

# HS1 Stakeholder Consultation 5YAMS and LTC Review

## Response from Rail Freight Group

April 2019

1. Rail Freight Group (RFG) is pleased to respond to the consultation on HS1's 5YAMS and LTC Review. No part of this response is confidential.
2. RFG is the representative body for rail freight in the UK, and we campaign for a greater use of rail freight, to deliver environmental and economic benefits for the UK. We have around 120 member companies including train operators, end customers, ports and terminal operators, suppliers including locomotive and wagon companies and support services. Our aim is to increase the volume of goods moved by rail.

### **General Comments**

3. HS1 remains an important strategic corridor for rail freight. Although the volume of traffic moved is small, the traffic which moves on the route is an important part of cross channel rail freight. The route has several key features which make it particularly suitable for some kinds of freight;
  - a. It can take high gauge containerised traffic and swap bodies, unlike the main route which is still not gauge cleared.
  - b. It can take European gauge wagons, which avoids the need for specialist UK gauge equipment to be used across mainland Europe
  - c. It has easy access to the terminals in East London, via the Ripple Lane sidings, which provides for quicker and more efficient routing for traffic to these destinations. Indeed, these terminals are also key for serving consumers in London.
4. Although it is difficult to predict with any certainty, the changes in supply chain expected following Brexit are likely to stimulate demand for rail freight on HS1. Some shippers may look for alternative routes if there is significant disruption for road freight, and the ability to complete customs checks inland can also help provide more efficient transit. Recent issues relating to migrant action on cross channel trade might also be expected to reduce, allowing for more reliable transit. These factors could increase demand for through rail freight both on conventional routes and HS1.
5. However, there are challenges with using HS1 for freight. As a predominately passenger high speed railway paths for freight are only available at night, limiting options for customers and hampering asset usage. Freight operators have no firm rights for these paths, emphasising the fact that they are 'marginal traffic'. There are other operational restrictions, including limits on trailing load.
6. These limitations affect the ability of freight operators to offer an affordable cost to customers. This is further hampered by the access charge for freight on HS1,

which is already significantly higher than that for the NR infrastructure.

7. We are therefore astonished by HS1's proposals to increase charges by a further 78% from next April. This is unacceptable, and will lead to existing traffic becoming unaffordable, as well as reducing the potential for further growth. On the doorstep of Brexit, it is particularly surprising that access to one of the strategic trade corridors is to be restricted through this proposed increase.
8. We understand that this increase arises due to fundamental changes in the way that HS1 have chosen to assess and recover future renewals costs out to 40 years from now. The extent of the increase is very significant and suggests material changes in the approach to the assessment. We expect ORR will wish to assure itself that the new analysis has been undertaken fairly and accurately, and that the proposed costs are efficiently incurred. ORR should also be clear that the proposed change in approach from CP2 to CP3 is accurate and acceptable given the huge significance of the impacts for the freight (and passenger) sector.

### ***Legal Framework***

9. In accordance with the legal framework defined in the 2016 Regulations, access charges must be set at the cost that is directly incurred as a result of operating the train service. A mark up may be charged but only where it can be demonstrated that the 'market can bear it'.
10. HS1 have done no analysis to show that a mark up can be charged, and so the access charge must be set only to recover the direct costs of operating freight trains. As most of the increase relates to renewals work that may be required in 40 years' time, we would argue that these are not costs directly incurred for traffic in this control period.
11. Equally, some parts of the renewal costs relate to the needs of high speed passenger traffic, and not to the operation of freight. We would argue that much of the renewals would be necessary irrespective of freight, and that the allocation of any increased costs to freight should therefore be small.
12. As a minimum we would expect that the renewals costs should be accurately allocated between traffic types, noting that freight does not run throughout the route, but only to the Ripple Lane exchange sidings. As the cost of renewals in the inner section are likely to be higher, due to the extent of tunnels, the cost allocation for freight should be adjusted to exclude these increased costs -i.e. the costs should not simply be spread on a per-km basis.
13. The work to remove the Ripple Lane Exchange Sidings from the concession and transfer to Network Rail, which was proposed in CP2 is still incomplete. The infrastructure is used by many more 'domestic' services than HS1 services and is already maintained by Network Rail on behalf of HS1. Transferring the sidings would ensure that the maintenance work required would be completed at the lower rate which is applied to the core network, rather than the HS1 rate.

14. We understand that one option which would help to reduce the access charges would be to take a fundamentally different approach to HS1's annuity, and thus to take a shorter period over which to assess renewal costs. We recognise that this is a complex topic, with implications for many stakeholders. However, if the approach helps to smooth the increase in freight charges over a longer period then we believe it should be considered as a priority.

### **Summary**

15. In summary, we are highly concerned over the proposals to significantly increase freight access charges on HS1 which could lead to traffic loss and reduced capacity for growth. On the doorstep of Brexit, it seems particularly bizarre that HS1 and Government should act to undermine freight on this important strategic corridor.

16. In order to reduce this risk, we consider that;

(i) HS1 should review the detailed calculations of the charges to ensure that the allocation to freight is accurate – noting in particular that freight does not operate in the tunnelled section where renewals costs are expected to be higher.

(ii) HS1 and Network Rail should conclude the work which was proposed at the last periodic review to transfer the exchange sidings to Network Rail, reducing the costs of work which freight must pay on HS1.

(iii) ORR should consider whether the steep increase in renewals costs is justified, and whether the costs are efficiently incurred.

(iv) HS1 should work with the ORR and Government to consider options which balance the annuity over a shorter period which would reduce costs to all users and help to smooth any increase.