Network Rail to develop tier 2 supporting measures to report performance on air quality, circular economy, scope 3 carbon emissions for Scotland and whole life infrastructure carbon.

We note that the proposals submitted via the Managing Change Policy intend to fulfil this requirement of the PR23 Final Determination. Network Rail has classified the cases as Consulted Changes.

We have reviewed the proposals in line with the principles of the Managing Change policy to ensure that we have clear oversight of the changes and potential impacts on what Network Rail is required to deliver in Control Period 7 (CP7 from 1 April 2024 to 31 March 2029).

We are satisfied with the data provided and conclude that we agree for the proposals to go ahead with reporting on the updated measure(s) to be retrospectively applied from 1 April 2025.

The proposals are agreed on the basis that ORR re-classifies the proposals as Exceptional Changes in line with the policy wording (clause 3.9) which states that 'if we consider a Consulted Change risks undermining the settlements of Network Rail Business Units, ORR can classify a Consulted Change as an Exceptional Change.', and (clause 3.10(c) which states that *'A change to one or more of the success and supporting measures in the outcomes framework (i.e. adding/removing measures or changing methodology for a measure), or a change to the baseline trajectory for one or more of the success measures.'* is a Consulted Change which we would regard as an Exceptional Change. This allows us to agree to change proposals with conditions in place, if required.

In addition, we conclude that approval of each case will be subject to the conditions and clarifications set out in detail below.

Air Quality at Stations

This measure refers to the level of pollutants in the air at Network Rail managed stations. The measure will focus on the number of priority managed stations (as defined by DfT) which do not achieve the benchmark for levels of pollutants and therefore require an improvement plan to be implemented and monitored.

Conditions:

- Network Rail reporting must include the number of Air Quality Improvement Plan (AQIP) milestones completed. Reporting must also include the number of AQIPs which have been produced in Year 1 of CP7 (or subsequent years if additional stations are added to the list of priority managed stations specified by DfT or TS), and the number of AQIPs reviewed and updated on an annual basis thereafter.

ORR Clarifications:

- We intend to provide commentary on the number of AQIP milestones completed rather than the 90% target set by Network Rail. We may comment on individual milestones, where appropriate.
- We intend to report publicly (for example in the Network Rail Annual Assessment) on the number of AQIPs which have been updated, potentially including a list of any which have not been updated. We will also assess the details of individual AQIP updates and milestones through our business as usual engagement with Network Rail.

Circular Economy (Material Reuse)

This measure will be named as 'Reuse of waste and materials' and focuses on the reporting of activities to embed a 'circular economy' where material is reused in order to avoid and reduce waste. This is a strategic objective for Network Rail operations, maintenance and renewal activities. Waste from these activities represents a significant proportion of network-wide waste arisings and involves waste and material with the greatest opportunity for reuse.

Conditions:

- Annual reporting on actual performance relative to forecasts must be provided to ORR. Network Rail must report on actual performance on a regular basis throughout the year, as agreed under the Data Protocol.

ORR clarifications:

- This measure represents the baseline and forecast for CP7 until such time as the measure is developed further. We expect Network Rail to continue to develop reporting in this area taking into account the ongoing work to refine forecasts. We expect updated workbank information (including route services workbank), updated definitions of what is classified as waste 'reused', updated information on project size and wider innovation in waste management to be the key factors when considering a potential update to forecasts. We understand that the first opportunity to explore re-forecasting will be shortly after RF11 in Year 2 of CP7. We will assess at the appropriate time if the managing change process should be used for future iterations of the measure.
- We may provide commentary on actual performance relative to forecasts in our public reporting.
- We will monitor performance in line with our holding to account policy.
- If Network Rail's assumptions change materially or if it identifies opportunities to further improve its measures and forecasts, then it may be appropriate to consider updating them through the Managing Change process.
- Given Network Rail has raised concerns about risks and challenges in implementing this new measure, we will monitor this closely. If it becomes apparent that the measures are not providing meaningful reporting, then we expect Network Rail to propose improvements through the Managing Change process.

