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By Email to James.Mackay@highspeed1.co.uk

9th April 2019

Dear James,

LSER Response to HS1 Draft 5YAMS

Thank you for the opportunity to review the Draft 5YAMS. We have reviewed documents provided and have the following comments.

General

Do HS1 intend to uplift prices to February 19 for the Final 5YAMS?

Can you please provide a full copy of the Bechtel Report?

Section Insulators at St Pancras

In relation to our claim for Pantograph Damage, your letter (dated 4th January 2019) states that the replacement of Section Insulators at Platforms 11 to 13 at St Pancras has been included within the CP3 workbank. These works are a priority for us. We have yet to receive an expected delivery date so please can you provide intended dates for these works to take place at your earliest opportunity? It is our understanding that these works will not come at a costs to Southeastern. Please can you confirm this position?

Route

Management Fee

11.3.4

Southeastern question the inclusion of a management fee in NR (HS) costs given Network Rail's status as a public sector company. The calculation of a management fee by reference to private sector companies in comparable industries seems arbitrary given that NR does not have shareholders expecting a return on equity.

Annual Fixed Prices for CP3

11.3.7 Table 42

Can you explain why the profile of efficiencies in this table are significantly back ended? It looks as though this has been done to make the exit rate comparison more favourable. Southeastern would like to see Five-year totals compared instead.

Why are the Total O&M (post-efficient) costs higher in 20/21 and 21/22 than 19/20?

11.3.8



Our view is that 1.1% real increase should be factored into the calculation of Annual Fixed Price in Table 42, not just added to it.

11.4.1 Table 44

The CP2 exit rate comparison is flattering given the higher costs in the middle three years. Five-year totals should be compared instead.

Regenerative Braking

11.6.4.1

Southeastern commend the work carried out to date to make regenerative braking a reality for the Class 395 units and support its continuation in CP3

On Train Metering

11.6.4.2

Work has been undertaken to assess the feasibility of metering on the Class 395 units and is ongoing at this time.

40 Year Renewals Costs

12.5

Can HS1 explain how the 10% figure for Tier 2 Management and fee assumptions are derived?

Can HS1 confirm that the UK Base Case model would lead to direct costs of £1.26bn (i.e. removing the 33% efficiency)? Is HS1's position that it would need to spend £239m on the delivery integrator to achieve direct cost savings of £419m, giving a net saving of £180m?

What account has been taken of frontier shift in the calculation of direct costs? This could generate significant savings over the period being considered. Southeastern would like to understand more about HS1's assumptions regarding efficiency gains over time.

Southeastern do not agree that ERTMS should be funded as a renewal. We consider this to be an enhancement.

Recalibration of the Performance Regime

16.1.2 – Table 68

Can you please confirm if the figures (in minutes?) in Table 68 are absolute values or deltas to CP2 values. The note implies that EIL is offered an easement on its good performance threshold in the recalibration exercise. Can you please explain why this is?

Is there any concern from HS1 regarding their ability to meet customer expectation targets arising from this re-calibration?

Do HS1 intend to implement and report on CP6 metrics in line with National Rail?

Payment Rates

16.1.2.2

Southeastern have provided revenue data to HS1 yet payment rates have not been recalibrated. Can you confirm when we will have sight of the output of this recalibration please?

Possession Regime

16.2

We note that it is proposed for the Possession Regime to remain as is for CP3. The current regime allows for Direct Losses to be claimed for any Restriction of Use outside of this allowance. This does not include any revenue losses. The CP3 renewals workbank may result in the an increase in ROU events and so we seek confirmation as to whether a mechanism exists to allow for loss of revenue to be compensated. If no such mechanism exists we would welcome discussions to include this as we consider that this would ensure that NRHS are further incentivised to work within the parameters of the Possession Regime, to avoid the use of emergency blocks and to minimise the frequency and impact of day to day infrastructure failures.

Safety & Security

We note that there is no mention within this document of the impact of Brexit for Health & Safety Reporting and Governance.

The document is silent on emergency & business continuity planning (including seasonal/snow planning) and how HS1 hold NRHS to account for rapid and effective response to operational incidents and disruption.

Can the above be considered and addressed please?

