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29 November 2013

Dear Geoff

2014 High Speed 1 Periodic Review: 5YAMS Consultation

Thank you for the opportunity to engage with your team and with NR(HS) on the content of HS1’s 5 year Asset Management Statement (5YAMS) ahead of formal submission to the ORR at the end of December 2013.

We welcome the transparent manner in which HS1 and the ORR have engaged with stakeholders and we look forward to continued engagement and discussion throughout the periodic review process. We appreciate the opportunities to meet with HS1, NR(HS) and stakeholders over the course of the process to date.

As an overview we consider that the Draft 5YAMS is a well produced, professional and clear summary document that coherently sets out HS1’s proposals for CP2. There are a number of areas of agreement between us in terms of focus and objectives for the next control period.

These include:

• HS1’s strong focus on safety and its plans for achieving this;
• Responding to what customers want;
• A line of sight process throughout the control period;
• Retaining the current possessions regime in CP2;
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- The proposals for retention of the current thresholds to incentivise HS1 in the CP2 core performance regime;
- A commitment to efficiencies and engagement with operators on pass through costs;
- Continued commitment to carbon reduction costs;
- CP2 capacity reservation charge proposals;
- Revisiting the escrow account interest rate;
- HS1’s initiative to move to RPI only OMRC indexation in CP2; and
- The concept of outperformance sharing with operators.

In respect of the latter we note that HS1 has already implemented this and that it was not obliged to share this with operators. This is very welcome and, we think, just one example of the excellent relationship that we have with HS1. In a similar vein, we highly value our close and very constructive working relationship with NR(HS) and we look forward to a continuation of this in the forthcoming control period.

Nevertheless, there are some areas that we have previously identified that we remain unsighted on, and which we feel require our attention (or that of the ORR) during the PR14 review period. These are important items, not least as they drive some of the largest HS1 costs to us and, in turn, our passengers during CP2. We are keen to work with you and the ORR on these areas, as is thought appropriate.

These areas of focus are:

- Cost / Performance trade offs. From the information available to us, we have not been able to understand the choices and sensitivity of the relationship;
- Whole life cost analyses. The sensitivity of these analyses to input assumptions and the exact assumptions used in the various scenarios that have been considered;
- The linkage between renewals and maintenance. As we have mentioned previously, we are looking to confirm that the efficiencies in the maintenance budgets are ‘real’ and will not be achieved at the expense of more frequent renewals;
- Assumptions driving annuity contributions to the escrow account;
- On-costs. We welcome HS1’s approach to seek to reduce on-costs as much as possible. However these still represent a significant proportion of the annuity requirement for CP2, and we are keen to understand what these costs comprise and how they relate to unit costs;
- Allocation of costs and delivery of savings between operators. We think that it is appropriate to confirm that the allocation of wear and tear between operators is correct, and apportion delivery of savings on the same percentages as costs are levied.

As you know, we will be introducing new rolling stock during CP2. [ ] any assumptions made by HS1 in respect of this new rolling stock or indeed service patterns are just assumptions at this stage.

In relation to the detailed content of the 5YAMS, you have specifically posed nineteen questions and our responses to these are set out below:
Q1 Are there any gaps in how we have addressed the Concession Agreement requirements for the 5YAMS? If yes, please explain?

We consider that HS1 has looked at the Concession Agreement requirements in producing its 5YAMS. It is clear that a lot of work has gone into this process and we welcome the open and transparent approach that it has adopted for this periodic review.

Q2 Do you believe that the NR(HS) asset management plan assumptions are appropriate? Are there any additional assumptions required that we have not captured in this section?

We appreciate the opportunity that HS1, NR(HS) and the ORR gave us to attend the meeting on Asset Specific Policies on 19 Nov 2013 and with HS1’s Modelling Team on 20 Nov 2013. These meetings show the level of consideration and effort that HS1 has put in to developing the asset management plan and the potential sensitivity to the input assumptions such as degradation rates, costs, risk, contingency and efficiencies.

We understand that HS1 have not been able to share some aspects of the build-up with us (for example the Asset Specific Policies and 40 year cost assumptions for CP2 and CP3-CP9). As I'm sure you will understand, without sight of such key inputs we are not able to make a judgment as to whether the assumptions you have made are appropriate and we will have to rely on the detailed review that we understand ORR will be undertaking on behalf of the operators.

