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16 December 2010

Patrick Butcher
Group Finance Director
Network Rail Infrastructure Limited
Kings Place
90 York Way
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Dear Patrick

Unsupported debt

I am writing to you about the requirement you have to provide us by January 2011 with a financeability assessment for raising unsupported debt.¹

Our PR08 determination was based on the assumption that you would start to raise unsupported debt during CP4. In relation to this, the ability to use the financial indemnity mechanism (FIM) would be restricted and we would also remove the financial indebtedness licence condition. However, due to conditions in the financial markets and rating agency concerns about deliverability of the PR08 determination, you did not start the process to raise unsupported debt by the start of CP4.

We said that if the restriction on the FIM was not introduced for the start of CP4 you would need to undertake an assessment of the financeability of raising unsupported debt by January 2011 (covering whether you would be able to obtain an investment grade credit rating to underpin raising an agreed amount of unsupported debt during the remainder of CP4). We would then consider your assessment, as well as reviewing the value for money of raising unsupported debt, and decide whether it would be appropriate to introduce the restriction on the FIM in the licence and also remove the financial indebtedness licence condition.

As you know, Sir Roy McNulty's value for money study is progressing and is due to report in April 2011, and the Secretary of State has started to consider the options for structural reform of the industry. Given the current uncertainty that this work creates we do not consider that now is the right time to start to issue unsupported debt. As such we do not

¹ Review of the Network Rail licence: statutory notice of proposed modifications, December 2008. This can be accessed at http://www.rail-reg.gov.uk/upload/pdf/cons-NR_netwrk_lic.pdf.

expect you to provide us with a financeability assessment by the end of January 2011. Once there is sufficient clarity on possible structural reform we will agree with you our requirements and the timing for the assessment.

I am placing a copy of this letter on our website and copying it to Paul Collins and Kate Mingay at DfT, Rachel Miller at HM Treasury and Frances Duffy at Transport Scotland.

Yours sincerely

A handwritten signature in blue ink that reads "Paul McMahon". The signature is written in a cursive style with a large initial 'P'.

Paul McMahon