



OFFICE OF RAIL REGULATION

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

1 November 2007

Dear Stakeholder

Consultation on Network Rail's strategic business plan

1. Network Rail has today published its strategic business plan (SBP), which sets out and explains the company's proposals for operating, maintaining, renewing and enhancing the rail infrastructure in control period 4 (CP4), which will run from 1 April 2009 to 31 March 2014.¹ The SBP forms Network Rail's principal submission to us for our 2008 periodic review (PR08) of the company's regulated outputs, revenue requirement and access charges for CP4.

2. This letter seeks your views on a range of key issues related to the SBP. Your views are important and we will take them into account in our assessment of the SBP.

Background

3. In February 2007 we published our 'Advice to Ministers and framework for setting access charges' ('Advice to Ministers') document.² This started the formal phase of PR08 and asked the Secretary of State for Transport and Scottish Ministers to provide us with their requirements of what they want to be achieved from the railway in CP4 and the public funding available for that (the 'high level output specifications' (HLOSs) and 'statements of public funds available' (SoFAs)).

¹ The SBP, which is available on Network Rail's website at <http://www.networkrail.co.uk>, comprises a range of documentation including the main document, route plans and asset policies.

² *Periodic review 2008: Advice to Ministers and framework for setting access charges*, Office of Rail Regulation, February 2007. Available at: <http://www.rail-reg.gov.uk/upload/pdf/316.pdf>.

4. The SBP sets out the company's plans for CP4 in the context of government requirements, established by the HLOSs. As such, it makes assumptions about which parts of the HLOSs Network Rail is planning to deliver and which parts train operators will deliver. Network Rail has engaged with train operators and other stakeholders in the preparation of the SBP. The SBP also takes into account the reasonable requirements of other customers and funders.

5. Together with our Advice to Ministers document we provided guidance to Network Rail on the required form and content of its SBP. Further to this, we provided final guidance to the company at the end of July following publication by government of the HLOSs and SoFAs.³ Our final guidance contained five high-level points that summarise our overall expectations of the plan. The SBP should:

- represent Network Rail's contribution to an efficient whole industry strategy and command substantial support from its industry partners;
- show significant improvements in accuracy and robustness compared to Network Rail's initial plan;
- provide a fuller justification for the activities and expenditure in Network Rail's plan;
- be based on fully justified technical strategies and asset policies; and
- demonstrate how Network Rail is pursuing increased efficiency and improved network availability.

Assessment of the SBP and key milestones

6. Our assessment of the SBP will run through to June 2008 when we publish our draft determinations for CP4.

7. We will review and challenge all the material aspects of the SBP in respect of Network Rail's proposed outputs, expenditure, income and access charges. We will test the key assumptions and proposals in the plan. We have arranged a significant number of meetings with Network Rail during November 2007 to examine all aspects of the SBP,

³ Our final guidance to Network Rail on its SBP is available at: http://www.rail-reg.gov.uk/upload/pdf/pr08-Final_guidance_in_SBP.pdf. The HLOS published by the DfT is available at: <http://www.dft.gov.uk/about/strategy/whitepapers/whitepapercm7176/> and the HLOS published by Transport Scotland is available at: <http://www.transportscotland.gov.uk/uploads/documents/HLOS-July-2007.pdf>.

which form the initial phase of our assessment. We are taking advice from consultants on a range of issues, including costs/efficiency and performance, and the independent rail reporters are reviewing key parts of the plan (including Network Rail's asset management proposals and its methodology to calculate variable usage charges).

8. By 20 December 2007 we will have completed our initial assessment of whether the government requirements (HLOSs) can be delivered with the public funds being committed (SoFAs). In doing this we will combine our emerging view of Network Rail's revenue requirement in CP4 with information from the DfT and Transport Scotland on franchising costs in CP4. We will be writing to ministers with our findings.