We appreciate that HS1 has expended considerable effort in developing detailed Whole Life Cycle Cost models for the key asset types. We have not had sight of these since the stakeholder briefings that you gave on 26 June 2013 and 26 September 2013 when you outlined how Capex, Maintenance and Risk were being calculated by the individual Asset Models and the overall System Model to allow you to examine ‘trade-offs’.

Our understanding is that the Asset Specific Policies will have been significantly influenced by these Whole Life Cycle Cost models and that you will be making the suite available so that ORR can satisfy themselves that robust and sustainable long-term approaches are embodied in each Asset Specific Policy. Detailed consideration of the assumptions used in these Whole Life Cycle Cost models will also be particularly important as we expect that the magnitude of the Maintenance & Renewals cost requirement will be sensitive to assumptions on deterioration rates, intervention unit costs and so on.

We recognise the need to revisit the escrow account interest rate for the next control period, and we welcome the approach to adopt a smoothed interest rate for CP2. We agree with the risk approach suggested in relation to the escrow account; we expect HS1 to regularly monitor rates to be kept informed of the performance of this rate and returns on the escrow fund during the control period. We are, however, surprised by the 7.5% that HS1 proposes to apply to negative escrow balances. For us, this underlines the importance of a rigorous test of the inputs and assumptions to the escrow sums.

Q3 Can you please confirm that we have properly captured the output requirements for customers?

We note that very high performance levels have been achieved in CP1 and we are appreciative of this. However, whilst we recognise that this is not an exact science, it is not clear to us how sensitive the cost / performance relationship is, whether for example, slight changes in performance trigger major changes in costs.
We consider that there may be some savings to be made here without impacting substantially on the punctuality of the railway. It would be useful to understand the effect on costs of loosening / tightening the performance requirements, and specifically how these relate to your proposed approach for managing each asset type.

We note that HS1’s vision is to be the world’s leading high speed railway business. We support ambition and drive to deliver results for passengers and operators, however as we have stated previously we are not clear that this ambition to provide an excellent, safe service requires a target to be the very best, not least where this stretch to be the world leader involves an additional cost that would be borne by users of the railway. In such circumstances, we think that being among the best would seek to deliver customers this output in an efficient manner.

In terms of the line of sight principles, we found this a very useful joint exercise and look forward to the development of this process during CP2. We are content to meet at 6 month intervals to review the principles and progress against these.

**Q4 Do you have any comments on the appropriateness of our safety policy and approach in CP2?**

We share HS1’s strong commitment to, and focus on, safety for all who use, work and of course travel on the asset. We look forward to continuing to work together on this important objective.

We consider that the safety plans at the level that they have been outlined in the 5YAMS appear appropriate for those areas under PR14 review. We note that we have not had sight of certain stated inputs into these plans, such as the whole life cost model and the NR(HS) safety plan.

We have a couple of specific comments on the NR(HS) 5YAMS annex. On page 27 is the commitment to achieve 100% of planned safety tours, audits and T3 checks rather than to plan 100% of them? If the commitment is framed around planning, we would be interested in understanding how many of these were achieved. On page 34 of the same document there is a facing point lock checks case study; will this initiative be taken forward in CP2? The following paragraph suggests that it might, but we did not find a further reference to this in the document.

**Q5 What other factors should we consider in developing our asset management plans?**

At the present time we are unsighted as to the relationship between cost and performance and exactly how individual asset OMR costs / assumptions feed into the final Access Charge calculations. This makes it difficult for us to consider these over and above the points we have made elsewhere in this response.

**Q6 Are there any other upgrades that we should be considering for CP2?**

The transmission losses on HS1 represent a major area of concern for us. Whilst it is encouraging that HS1 are intending to do a study to consider these, we would like to see a firm commitment from HS1 to reducing the losses that we pay for. We think an appropriate commitment would be for HS1 to bring forward investment proposals within twelve months of the start of CP2.