Scope 3 Carbon Emissions (Scotland)

Scope 3 emissions are all other indirect emissions from sources that the infrastructure manager does not own or control, including business travel, production and supply of goods, products and materials in the supply chain, waste and water. There are 15 categories of scope 3 emissions defined in the Government's

Greenhouse Gas (GHG) Protocol. Network Rail has chosen to calculate its baselines and forecasts based on four of these categories (referred to as its 'Prioritised Categories'). The categories are 'Capital Goods', 'Purchased Goods and Services', 'Waste generated in Operations' and 'Business Travel'. They are considered to be the categories within its control to influence; they can be linked to spend data; and they make up the majority of its scope 3 emissions.

Conditions:

- Network Rail Scotland must report annually the impact on Scope 3 carbon emissions from the future decarbonisation of the National Grid.

ORR clarifications:

- We consider the forecast of a 14% reduction in scope 3 carbon emissions to be conservative, particularly since expected decarbonisation of the National Grid of more than 30% over the course of CP7 (which has not been included within your forecast) will reduce scope 3 emissions related to the products that Network Rail purchase. This is why the obligation on Network Rail Scotland to report annually the impact on Scope 3 carbon emissions is important.
- ORR will include commentary on the impact of decarbonisation of the National Grid in our reporting to assess what impact this has had on Network Rail's scope 3 carbon emissions measure.
- Even if numerical forecasts are being exceeded, we intend to seek assurance from Network Rail that it is managing Scope 3 emissions in line with the Network Licence. We are in the process of finalising our holding to account approach with input from the Network Rail Environment and Sustainability Team.
- We expect Network Rail Scotland to continue development in this area in light of new or updated information. This includes steadily progressing to a reporting approach based on 'bills of quantity' data as opposed to 'spend' data, and using data arising from the newly formed 'Net Zero supplier forum' put in place to improve carbon data collection and analysis. In addition, we would expect Network Rail Scotland to take into account any datasets or methodologies related to the work on the Whole Life Infrastructure Carbon measure which impacts the measurement and reporting of scope 3 emissions.
- If Network Rail Scotland seeks to materially change its methodology in future, then we would discuss further applications of the Managing Change process on a case by case basis.
- Progress against the scope 3 emissions reduction trajectory should be reviewed on a regular basis and should there be significant variance between actual scope 3 emissions reductions reported and the trajectory set out in your submission, we would expect Network Rail Scotland to contact ORR to discuss further applications of the Managing Change process.

Whole Life Infrastructure Carbon

The cumulative total of carbon emissions generated from the life cycle of an asset or infrastructure is monitored by the Whole Life Infrastructure Carbon measure. The metric looks to assess and report on activities undertaken to reduce carbon emissions across the life span of assets including through (for example) the transition to zero emissions vehicles and maintenance of assets to sustain its operational condition.

Conditions:

- Annual reporting on actual performance relative to forecasts must be provided to ORR. Network Rail must report on actual performance on a regular basis throughout the year, as agreed under the Data Protocol.

ORR clarifications:

- We may provide commentary on actual performance relative to forecasts in our public reporting.
- We will monitor performance in line with our holding to account policy.
- This measure represents baseline and forecast figures for CP7 until such time as a more enhanced measure is developed. We expect this more enhanced measure to be developed for Year 3 of CP7, adopting an approach based on 'bills of quantities' information for key volume lines in Network Rail's procurement portfolio.
- We expect Network Rail to ensure a consistent approach is taken for development of a more enhanced measure for Year 3 of CP7, which is used for all regions and central functions. We also expect this to incorporate the findings of any trials of separate measures being undertaken in the regions during Year 2 of CP7.
- We expect Network Rail to consider the impact of future changes to the Whole Life Infrastructure Carbon measure as well as improvements in data collection and analysis highlighted through the Net Zero forum or other work with the supply chain on its separate scope 3 carbon emissions reporting measure for Scotland.

We trust that this is a satisfactory conclusion. We will monitor compliance with the conditions to our approval, and continue to work with Network Rail on meeting the requirements set out in the PR23 Final Determination.

Yours sincerely

Feras Alshaker
Director, Planning and Performance