Answers to Specific Questions

Do you agree with our approach to calculating the renewals annuity? Does it demonstrate consistency with our asset stewardship obligations in the Concession Agreement while satisfying the commercial requirements of your business?

No. The proposal amounts to paying for the historic cost of the original infrastructure (through the IRC) and the future cost of renewing that same infrastructure now. This is unaffordable and fails the intergenerational fairness test. The annuity approach is also very poor value for money – building up a reserve account earning negative real returns over this period of time is a poor use of money.

If you have concerns with our approach to calculating the renewals annuity, how would you propose that we modify our proposals? Do you support the following options, noting each will have different implications for existing and future stakeholders:

****Revising contingency levels for future renewals projects?***

****Moving to a zero escrow account balance at concession handback (2040) rather than at 2060?***

****Modifying HS1 Ltd's obligations in the Concession Agreement?***

Is there anything else which would address your concerns?

Renewals costs should be challenged, are HS1 achieving the best possible price?

Contingency should be tapered somehow – we do not need to cater for every eventuality over the next 40 years now.

The escrow account should target a zero balance by 2040. At this point the concession could be re-let on more of a steady state model, perhaps adopting a RAB. The renewals charges (equal to RAB amortisation) would replace the IRC as the main component of access charges at this point.

There is a distinction between maintaining asset stewardship levels which consider a 40-year time horizon and pre-funding it all through the annuity.

Stations

Southeastern support the comprehensive works that have taken place in relation to renewals to lifts and escalators. However we consider that repair of these assets is a CAPEX cost and should be amortised and funded through Long Term Charge not Qualifying Expenditure.

We do not agree with the removal of the CP2 efficiency overlay. While the 0.6% p.a. applied in CP2 may have been arbitrary, this is not an argument for removing it altogether. HS1 should be challenging NR on efficiency, in the same way it has done for O&M costs.

Renewal Activities and Costs

The document does not clearly detail what assumptions have been made about efficiency, risk and delivery model in the calculation of the LCC forecast. This needs to be brought up to the same standard as the renewals forecasting in the 5YAMS.

Long Term Charge

Is the annuity model for LTC the same as that adopted for Route? The read-across between the two HS1 documents is not clear.

LTC should target a zero escrow account balance by 2040, and avoid pre-funding costs related to the next concession while the IRC for this concession is still being paid off.

How are CPI and the HS1 WACC applied in the annuity calculation?

Escrow account interest rates should be re-forecast for CP3, rather than using CP2 outputs

Interest on negative escrow account balances should be charged at HS1 CoD rather than the WACC, in the same way that credit balances earn interest at the market rate rather than the HS1 WACC.

CP2 Renewals

4.4.2.2 Stratford International

Renewal works funded by LTC were carried out to one of the main concourse escalators at Stratford within CP2 however they are not quantified within the table.

Safety & Security

7.2.3

Introduction of Passenger Safety Initiatives for the festive period - this section needs to include a wider range of vulnerable passenger risks during the period e.g. increased levels of luggage, passengers in unfamiliar environment or travel times and increased crowds.

Mitie at Ashford International – we note that a different approach is taken for this station due partially to lower passenger numbers however would like it noted that there is a relatively high throughput of Southeastern passengers accessing and egressing via the Highspeed area of the station.

Asset Management Approach – LTC

8.1



The following sentence on page 32 needs to be elaborated on. What process will be used to ensure that these non service effecting assets are eventually replaced and not left in a failed state. A failed asset can lead to poor passenger perspective of the station which in turn can have a detrimental effect on NRPS results. To state that the delay of a renewal can be perceived as saving is incorrect. A delay should only occur if there is a service affecting asset that requires attention more urgently.

We will better understand how important the assets are. If the failure of an asset is unlikely to be service-affecting then we are likely to be able to replace later rather than earlier, saving money.

Asset Management System

8.3

Can you please provide further information on what elements are included within 'Passenger Comfort' within Table 15? Is this based on on station comfort, ride quality (lift & escalators) etc?

Life Cycle Costs

9.3

Table 16 details considerable investment in station heating throughout CP6. Southeastern would like to understand what is included within this scope please?

We look forward to your response

Kind regards,

A handwritten signature in black ink, appearing to read "Susan Ellis".

Susan Ellis
Access Contracts Manager