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Dear Nimal and Robert

Approval of connection contract between Network Rail Infrastructure Limited and First Greater Western Ltd (FGW) under section 18 of The Railways Act 1993: Reading Train Care Depot (Reading TCD)

1. The Office of Rail Regulation (“ORR”) has approved the connection contract submitted by Network Rail Infrastructure Limited and FGW under section 18 of the Railways Act 1993 (“the Act”), relating to the connection at Reading Train Care Depot (Cow Lane, Reading).
2. Please find enclosed a copy of the ORR’s direction notice, directing the parties to enter into the contract as modified by our directions.

Background

3. On 4 August 2014 Network Rail submitted a proposed connection agreement between Network Rail and FGW where their two networks connect at Reading TCD. The contract submitted was based on ORR’s model connection contract introduced in April 2014¹. The contract was again revised and resubmitted by Network Rail on 11 and again, finally, on 13 February 2015. The application is supported by FGW.

¹ <http://orr.gov.uk/what-and-how-we-regulate/track-access/track-access-process/how-to-apply-for-track-access/connection-contracts>

4. In October 2013 the new depot at Reading was brought into use by FGW. Network Rail also wanted to roll out additional charges as new facilities were rolled out. Network Rail's charges included elements for both maintenance and renewal. When fully rolled out there are to be three connection points (A, C and E).
5. Parties wanting to connect their networks need to apply for approval from ORR under section 18 of the Railways Act, or section 17 if they do not agree all the terms². This section 18 application has taken longer for ORR to conclude than we usually aim for. However a number of issues have arisen and this letter explains how we reached our decision.

Maintenance and renewal costs

6. Network Rail provided considerable amounts of supporting data and information about its costs. On 29 August 2014 ORR wrote to Network Rail to ask for clarification on several elements. This initiated a series of exchanges over the next few weeks. However it became clear that some of the charges submitted by Network Rail did not align with cost information it had provided elsewhere. Network Rail revised its figures and resubmitted them on 12 January and 29 January 2015. In terms of overall numbers, this led to the total maintenance cost going down from over £177k to £175,749 per year (when all the connections are fully operational).

Maintenance

7. ORR noted that the unit rate for OHLE maintenance did not align with the Maintenance Unit Cost (MUC) information provided by Network Rail as part of its recent Price Review (PR13) submission³. Network Rail's revised stoneblowing rates gave a unit rate of £6.2k for the task, compared to the previous rate of £9.7k. We are now satisfied with the updated average Maintenance Unit Cost for tamping. This revision reduced the annual maintenance cost at the site, over three connections, by nearly £7.8k per year.
8. However, our analysis of Network Rail's charges for point heating suggested there was an under-estimate in its cost model. The correction resulted in a revision by Network Rail of the maintenance costs upwards of £4k per year.
9. Our analysis of all the elements of Network Rail's charging structure therefore suggests that some elements needed recalibration. However, as it happened this only necessitated a relatively modest reduction in the annual charge. These reduced charges are reflected in the parties' final submission.

² See <http://orr.gov.uk/what-and-how-we-regulate/track-access/track-access-process/how-to-apply-for-track-access/connection-contracts>

³ For more information on PR13 see <http://orr.gov.uk/what-and-how-we-regulate/regulation-of-network-rail/how-we-regulate-network-rail/periodic-review-2013>

10. However we recommend that Network Rail takes the opportunity to review its connection contract cost matrices to make sure they are up to date. Also, the contract contains a clause for the costs to be reviewed at five yearly intervals. ORR therefore encourages both parties to make use of this clause to ensure that the charges continue to reflect the situation at Reading TCD.

Other revisions

11. Our reaction to the plans originally submitted was that the diagrams lacked explicit identification of the track to which the connections are made. We mentioned in our conclusions to our connection contract review⁴ that we expected plans to identify all the key items and to be fit for purpose. Network Rail's revised connection contract includes a revised station area layout plan and connection point diagrams. The directions therefore refer to the revised connection contract and plans.
12. The contract submitted on 11 February 2015 included a change to the contract where the default rate of interest, in the definitions section, was changed from Barclays Bank to HSBC. When it was pointed out that this was a change to ORR's industry-agreed template, Network Rail reversed the reference and the contract was resubmitted on 13 February 2015, using the reference to the Barclays Bank rate.

Other considerations

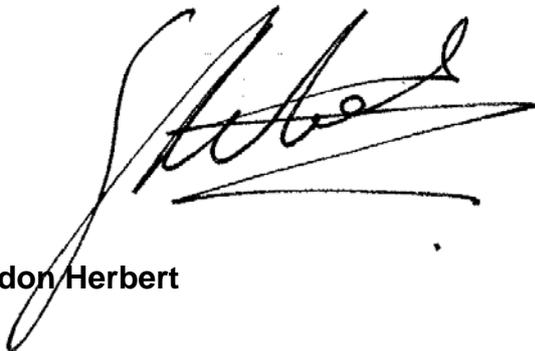
13. In making this decision, we are satisfied that our decision meets the requirements of our section 4 (Railways Act 1993) duties, in particular:
- (1) to protect the interests of users of railway assets;
 - (2) to promote the use of railway network in Great Britain for the carriage of passengers and goods and the development of that railway network, to the greatest extent economically practicable;
 - (3) to promote efficiency and economy on the part of the persons providing railway services; and
 - (4) to enable persons providing railway services to plan the future of their businesses with a reasonable degree of assurance.

Next steps

14. Once the contract is signed, in accordance with section 72(5) of the Act, you must send a copy to the ORR within 14 days and in accordance with section 72(2)(b)(iii). This will be placed on the ORR's public register.

⁴ http://orr.gov.uk/_data/assets/pdf_file/0008/11987/connection-contract-conclusions-apr-2014.pdf para 5.11
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15. In entering any provision on the register, the ORR is required to have regard to the need to exclude, as far as is practicable, the matters specified in section 71(2)(a) and (b) of the Act. These sections refer to:
- a) any matter which relates to the affairs of an individual, where publication of that matter would or might, in the opinion of the ORR, seriously and prejudicially affect the interests of that individual; and
 - b) any matter which relates to the affairs of a particular body of persons, whether corporate or incorporate, where publication of that matter would or might, in the opinion of the ORR, seriously and prejudicially affect the interests of that body.
16. When submitting a copy of the signed contracts would you therefore please identify any matters which you would like the ORR to consider deleting from the library copy. You will need to give reasons for each request explaining why you consider that publication would seriously and prejudicially affect your interests.
17. Please do not hesitate to contact me if you wish to discuss anything. I am very grateful for the co-operation of both parties throughout this process in coming to this conclusion.

A handwritten signature in black ink, appearing to read 'Gordon Herbert'. The signature is stylized with a large, sweeping initial 'G' and a long horizontal flourish at the end.

Gordon Herbert