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To: Network Rail, track access contacts, trade associations, and other stakeholders

14 March 2019

Dear all

Model connection contracts – switching to CPI

On 6 February 2019 ORR started a consultation on changing the adjustment factor in our model connection contract. We proposed that the inflation factor was changed from Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The consultation closed on 6 March 2019. This letter sets out our conclusions.

Responses

We had two responses. Network Rail noted ORR's proposals. It supported our proposal for dual efficiency factors in CP6. Network Rail also suggested wording for the rounding of figures to three decimal places.

Great Western Railway also supported the proposals and said that the inflation index should copy the Periodic Review outcome.

The responses are available on our website¹.

ORR conclusions and impact assessment

There were no objections to our proposals. ORR's view is that CPI is the better measure of inflation for regulated access agreements.

ORR will implement the following changes:

- We will replace RPI with CPI in the adjustment factor in Schedule 3 of the model connection contracts (for England & Wales and for Scotland).
- We will make consequential changes to the definitions in those models, referencing the definitions established in our PR18 Final Determination.
- We will add wording beneath the adjustment factor formula "*The value derived from this formula shall be rounded to three decimal places*".

¹ <https://orr.gov.uk/rail/consultations/policy-consultations-by-topic/access-and-licensing/model-connection-contract-transitioning-to-cpi>

- We will replace the current CP6 efficiency factor letter to Network Rail with a letter setting the efficiency factor for contracts with RPI at 2.4%, and for CPI at 1.4%.

We will also take the opportunity to revise the references to RPI in Schedule 5 Limitation on Liability, so that it too refers to CPI.

We encourage those parties with connection contracts with Network Rail to review them over the course of CP6 (until 2024). We encourage them, and Network Rail especially, to ensure that contracts are up to date and consistent with our model contract, including changing the adjustment factor to having CPI. It is unlikely that ORR will issue separate efficiency factors for CPI and RPI in CP7.

Parties may rely on clause 6b of our General Approval² to change RPI to CPI (as set out above and to conform with the terms in the revised and published model contract³) and so will not have to seek individual ORR consent for this change, although you should notify ORR of any changes to ORR-approved connection contracts and supply copies for our records and Public Register.

Yours faithfully

Gordon Herbert

² https://orr.gov.uk/_data/assets/pdf_file/0007/11599/connection-contract-general-approval.pdf

³ In Schedule 3, Schedule 5 and add definition of CPI and delete RPI in Definitions.