



Department
for Transport

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Department for Transport
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10 April 2019

Dear James and Andy

Department for Transport response to High Speed 1 Limited ("HS1 Ltd") consultation on draft 5 Year Asset Management Statement and Station Long Term Charge

The Department welcomes and thanks HS1 for the opportunity to comment on HS1 Ltd's 5 Year Asset Management Statement ("5YAMS") and Station Long Term Charge ("LTC") consultation. No part of this response is confidential and may be published in full.

Our response covers the Departments interests relating to the HS1 Concession to recognise its role as Concessionaire, ultimate asset owner, franchising authority, international and freight policy, as well as regulator for the HS1 Stations Review.

We acknowledge HS1 Ltd has met its obligations in publishing the 5YAMS and LTC as outlined in the Concession Agreement and HS1 Leases. We specifically appreciate HS1 Ltd meeting its obligations for stations under Schedule 10 Clause 5 of the HS1 Lease. Further we would like to record our thanks to HS1 Ltd for working closely with our technical advisers, GHD.

As part of the consultation process both post and prior to the publication of the draft 5YAMS and Station LTC we are aware that there are several key areas that will influence the final outcome and commencement of Control Period 3 ("CP3"). They are the following:

- a. **Asset condition at handback**
- b. **Station Enhancements**
- c. **Annuities**
- d. **Life-Cycle Costs ("LCC")**
- e. **Long Term Charge ("LTC")**
- f. **European Railway Traffic Management System ("ERTMS")**

Below we will detail our current stand point and understanding of these issue areas.

Issue areas

a. Asset condition at handback

We are still currently exploring the options surrounding the definition of asset condition at handback which applies to both Route and Stations. We recognise the importance of asset condition at handback as an input to the asset management strategy that drives cost and annuity calculations.

We believe that there still needs to be further work in this area to ensure a satisfactory conclusion is reached and the assets are handed back in a condition that is deemed appropriate by the Department and that also recognises the affordability and sustainability for users.

b. Station Enhancements

We welcome the establishment of an Enhancements Framework to allow all parties to understand their responsibilities in relation to the identification, delivery and funding of such schemes.

We understand work is ongoing and welcome working closely with HS1 Ltd and other stakeholders to come to an appropriate way forward which can be reflected in the final determination.

c. Annuities

The costs of the annuities have seen a substantial increase in the draft submission. The Department will seek further assurances to fully understand any risk this may pose to operators. We want to understand the impact to limit any risk that may be passed onto the Department.

We recognise that work is ongoing in this area and that options for different approaches to the annuity model are being developed. Given the DfT is party to the Concession Agreement we would welcome working closely with HS1 Ltd and the regulator (ORR) if alternative solutions are proposed in this area. We would need to assure ourselves on any change in the risk profile for the Concession assets.

Similarly, the treatment and apportionment of risk through the annuity model warrants further consideration. How cost risk is built up, forecast, contingency allowances and how funding shortfalls and cost shocks are dealt with, and who is best placed to manage the appropriate risk should form part of any discussion around alternative approaches to the annuity model.

d. LCC

The current Life-Cycle period is a period of 50 years from the commencement of 1 April 2011. HS1 have developed a LCC that runs for 50 years in line with the Life Cycle Period, with 40 years remaining from CP3 to CP10.

We believe this model may now be limited in consideration of future asset renewals, such that from 2020 onwards, future renewals beyond 2060 will not be fully funded. The Department therefore would like to seriously consider a modification to the LCC models to encapsulate all assets over a rolling 40-year period to provide foresight of renewal costs of assets beyond the existing Lease period.

Changing the current LCC will bring it in line with 40-year annuity modelling which will ensure the assets and renewals are funded properly. Should there be any proposal to change the annuity model consideration should be given to aligning the approaches for consistency.

e. LTC

Through our technical advisers we have worked with you to understand the derivation of the LTC. We have provided specific feedback which we expect to be reflected in your final submission.

To help us with our determination it will be useful to see your plans for driving cost efficiency ahead of your final submission.

f. ERTMS

We recognise that the treatment of ERTMS as either a Specified Upgrade or as a Renewal has an impact on the subsequent charges paid by operators. We note the approach taken by HS1 in their draft consultation and await a position paper from the regulator (ORR) at which point as party to the Concession Agreement DfT would seek to engage with HS1 Ltd and ORR on this issue, and its potential impact on franchise or other operators.

Additional comments:

The Department would welcome the opportunity to discuss the issues raised in this response in more detail with HS1Ltd.

The Department would like to reiterate the appreciation for the opportunity to make comments on the 5YAMS and LTC and look forward to working with HS1 Ltd going forward through the periodic review process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Nicholls', written in a cursive style.

Stuart Nicholls
Senior Commercial Manager