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5 December 2012

Robin Gisby
Managing Director, Network Operations
Network Rail Infrastructure Ltd
Kings Place
90 York Way
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Dear Robin,

RAIL PERFORMANCE IN 2012-13 AND 2013-14

1. I am responding to your letter of 4 December 2012 setting out what you are doing to improve performance in the long distance sector, which followed the meeting with David Higgins and Richard Price on 27 November 2012. I am also responding to the comments in your letter concerning London and South East performance and the recovery plan that you submitted to us on 27 September 2012, performance in other sectors and your performance planning process.

Long Distance

2012-13

2. At the end of period 8 public performance measure moving annual average (PPM MAA) performance in the sector was 89.3%. There is a shortfall against the joint performance improvement plan PPM target for the sector of 0.5 percentage points. The shortfall largely reflects performance on Virgin Trains and Cross Country.

3. In the case of Virgin you commissioned the report by Chris Gibb of Virgin Trains about the Rugby-Euston route. I welcome the report and your commitment to implement the recommendations, which should address a number of deep-seated



issues on the route. I also welcome your commitment to implement the lessons of Chris Gibb's review across the network where appropriate.

4. The actions that you have set out for improving Cross Country's performance align well against concerns previously voiced by the operator, specifically:

- a. A more strategic National Operations Centre (NOC) approach to train regulation;
- b. Enhanced performance analysis and management capability in the Customer Relations Executive (CRE) team; and,
- c. A more proactive engagement of Route Managing Directors (RMDs) with the operator that will prevent them being ignored as a minority customer on all routes.

5. In view of the commitments you have made in respect of Chris Gibb's report, and CrossCountry, I can advise that ORR is satisfied that Network Rail is continuing to do all that is reasonably practicable to meet its performance commitments in 2012-13, and is thus not in breach of condition 1 of its network licence.

6. We will be discussing with your team the processes for monitoring delivery of the additional commitments you have made. I suggest using the quarterly long distance reports, supplemented by keeping the industry's National Task Force informed of progress.

7. The Gibb report makes two recommendations to ORR. The recommendations and our responses are set out below:

- a. *ORR notes unintended consequences of the setting of national volume targets for renewals and consider how target setting can be improved going forward to better support the performance of intensively used sections of infrastructure and be more consistent with the delivery of performance targets.*

ORR did not set volume targets for renewals for the 2009-14 price control period but, we do monitor Network Rail's delivery of its plans to ensure that the network is being maintained sustainably in accordance with your asset policies. These policies, which we approved, recognised the importance of

sensible prioritisation of renewal work. We will work with you to ensure that clearer messages are put across for the next price control period both in the determination and in our monitoring.

- b. ORR find more effective ways of encouraging Network Rail to take action than repeatedly taking enforcement action and imposing fines, which Chris has found to have a largely negative effect on all levels of the Network Rail team and their output.*

ORR entirely recognises the importance of attracting and retaining key staff, and we are happy to praise success. However, ultimately Network Rail must be accountable to the regulator for delivery of its key commitments, and we have to use the tools we have available to ensure delivery. ORR is, however, very keen to adopt a more forward looking approach to monitoring and enforcing performance targets in CP5, based on better assessment of the risks. I believe this will enable ORR to work with Network Rail in identifying and addressing performance issues earlier. This could reduce the need for formal enforcement action.

2013-14

8. Your recovery plan states that the high confidence (90%) figures for 2013-14 PPM performance in the long distance sector will be between 90.0% (for the Base plans) and 90.6% (for the Base+ and ++ plans), compared with the CP4 regulatory target of 92.0%. The enforcement order we made in July remains in place, and thus Network Rail faces a big challenge if it is to avoid a significant penalty in respect of 2013-14 performance. It will therefore be important for you to continue to develop the initiatives in the long distance recovery plan, including delivery of the Gibb recommendations, so as to get closer to the target. I look forward to hearing more about this in the next progress report due in February 2013.

London and South East

9. I have reviewed the London and South East plan. I welcome the steps Network Rail has taken to give stronger leadership to performance in the sector, and the engagement you have had with train operators. I note that the plan as it

stands states performance in the LSE sector (resulting from the Base plan alone) will be 92.4% at a 90% confidence level in 2013-14 compared with a regulatory target of 93% (and associated CaSL targets) and that Network Rail has some further initiatives to help close the gap, which is much less than on long distance. Moreover Network Rail was much quicker to develop the plan once the shortfalls began to emerge.

10. I note the issues raised in previous letters and meetings, committing to vigorous and concerted action on some key issues for the sector, for example Sussex and Wessex asset condition, new equipment introduction (and associated procurement policies) in addition to the other initiatives in the recovery plan. I also recognise that Network Rail has placed a great emphasis on the changes and strengthening of leadership in the sector, to ensure that the initiatives supporting the outcomes are implemented. We need to see these actions making an early impact.

11. Having considered this evidence in light of the relevant obligations set out in condition 1 of the network licence, I can advise that ORR is satisfied that Network Rail is doing everything reasonably practicable to achieve the performance target in the LSE sector and thus is not in breach of condition 1 of its licence. We will of course continue to monitor delivery of the plan, and will take action if we conclude that this is no longer the case. We are discussing the monitoring arrangements with your team and have suggested that the arrangements should be similar to those for the long distance plan. I agree that this should involve the industry's National Task Force. I understand that you have committed to deliver the first quarterly report on progress in delivering the recovery plan on the 1 February 2013

Other Actions

12. I welcome the continued excellent performance being delivered in Scotland. The regional sector in England and Wales currently appears to be on course to deliver the CP4 target, but, as you have acknowledged, it has slipped below the level specified in the JPIPs. I welcome the commitment you have made to review this sector's performance.

Performance Planning

13. Recent experience has demonstrated the importance of more effective planning and forecasting of performance improvement. I welcome the work

Network Rail is doing to deliver the recommendations of the independent reporter on performance action planning, and the initiative it has set in hand with train operators through the National Task Force to seek significant improvements in the whole suite of processes. I confirm that ORR will contribute to this.

14. I am publishing this letter alongside your letter and Chris Gibb's report and am copying it to Chris Burchell, Gary Cooper, Helen Waters, Paul Rodgers, Paul Plummer, Dyan Crowther, Dave Ward and Fiona Dolman.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael Beswick', written in a cursive style.

Michael Beswick