We note the comment on page 105 of the 5YAMS that approval is not being sought for GSM-R as part of this process; thank you for confirming this. Nevertheless, we think it important to flag that we do have fundamental questions in respect of the GSM-R upgrade proposal included in this section. We note that we have not agreed this to date and wish to be fully engaged on the question of GSM-R upgrades before any decisions are taken on this. We note that this section mentions a pack being prepared for submission in October 2013; we have not commented on this and understand that there will not be an NCN for us to consider until later this year.
As a first point of order, we are keen to understand if these enhancement proposals should benefit from Government, rather than operator, funding as we understand may have been the case on railways elsewhere. We look forward to addressing our GSM-R related concerns with HS1 as soon as possible.

We note that a number of projects have been grouped together as ‘other upgrades’. As HS1 notes in 10.10.2, these have not been agreed with operators and we expect engagement and operator agreement before projects proceed.

Q7 Do you have any comments on the appropriateness of NR(HS)’s CP2 cost plans?

We genuinely welcome the efforts being made by both NR(HS) and HS1 to reduce their own costs. As we have explained, as a commercial operator for whom the totality of costs must eventually be passed on to passengers, both they and you would expect us to look for areas for further improvement. We have mentioned this previously and remain of the view that the combination of the margin and risk premium in the arrangements between HS1 and NR(HS) looks high to us. Since the intent of the risk premium must be to de-risk the margin, it is surprising to see a risk-free margin higher than (for instance) the permitted rate of return on the national network. In a competitive environment we would expect this type of margin to be lower.

HS1 has prepared the costings summarised in the 5YAMS. However, we are unsighted as to the basis of the cost plans themselves. For example we are unclear as to the proportion of funding substantiated using unit costs and the proportion substantiated by other methods such as suppliers’ quotes or profiled costs based on historic rates of spend.

A number of specific aspects also seem unclear, namely:

- The logic and basis for the ‘on-costs’ included in the proposed £16.5m annuity value; At about £2m this figure is a high proportion of the renewals annuity;
- As noted above we are unsighted as to the 2013 Asset Specific Policies and the proposed timing for maintenance & renewal interventions. Without sight of such key inputs we are not able to make a judgment as to whether the cost plans are appropriate. However, a high level review of the civil engineering assets would indicate a surprising level of expenditure planned for CP2 which contrasts starkly with the low levels envisaged in the 2011 Asset Specific Policy. This suggests that a detailed scrutiny of the proposed cost plans for all asset types will be needed;
- The ‘algorithmic’ relationship between the maintenance costs and the OMRC charge model;
- The efficiency approach for CP2 and CP3-CP9. On the face of it the figures do not appear to include any significant ‘stretch’ with the cost of a unit of work seemingly remaining broadly constant over the whole period. We would expect reductions in the cost of a unit of work in later control periods than for CP2 through various efficiencies. This is particularly significant given that greater volumes of work are anticipated in later control periods; and
- The proposed out-performance sharing mechanism and how the baseline(s) will be set.

These are, of course, areas where we would be very happy to engage further on with NR(HS), HS1 and the ORR as appropriate.
Q8 Please comment on the benchmarking work performed - and its application in the CP2 plans and usefulness in driving efficiency from CP3 onwards?

This exercise provides some useful high level ‘pointers’, and suggests to us that there may be the potential for efficiencies, underlining that there is potential for unallocated stretch targets to be set. We believe that it may be useful to add a UK classic line, such as WCML, to the comparators – and provide a comparison with the classic network efficiencies assumed for CP5.

We considered the top down benchmarking a useful exercise. It suggests that HS1 arrives at the end of CP1 behind the curve at cost efficiencies but starts to follow an upward trajectory, even if you take the assumption that HS1 is a much more complex asset than any of the benchmarked railways (although it is not clear to us why this is so).

The bottom up benchmarking appeared to be a more limited exercise, which appeared to rely on staff numbers but without detailed consideration of the potential for greater productivity of staff over time.

As stated elsewhere we are unsighted as to the origin of costs used in CP2 and CP3-CP9. Similarly we have not had sight of any effective ‘bottom-up’ benchmarking of Maintenance & Renewals unit costs or similar. To our mind this is a key area of uncertainty which we will be expecting ORR to discuss in detail with HS1.

We note the reference to Unattended Geometry Monitoring Systems (UGMS). We would be interested to understand more about this.

