



OFFICE OF RAIL REGULATION

25 September 2006

The Group Company Secretary  
Network Rail Infrastructure Limited  
40 Meltón Street  
London  
NW1 2EE

**Network Licence Condition 12 (Ring-fencing): Consent of the Office of Rail Regulation**

1. Network Rail wrote to the Office of Rail Regulation (ORR) on 14 July 2006 seeking ORR's consent under Condition 12 to make the following payments:
  - a. £95 million (at 2003/04 prices) in relation to the overstatement of the 2003 Access Charges Review (ACR2003) opening debt in each of the years 2006/07, 2007/08 and 2008/09, split between the two Governmental bodies so that the Department of Transport ("DfT") receive 93.298% and Transport Scotland ("TS") receive 6.702%.
  - b. £275 million in relation to the Government provision of a financial indemnity. This £275m payment will be split into payments of £91,666,666.67 in each of the years 2006/07, 2007/08 and 2008/09.
2. In letters dated 27 January 2005 and 10 June 2005, ORR said that the financial modelling for the ACR2003 final conclusions paper used a higher opening debt at 1 April 2004 than the actual opening debt. The use of a higher opening debt at 1 April 2004 than the actual level meant that Network Rail is receiving higher revenue than it otherwise would have and the Government is providing more funding. The payment of £95 million (at 2003/04 prices) in each of the years 2006/07, 2007/08 and 2008/09 will compensate the Government for the additional funding it has provided and mean that Network Rail receives the appropriate amount of net revenue.
3. Network Rail in letters dated 10 March 2005 and 21 October 2005 agreed that the adjustment for the overstatement of the ACR2003 opening debt should be made.
4. Network Rail said in a letter dated 14 July 2006 that the payment in relation to the Government provision of a financial indemnity was being proposed because the



provision of this indemnity has enabled Network Rail to incur lower debt financing costs than were envisaged when ORR set Network Rail's charges at ACR2003.

5. Having carefully considered Network Rail's application and because these payments are necessary to ensure that ACR2003 provides an appropriate amount of revenue to Network Rail, ORR consents for the purposes of Condition 12 to Network Rail making the payments described in paragraph 1 above.
6. This letter will be copied to Mark Lambirth at DfT and Jonathan Pugh at Transport Scotland.

A handwritten signature in black ink, appearing to read 'John Thomas', is positioned above the typed name.

John Thomas

Director of Regulatory Economics