9. On 14 February 2008 we will publish our 'strategic business plan assessment and update on the framework for setting access charges'. This document will summarise our views of the SBP and areas of the SBP that we have asked Network Rail to update if we consider that its proposals are unacceptable or unsubstantiated. It will set out our decisions on the structure of regulated outputs for CP4, incentives and the financial framework, which are important outstanding areas of the framework for setting access charges. It will also include our decisions on early start funding for the first year of CP4. Network Rail will provide its SBP update by 3 April 2008.

10. We currently plan to publish our draft determinations on 5 June 2008. These will include our proposals for Network Rail's access charges and regulated outputs for CP4.

11. Annex A contains the high-level timetable for the remainder of PR08.

Key issues for consultation

12. There is a wide range of stakeholders with different interests in the SBP. Stakeholders will have had varied input to and understanding of the preparation of the SBP. All stakeholder views on the SBP are important to us as we proceed with our assessment.

13. Generally, we are interested in whether you consider that the SBP is a realistic and efficient plan to meet the needs of rail users and funders, and your own requirements in particular, through CP4 and beyond.

14. We would expect passenger and freight train operators to focus on Network Rail's route plans, which include the company's proposals for enhancing the network and improving performance in CP4. PTEs and other local/regional funders are likely to have a similar interest. We would expect industry suppliers to focus on Network Rail's expenditure and activity projections, including its initiatives to improve efficiency and its proposals for delivering its proposals in CP4, including the technologies it has identified in the plan.

15. Whilst we are interested in any issue you raise on the SBP, there are a number of key issues that we would specifically like your views on:

- the overall strategy set out in the SBP and whether it constitutes a sustainable approach for the longer term;
- the performance improvements proposed by Network Rail in response to the requirements of the HLOSs, including the balance between what Network Rail and train operators will achieve;
- the plans for enhancing capacity to deliver the requirements of the HLOSs and the demand forecasts underpinning these;
- the proposals for managing safety and delivering the improvement in safety required by the Secretary of State's HLOS;
- the company's approach to managing its assets (explained in its asset policies);
- the scope for improvement in efficiency and delivery;
- the possessions strategy and the company's plans for moving to shorter possession durations and implementing the 7-day railway;
- the company's strategy for stations in CP4 (including the national stations improvement programme); and
- how well the plan addresses the needs of the railway customer and market beyond those specified in the HLOS.

16. For all of these issues we would like you to tell us whether you consider that Network Rail has adequately demonstrated that it has considered all the possible options (including radical options) to deliver its HLOS outputs and the reasonable requirements of customers and funders in the most efficient way possible. Where you consider that the SBP should have included different proposals you should provide evidence to support your view.

17. One of our key expectations for the development of the SBP was that Network Rail would engage closely with its industry partners. The SBP refers to the engagement that the company has carried out during the course of its development. We expect this engagement to continue, both in any update to the SBP but also in taking forward and delivering the plan. We would be grateful for your views on the process of engagement with Network Rail to date and how this should continue in the future.

Consultation responses

18. We welcome your response to any issue raised in this letter. Please can you send your views on the issues we have raised in electronic format (or if not possible, in hard-copy format) by Friday 14 December 2007 to:

Paul McMahon
Deputy Director – Competition and Regulatory Economics
Office of Rail Regulation
1 Kemble Street
London
WC2B 4AN
Tel: 020 7282 2095
Email: paul.mcmahon@orr.gsi.gov.uk

19. We also welcome the opportunity to discuss the issues raised in this letter or more generally on PR08. In the first instance please contact Paul McMahon.

20. If you send a written response, you should indicate clearly if you wish all or part of your response to remain confidential to ORR. Otherwise we would expect to make it available in our library and on our website and potentially to quote from it. Where your response is made in confidence please can you provide a statement summarising it, excluding the confidential information that can be treated as a non-confidential response. We may also publish the names of respondents in future documents or on our website, unless you indicate that you wish your name to be withheld.

21. Copies of this letter can be found in the ORR library and on the ORR website (www.rail-reg.gov.uk).

Yours faithfully


Bill Emery

Annex A: PR08 high-level timetable

Date	Milestone
1 November 2007	Network Rail publishes its strategic business plan (SBP), including indicative levels of individual access charges.
1 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.
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	Date by 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 delivery plan.