

HS1 Ltd Freight Avoidable Costs Review

Response from Rail Freight Group

July 2011

1. Rail Freight Group (RFG) is pleased to respond to HS1's consultation on Freight Avoidable Costs. HS1 is a route which offers considerable opportunity for certain types of freight traffic, and where much work is underway from all parties to enable such traffic to run.
2. Whilst freight charges are currently subject to a discount, RFG does consider it important that the underlying principles of freight costs are established at this stage, to avoid additional uncertainty for freight operators at the next review point in 2015. To that end, RFG welcomes the clear and open approach taken by HS1 in this consultation, albeit that we have some concerns over some elements of the analysis.
3. We also note that freight services on HS1 are in their infancy, and there is still therefore instability in the level of costs which might be incurred in time. We would expect HS1, and ORR to consider how best to address these issues, including the treatment of start up costs, and also forecast efficiency gains. Whilst some of these areas are mentioned in the review, there is no overall analysis, particularly on efficiency. We would expect HS1 and ORR to look in detail at assumptions on efficiency gains which could be made.

Review Scope and Methodology

4. *Question 1* RFG does not have access to any comparator data. However, we would suggest that, aside from actual operation on the high speed sections, comparator data from any conventional rail network would be valid.

Other Freight Specific Costs

5. We note that HS1 have adjusted some elements of these charges as start up activities, such as access contracts become established. This is welcome. However we are still surprised that HS1 will require 2 FTE's to manage 5 return trips per night. We consider that this should be looked at in more detail, including a review of the work undertaken by 3 FTE's in the present year. The staff levels should be benchmarked against Network Rail's freight staff establishment.
6. We question whether professional subscriptions is a valid cost element as part of the freight charges, or whether it should form part of HS1's overall marketing activities. In any event, RFG subscriptions are £1360 + VAT pa, and the remaining £10,640 should be listed.

7. The cost of the wheel flat detection system appears to be high, and should be reviewed.
8. *Question 2* We have commented above on the cost elements above. RFG does not have access to other data.
9. *Question 3* RFG does not consider it appropriate to include a rate of return at this stage, not least because no viable freight business is yet established on HS1, and because efficiency targets have not yet been established. This may be a matter for ORR to consider in the future.

Review of Avoidable Track OMR

10. *Question 4* RFG is concerned that the cost at Ripple Lane appear to be subject to little scrutiny, and no apparent attempt to drive efficiency gains. Given that no freight traffic has yet operated, it is difficult to see why the maintenance costs paid to NRIL are as high as they are, and in particular why they are almost 20% higher than anticipated in the NRIL arrangement. This would suggest that HS1 may not have been applying sufficient pressure on NRIL to achieve efficiency gains in their work. We would suggest that the maintenance costs for what have been effectively idle sidings should be given a great deal more scrutiny. Alternatively, if the costs arise from the use of the sidings for NRIL's own maintenance activities then the costs should be allocated accordingly.
11. *Question 5/6* We consider that the allocation for the freight only lines at Cheriton Chord / Dollands more requires further analysis particularly given the comments above on Ripple Lane. Although we note that there may be a greater number of points than the average on Network Rail freight only lines, we would also expect factors such as the average utilisation of the track to be considered. We are not aware of other national railway price comparators, although the work commissioned by EWS, (now DBS) on freight only line costs for Network Rail may be relevant. Again, any use for maintenance activities should be allocated accordingly.
12. We agree that any outturn impacts from the Control Period should be logged up for CP2, rather than used to reopen freight charges.
13. *Question 7* We agree that the freight loops should not be included in the avoidable freight costs, not least as it is unclear whether they will be required for the operation of the proposed level of service. We would expect ORR to comment on how 'marginal user' is defined and in particular whether this relates to the original intent at construction, or to the actual use. Presumably a useful test would be to determine how the maintenance activity would be undertaken absent the loops.
14. *Question 8* We agree that the assumed service levels are reasonable for the basis of this assessment.

15. *Question 9* HS1 and ORR may wish to consider how bad debts are treated generally within regulatory pricing including in the passenger sector. At present we cannot see that this is likely to be a major issue for HS1, not least because both the operators presently expressing interest in running services are ultimately backed by state governments.
16. *Question 10* We support HS1's ambition to participate in the development of the European freight market and to stimulate cross channel growth. We will be interested to see the results of any market analysis undertaken. As many of these studies may well be undertaken in conjunction with other bodies (such as Network Rail) the costs may be difficult to estimate at this stage.
17. *Question 11* It is unclear to us why future freight services would be expected to pay historic infrastructure costs. ORR should advise on how these are treated elsewhere.
18. In summary therefore we consider that there are a number of issues with the information provided in this consultation, not least around the efficiency of HS1 and its contractor NRIL in managing freight infrastructure. ORR and HS1 should now determine how these issues should be addressed as the basis of future price setting.