

**Model connection contracts - switching to CPI consultation responses -
Published 14 March 2019**

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Good afternoon Gordon,

Many thanks for this.

1. It is sound that the inflation index should copy the outcome from the Periodic Review; and

2. The methodology for covering the efficiency factor for both rpi and cpi contracts in CP6 is supported as it provides comfort in moving to CPI without there being flow through arrangements with the Department for Transport;

Many thanks.

Rob

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4 March 2019

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E:

Dear Gordon

Model connection contracts – switching to CPI

I am writing to you in response to your consultation published on the 6 February 2019 which proposes that the inflation measure used in the annual adjustment factor in the model connection contract is changed from the Retail Price Index (RPI) to the Consumer Price Index (CPI).

ORR's proposal

ORR has proposed to change the model contract from RPI to CPI and to introduce a rounding rule to three decimal places. We support the proposals.

Regarding the rounding rule, we want to provide clarity for users of the contract that the rounding rule applies to the value that is derived from the adjustment factor formula. We suggest that the words "the value derived from this formula shall be rounded to three decimal places" are added beneath the formula in the contract. This will mirror the words used in similar circumstances in track access contracts for CP6.

Transition

As noted in the consultation, there is no mechanism for ORR to propose amendments to existing connection contracts. We recognise that some contract holders may be reluctant to switch to CPI based contracts. However, we note that as ORR does not envisage calculating separate efficiency factors for both CPI and RPI for CP7 onwards, customers that do not switch to CPI could find their charges increasing as there would only be an efficiency factor available for CPI contracts. This may provide an incentive to switch to CPI for the start of CP7.

Minimising distortions and differences

We support ORR's proposal to publish a separate efficiency factor for contracts using CPI and those using RPI during CP6. We recognise that this will minimise any difference in the outcome for both Network Rail and its customers, regardless of whether the contract uses RPI or CPI, whilst facilitating a switch to CPI during CP6.

We also confirm that we are content that the rate of inflation to be used will be calculated using different measurement periods. This is an established practice and reflects the fact that passenger contracts use November to November as the twelve month period to calculate inflation whereas freight contracts use April to April.

We are content for you to publish this letter in full on your website.

Yours sincerely

Christopher Meadows
Senior Reform Specialist