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Charles Robarts
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Dear Charles

Confirmation of the actual CP4 opening RAB

1. This letter provides our conclusions on the actual value of Network Rail's opening regulatory asset base (RAB) for control period 4 (CP4), which runs from 1 April 2009 to 31 March 2014.
2. In our PR08 determination¹ we stated in paragraph 15.13 that:
"The proposed RAB adjustments take into account forecast expenditure in 2008-09 based on the SBP update for 2008-09 and updates and additional data submitted by Network Rail since then, which are necessarily estimates. We will make an adjustment to the opening RAB in CP5 (including where relevant the associated capitalised financing) for any difference between the final outturn figures for CP3 shown in the 2008-09 regulatory accounts and the forecast 2008-09 RAB additions in our determinations."
3. The adjustment for the actual CP3 outturn to be applied to the opening RAB in CP5 is set out in table 1.

Table 1: adjustments to CP5 opening RAB for actual capex outturn in CP3

£m (in 2006-07 prices)	GB	Scotland	England & Wales
CP4 opening RAB assumed in PR08	31,808	3,256	28,552
Actual CP4 opening RAB	31,755	3,262	28,493
Resulting adjustments to CP5 opening RAB	(53)	6	(59)

¹ See: <http://www.rail-reg.gov.uk/upload/pdf/383.pdf>

4. The adjustments shown in table 1 will be subject to an adjustment for capitalised financing.
5. Annex A shows the updated tables 15.1 and 15.2 from our PR08 determination.
6. When calculating the actual CP4 opening RAB we took the relevant information into account that became available after the publication of the PR08 determination. Annex B provides a reconciliation between the RAB published in the PR08 determination and the actual CP4 opening RAB in table 1.
7. Most of the changes are a substitution of the actual capex in 2008-09 for the estimates made at the time of the PR08 determination.
8. We also changed the treatment of “Network Rail sponsored schemes” and “customer sponsored schemes”.
9. For customer sponsored schemes and Network Rail sponsored schemes² Network Rail receives a payment that reimburses Network Rail for its capital and financing costs. As a result we have:
 - (a) not provided capitalised financing adjustments for investments related to these schemes as this would result in Network Rail being paid twice for the financing costs of the schemes;³ and
 - (b) we have deducted from the RAB an estimate of the capital costs that have been reimbursed through the amortisation charge as not making this adjustment would result in Network Rail being paid twice for the capital costs of the schemes.
10. For both types of scheme we have assumed that the amortisation is equivalent to 1/30th of the original capital investment that was added to the RAB.
11. Overall, the process for finalising the value of the RAB did not work as well as it should have done. We will be working with Network Rail to ensure that the processes are improved. This will be particularly important in CP4 as the calculation of the RAB is significantly more complex than in CP3.
12. Please do not hesitate to contact me if you would like to discuss any of these issues further. I am placing a copy of this letter on our website and copying it to Bob Linnard (DfT) and Frances Duffy (Transport Scotland).

Yours sincerely



Paul McMahon

² Network Rail sponsored schemes are generally income generating commercial investments, capital and financing payments can be inferred from the overall income received from these investments.

³ This is a change to the treatment of these schemes compared to the PR08 determination.

Annex A – Calculation of the actual CP4 opening RAB

Summary of adjustments for the actual CP4 opening RAB - Great Britain						
in 2006-07 prices, £m	Adjustment in 2004-05	Adjustment in 2005-06	Adjustment in 2006-07	Adjustment in 2007-08	Adjustment in 2008-09	Total
Opening RAB for the year per ACR2003	19,970	22,775	24,676	25,867	27,008	19,970
Renewals (as per ACR03 - without Signalling Review adjustment)	3,192	3,016	2,426	2,442	2,211	13,286
Enhancements in ACR2003	1,156	445	326	266	236	2,429
Amortisation	(1,543)	(1,560)	(1,561)	(1,567)	(1,570)	(7,800)
Closing RAB for the year per ACR2003	22,775	24,676	25,867	27,008	27,885	27,885
Adjustments to the RAB post ACR2003						
Difference between actual 03/04 CAPEX outturn and ACR determination	(339)	(24)	(24)	(25)	(27)	(438)
EC4T adjustments	15	16	2	2	2	38
Adjustment to reflect signalling review 04/05	(151)	(81)	56	98	228	151
Variance on emerging cost enhancements	(351)	62	11	(6)	(17)	(301)
Investments not funded in ACR2003	5	4	38	244	685	975
Investments not funded in ACR2003 - self financing schemes	31	19	95	56	133	334
Deferrals of ACR2003 renewals and enhancements	(148)	(305)	(287)	(221)	(221)	(1,183)
Total adjustments to RAB post ACR 2003	(938)	(309)	(109)	148	783	(425)
Adjusted Closing RAB for the year	21,837	23,429	24,511	25,800	27,460	27,460
Adjustments to opening CP4 RAB						
Deferred Grants to be added to the RAB						3,415
Asset stewardship incentive						339
Volume incentive						542
1 April 2009 RAB						31,755

