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OFFICE of the  
RAIL REGULATOR

Steve Marshall Esq  
Chief Executive  
Railtrack PLC  
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9 April 2001

Dear Steve

### **ADJUSTMENT TO RAILTRACK REGULATORY ASSET BASE**

1. The basis for calculating Railtrack's Regulatory Asset Base (RAB) at the end of the second control period was established in the periodic review final conclusions published in October 2000. Railtrack accepted these conclusions and, on 15 January 2001, I indicated that I would consider sympathetically an application from Railtrack for an early interim review to examine the appropriate timing of Railtrack's revenue requirements in the light of the immediate implications of the Hatfield accident. I also indicated that there would be no question of there being any increase in the overall value of revenues including grants since the immediate financial consequences of the accident were for Railtrack's shareholders to bear.

2. Since January, Railtrack and the SRA have been engaged in discussions which have resulted in a change in the timing of the network grants which I concluded were necessary to enable Railtrack to finance its relevant activities. In effect, this agreement brings forward revenues from after April 2006 into the second control period. Given this, Railtrack has confirmed that it does not intend to apply for an early interim review to deal with these matters although it may still apply for an interim review to consider the ongoing impact of Hatfield on Railtrack's efficient expenditure and outputs in the second control period.

3. To ensure that Railtrack is no better off and no worse off as a result of this change in the timing of its cash-flows, I indicated that I would expect to adjust the 2006 RAB by an equivalent amount in net present value terms (discounted at the assumed cost of capital of 8% real pre-tax). Given this, Railtrack and SRA have written to my office confirming that the April 2006 RAB should be reduced by £1,717.5 million (1998/99 prices).

4. I would expect to take account of this adjustment to the RAB at the next periodic review or at any interim review of access charges. I would also expect this change to Railtrack's cash-flows over the next five years and the consequential change in the RAB to be reflected in Railtrack's regulatory accounts. This will therefore be incorporated into my Regulatory Accounting Guidelines.

TOM WINSOR  
Rail Regulator

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5. I am copying this letter to Lord Macdonald, Sir Alastair Morton and Mike Grant and I intend to publish this letter on our website, together with a copy of the attached Appendix II from your agreement with SRA.

TOM WINSOR