Subject: ***Updated proposal for freight charges in CP2 reflecting changes to Ripple Lane cost allocation***

Date: ***20 February 2014***

1. Context & overview

In the final HS1 5YAMS submitted to ORR on 31 December 2013 we included freight costs that resulted in a charge of £7.53 per train-km (February 2013 prices). This was shown in table 76, reproduced below.

	800 trains per annum
Charge per train-km	
OMRCA1 (variable)	£2.77
OMRCA2 (avoidable)	£4.76
Total	£7.53
Charge per train	£664.15

This note provides an updated proposal for freight charges in CP2, taking into account the fact that there are a number of freight trains each year that use Ripple Lane by virtue of access from the NRIL network, **not** to/from the HS1 network. This was highlighted in the DBS response to our consultation on the draft 5YAMS. The impact of this adjustment is to reduce the charge to the 800 freight trains that will access Ripple Lane to/from HS1.

2. Current provisions in relation to use of Ripple Lane

There are two types of freight traffic that use Ripple Lane, en-route to the Hanson and Ford depots.

The first is the traffic that travels along HS1 and to/from Ripple Lane. Currently these total the equivalent of 800 trains p.a. (our forecast of volume for CP2). These services are operated by DBS and are charged costs that, *inter alia*, recover all of the costs of our contract with NRIL to operate, maintain and renew Ripple Lane. These charges are set out in the Track Access Agreement we have with DBS.

The second type of traffic accesses Ripple Lane from the NRIL network. These services are also operated by DBS and hence their ability to access Ripple Lane is covered by the Track Access Agreement in place (Ripple Lane is part of the defined HS1 infrastructure covered by the agreement) but these services do not make any contribution to the specific Ripple Lane OMR costs. There are 3,000 trains p.a. that access Ripple Lane in this way.

3. Revised proposals for freight access charges

In calculating the per train-km charge of £7.53, we used £172k p.a. as the costs associated with Ripple Lane. We propose to recalculate track access charges for the two types of freight traffic using Ripple Lane by allocating an appropriate proportion of £172k p.a. to each type of freight.

3.1 Proposed charges for freight traffic accessing Ripple Lane to/from HS1

We propose to revise the freight track access charges for the 800 trains on HS1 by using the reasonable share of costs attributable to these 800 trains. We propose to calculate this reasonable share on the proportion of total trains.

This gives a calculation of 800/3,800 = 21% of Ripple Lane costs are attributable to the 800 trains accessing Ripple Lane to/from HS1.

The cost share can be calculated as follows: 0.21 x £172k p.a. = £36k p.a.

Based on this new cost component, the freight track access charge reduces to £5.36 per train-km, with the split between variable and avoidable components as shown in the following table:

	800 trains per annum
Charge per train-km	
OMRCA1 (variable)	£2.77
OMRCA2 (avoidable)	£2.59
Total	£5.36
Charge per train	£472.75

It can be seen that the variable component is unchanged, with the overall reduction being caused by the reduction in the avoidable component of the charge.

We propose that the freight charge be £5.36 per train-km for CP2.

3.2 Proposed charges for freight traffic accessing Ripple Lane via NRIL

The remaining proportion of the Ripple Lane costs (i.e. £172k p.a. - £40k p.a. = £132k p.a.) will be recovered from the 3,000 freight trains accessing Ripple Lane via NRIL.

We propose to do this by levying a per-train charge. As this is a charge that we do not currently collect from freight operators, we will need to consult with freight operators and other stakeholders as relevant on the proposed charging framework, and ultimately amend the track access agreements.

Our aspiration is to have the revised charging arrangements in place by the commencement of CP2. This may be challenging given some of the legacy issues relating to Ripple Lane:

- Prior to the construction of HS1, there was a direct connection from NRIL to the Ford and Hanson depots. As part of the HS1 construction, the Ripple Lane exchange sidings were built, necessitating an adjustment of the point of connection from NRIL. The new connection is via Ripple Lane (part of HS1). A Parliamentary Undertaking was given that access would continue to be provided to Ford and Hanson depots for freight operators entering from the NRIL network. HS1 Ltd considers that this obligation has been discharged through the Ford and Hanson Connection Agreements.
- The construction of the Ripple Lane facility also required a Network Change to the NRIL network (at the time operated by Railtrack). It is understood that freight operators believe that the Network Change Notice issued at the time, and on which basis freight operators consented to the Network Change, involved a commitment that operators would not face additional charges in accessing the Ford and Hanson

depots. While this does not appear to be binding on HS1 Ltd, there will clearly need to be considerable discussion between HS1 Ltd, NRIL and the freight operators in understanding and resolving the underlying detail.

Geoff Jones
Head of Regulation, HS1 Ltd