



OFFICE OF RAIL REGULATION

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Malgorzata Szandera
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Dear Maggie

Model Connection Contracts

On 17 April 2014 we issued our conclusions on our consultation on a new model connection contract and general approval¹. We said that adjustments in the annual indexation formula should be standardised for all operators and charges should be adjusted annually to reflect Network Rail's efficiency targets set at each periodic review.

We concluded that the operators' charges should be indexed annually based on this formula²:

$$\text{Adjustment factor} = 1 + \frac{((\text{RPI}^{(t-1)} - \text{RPI}^{(t-2)}) - X)}{\text{RPI}^{(t-2)}}$$

It is used to calculate annual changes in charges to reflect both general inflation (Retail Prices Index or "RPI") and Network Rail's efficiency improvements.

We said that the efficiency factor ("X") used in the model contracts should reflect the efficiency target we set Network Rail for CP5. We have therefore decided that the value of X for CP5 should be the annual average of Network Rail's CP5 maintenance cost efficiency factor of 16.45%.

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

² Further details are explained in schedule 3 of the model. (NB the RPI indices are calculated differently for passenger and freight operators)



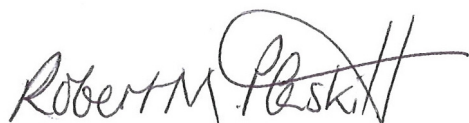
INVESTOR IN PEOPLE

This means the value of X for each year of CP5 is **3.53%**. We will review the value of X as part of the periodic review for CP6.

It will only apply to connection contracts made after 17 April 2014 under the general approval, using the above formula.

This concludes our work on the introduction of the new model connection contract. Please contact Gordon Herbert if you have any queries. I am placing a copy of this letter on our website.

Yours sincerely

A handwritten signature in black ink that reads "Robert M. Plaskitt". The signature is written in a cursive style with a large, circular flourish over the 'P' and 'l'.

Rob Plaskitt