Summary of adjustments for the CP4 actual opening RAB – Scotland						
in 2006-07 prices, £m	Adjustment in 2004-05	Adjustment in 2005-06	Adjustment in 2006-07	Adjustment in 2007-08	Adjustment in 2008-09	Total
Opening RAB for the year per ACR2003	2,231	2,419	2,588	2,663	2,732	2,231
Renewals (as per ACR03 - without Signalling Review adjustment)	357	337	242	233	211	1,379
Enhancements in ACR2003	-	-	-	-	-	-
Amortisation	(168)	(168)	(166)	(165)	(163)	(830)
Closing RAB for the year per ACR2003	2,419	2,588	2,663	2,732	2,780	2,780
Adjustments to the RAB post ACR2003						
Difference between actual 03/04 CAPEX outturn and ACR determination	(38)	(3)	(3)	(3)	(3)	(49)
EC4T adjustments	1	1	0	0	0	2
Adjustment to reflect signalling review 04/05	-	-	-	-	-	-
Variance on emerging cost enhancements	-	-	-	-	-	-
Investments not funded in ACR2003	-	-	2	11	100	113
Investments not funded in ACR2003 - self financing schemes	-	-	-	1	2	3
Deferrals of ACR2003 renewals and enhancements	(8)	(13)	(4)	6	(18)	(37)
Total adjustments to RAB post ACR 2003	(45)	(15)	(4)	15	81	31
Adjusted Closing RAB for the year	2,374	2,527	2,599	2,682	2,811	2,811
Adjustments to opening CP4 RAB						
Deferred Grants to be added to the RAB						381
Asset stewardship incentive						38
Volume incentive						32
1 April 2009 RAB						3,262

Summary of adjustments for the CP4 actual opening RAB - E&W						
in 2006-07 prices, £m	Adjustment in 2004-05	Adjustment in 2005-06	Adjustment in 2006-07	Adjustment in 2007-08	Adjustment in 2008-09	Total
Opening RAB for the year per ACR2003	17,739	20,356	22,088	23,204	24,276	17,739
Renewals (as per ACR03 - without Signalling Review adjustment)	2,836	2,679	2,184	2,209	2,000	11,907
Enhancements in ACR2003	1,156	445	326	266	236	2,429
Amortisation	(1,375)	(1,392)	(1,395)	(1,402)	(1,407)	(6,971)
Closing RAB for the year per ACR2003	20,356	22,088	23,204	24,276	25,105	25,105
Adjustments to the RAB post ACR2003						
Difference between actual 03/04 CAPEX outturn and ACR determination	(301)	(21)	(21)	(22)	(24)	(389)
EC4T adjustments	14	15	2	2	2	36
Adjustment to reflect signalling review 04/05	(151)	(81)	56	98	228	151
Variance on emerging cost enhancements	(351)	62	11	(6)	(17)	(301)
Investments not funded in ACR2003	5	4	36	233	584	862
Investments not funded in ACR2003 - self financing schemes	31	19	95	55	132	331
Deferrals of ACR2003 renewals and enhancements	(140)	(292)	(283)	(227)	(203)	(1,145)
Total adjustments to RAB post ACR 2003	(893)	(294)	(105)	133	702	(456)
Adjusted Closing RAB for the year	19,463	20,901	21,913	23,118	24,649	24,649
Adjustments to opening CP4 RAB						
Deferred Grants to be added to the RAB						3,033
Asset stewardship incentive						300
Volume incentive						510
1 April 2009 RAB						28,493

Annex B – Reconciliation of the RAB at the time of the PR2008 determination and the actual CP4 opening RAB

