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Malgorzata Sztandera
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Dear Maggie

CP6 Efficiency factor – connection contracts

I wrote to you on 31 January 2019 setting out the efficiency factor to be used in the calculation of charges for Network Rail's connection contracts for CP6, based on RPI as a measure of inflation. Following this, on 6 February, we consulted on changing the inflation measure used in the calculation of the efficiency factor from RPI to CPI¹. The consultation closed on 6 March and we are now implementing the changes set out in that consultation. This letter therefore replaces my original letter and sets out the different efficiency factor to be applied for contracts using the RPI measure (which is unchanged from my previous letter) and those using the CPI measure.

In the model contract, charges are indexed using an annual adjustment factor. This reflects both changes in general inflation and Network Rail's efficiency improvements expressed as an efficiency factor ("X"). Further details are explained in Schedule 3 of the model. ORR has said that the value of 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 CP6, Network Rail is assumed to save 11.4% on maintenance and renewals over the five year period². As a result, we set the value of X to be used during CP6 (1 April 2019 – 31 March 2024), as follows:

- a) where RPI is used at **2.4%**.
- b) where CPI is used at **1.4%**.

The differences between these rates reflect the calculations used in the Determination to reflect the differences between these measures of inflation. Please contact Gordon Herbert if you have any queries. We will place a copy of this letter on our website.

Yours sincerely



Catherine Williams

¹ <https://orr.gov.uk/rail/consultations/policy-consultations-by-topic/access-and-licensing/model-connection-contract-transitioning-to-cpi>

² http://orr.gov.uk/_data/assets/pdf_file/0003/39315/pr18-final-determination-variable-usage-charge-consultation-conclusions.pdf paras 23-24.