Reconciliation of RAB at FD and actual CP4 opening RAB - Great Britain							
Reconciliation Great Britain (in 2006-07 prices)		2004-05	2005-06	2006-07	2007-08	2008-09	CP4 total
Change in emerging cost enhancements						(5)	(5)
..capitalised financing on the above		-	-	-	-	(0)	(0)
Change in ACR funded schemes							
ERTMS		-	-	-	-	(19)	(19)
cab fitment		-	-	-	-	(12)	(12)
S&E expenditure		44	-	-	-	-	44
WCRM		-	-	-	-	(37)	(37)
Total ACR funded schemes		44	-	-	-	(68)	(24)
..capitalised financing on the above		2	3	3	3	1	13
Change in non ACR2003 investments		-	-	-	-	118	118
..capitalised financing on the above		-	-	-	-	4	4
Update for NOV08 inflation estimate						(2)	(2)
..capitalised financing on the above		-	-	-	-	(0)	(0)
Update for actual discretionary renewals spend		-	-	(1)	(1)	(10)	(13)
..capitalised financing on the above		-	-	(0)	(0)	(1)	(1)
Post FD deferrals of renewals						(201)	(201)
..capitalised financing on the above		-	-	-	-	(7)	(7)
Change in treatment of customer and NR sponsored schemes (self financing schemes)							
remove capitalised financing		(1)	(3)	(7)	(12)	(20)	(43)
deduct amortisation		(1)	(1)	(3)	(6)	(9)	(21)
Total correction for self financing schemes		(2)	(4)	(10)	(18)	(29)	(64)
Change in logged up amounts							
Volume incentive						129	129
Total changes		44	-	(1)	(1)	(39)	2
..capitalised financing on the above		0	0	(4)	(9)	(22)	(34)
..amortisation		(1)	(1)	(3)	(6)	(9)	(21)
Total changes		44	(1)	(8)	(16)	(70)	(53)

Reconciliation of RAB at FD and actual CP4 opening RAB - Scotland							
Reconciliation Scotland (in 2006-07 prices)		2004-05	2005-06	2006-07	2007-08	2008-09	CP4 total
Change in emerging cost enhancements							
..capitalised financing on the above							
Change in ACR funded schemes							
ERTMS							
cab fitment							
S&E expenditure							
WCRM							
Total ACR funded schemes							
..capitalised financing on the above							
Change in non ACR2003 investments		-	-	-	(0)	1	1
..capitalised financing on the above		-	-	-	(0)	0	0
Update for NOV08 inflation estimate						(0)	(0)
..capitalised financing on the above		-	-	-	-	(0)	(0)
Update for actual discretionary renewals spend		-	-	-	-	-	-
..capitalised financing on the above		-	-	-	-	-	-
Post FD deferrals of renewals						(3)	(3)
..capitalised financing on the above		-	-	-	-	(0)	(0)
Change in treatment of customer and NR sponsored schemes (self financing schemes)							
remove capitalised financing		-	-	-	(0)	(0)	(0)
deduct amortisation		-	-	-	(0)	(0)	(0)
Total correction for self financing schemes		-	-	-	(0)	(0)	(0)
Change in logged up amounts							
Volume incentive (&ASI)						8	8
Total changes		-	-	-	(0)	6	6
..capitalised financing on the above		-	-	-	(0)	(0)	(0)
..amortisation		-	-	-	(0)	(0)	(0)
Total changes		-	-	-	(0)	6	6

Reconciliation of RAB at FD and actual CP3 closing RAB - England & Wales							
Reconciliation England & Wales (in 2006-07 prices)		2004-05	2005-06	2006-07	2007-08	2008-09	CP4 total
Change in emerging cost enhancements		-	-	-	-	(5)	(5)
..capitalised financing on the above		-	-	-	-	(0)	(0)
Change in ACR funded schemes							
ERTMS		-	-	-	-	(19)	(19)
cab fitment		-	-	-	-	(12)	(12)
S&E expenditure		44	-	-	-	-	44
WCRM		-	-	-	-	(37)	(37)
Total ACR funded schemes		44	-	-	-	(68)	(24)
..capitalised financing on the above		2	3	3	3	1	13
Change in non ACR2003 investments		-	-	-	0	117	117
..capitalised financing on the above		-	-	-	0	4	4
Update for NOV08 inflation estimate		-	-	-	-	(2)	(2)
..capitalised financing on the above		-	-	-	-	(0)	(0)
Update for actual discretionary renewals spend		-	-	(1)	(1)	(10)	(13)
..capitalised financing on the above		-	-	(0)	(0)	(1)	(1)
Post FD deferrals of renewals		-	-	-	-	(199)	(199)
..capitalised financing on the above		-	-	-	-	(6)	(6)
Change in treatment of customer and NR sponsored schemes (self financing schemes)							
remove capitalised financing		(1)	(3)	(7)	(12)	(20)	(43)
deduct amortisation		(1)	(1)	(3)	(6)	(9)	(21)
Total correction for self financing schemes		(2)	(4)	(10)	(18)	(29)	(64)
Change in logged up amounts							
Volume incentive		-	-	-	-	121	121
Total changes		44	-	(1)	(1)	(45)	(4)
..capitalised financing on the above		0	0	(4)	(9)	(22)	(34)
..amortisation		(1)	(1)	(3)	(6)	(9)	(21)
Total changes		44	(1)	(8)	(16)	(77)	(59)