Q9 Do you have any comments on the appropriateness of HS1’s CP2 cost plans?

We welcome HS1’s focus on its own costs, and the clear commitment to reducing internal costs throughout CP2.

In addition to our comments above on GSM-R, in respect of NRIL GSM-R we are not clear how a cost already covered by Network Change Notice 5 expects us to pick-up a percentage of the maintenance costs of the national NRIL spine network.

NGC connection fees: we note the comments, but would expect HS1 to look for opportunities to engage with Ofgem during the review process to ensure the views of those who pay these charges are appropriately represented.

HS1, NR(HS) and operator interface: we understand that it is appropriate for HS1 to be sighted on activities on the asset, and interactions between NR(HS) and operators. We encourage HS1 to consider where there may be opportunities to establish certain direct operator/NR(HS) interfaces to facilitate the efficient flow of information and processes, for example on the timetabling process, we work directly with NR(HS) at certain stages, then at other stages we interface with NR(HS) via HS1. For these types of interface would like to explore whether it is possible, in certain circumstances, to be able deal directly with NR(HS) while keeping HS1 informed of course.

Outperformance: we welcome this initiative. On a point of detail, we are interested to understand why the CP2 proposal contains a proposal that the stated operator share will be net of a management fee of ‘not less than 10%’ as there does not seem to be a lot of risk or processing attributable to this activity.

On BTP costs, HS1 may wish to consider whether using land sheriffs for certain appropriate functions may be a way to reduce costs here.
Q10 Do you have any comments on the appropriateness of pass through costs in CP2? Have we properly captured the options to reduce pass through costs in the remainder of CP1 and CP2? Would you consider a rates review within the next 12 months?

We welcome HS1’s commitment to keep all pass through costs under regular review and to keep operators informed on activities designed to make these costs as efficient as possible, with a full pass through of savings to customers. Given this pass through, we suggest HS1 commit to specific reviews of these costs at regular intervals and that this activity should include input from operators.

Non-traction electricity: We understand that NRIL have a new contract with EDF that is due to come in October 2014, to which HS1 are part. We are not yet sighted on the details of this arrangement, however as a general comment we would expect HS1 to challenge NRIL to ensure that operators benefit from the best terms possible.

UKPNS: We understand the nature of this contract. We consider that HS1 should keep this under regular review so that any opportunities to improve the current position are realised.

Rates review: we note that there is a risk that a further Rates Review in CP2 could significantly increase costs. We would not be in favour of a strategy that increases costs to operators and passengers. We welcome HS1’s commitment to agree with affected operators if a further review is to go ahead; we think that this is the right approach.

Q11 Please provide comments on the robustness of our freight cost forecasts. Are there any factors that we have not considered?

As HS1 will know, we have mentioned previously that freight is incentivised to operate on HS1 at marginal cost and through mechanisms such as subsidies provided to assist freight operators. In return, freight operations are generally conducted outside core passenger hours. Eurostar supports the balance of this approach.

Q12 Do you support the work we are doing on reducing traction and non-traction power costs? Are there any other opportunities which you believe we should be considering?

We are supportive of initiatives aimed at reducing operator traction and non-traction power costs. As with all projects, where any would involve a cost to operators we will need to consider and provide approval for any expenditure.

We are keen to explore the opportunity to reduce transmission losses as this is an area of concern to us and we would be interested in discussing future initiatives for measuring traction energy consumption.

We note that the 5YAMS states that HS1 is currently consulting on a draft energy policy. We look forward to receiving a copy of this.

Q13 Does our CP2 renewals annuity proposal of £16.5m p.a. correctly balance affordability with meeting long term asset renewal obligations?

As set out in our responses to the previous questions, we are unclear about the cost / performance trade off and the origin of the exact maintenance and renewal costs used in calculating the CP2 renewals annuity. This is important to us, not least as we are looking at a very significant increase in costs between control periods.
We note that ‘single point’ estimates of the proposed annuity have been quoted, from our point of view it would be useful to understand the degree of certainty / sensitivity associated with the £16.5m figure. This would potentially allow us to have a discussion as to the level of funding that is appropriate to include in CP2 – for example it may be appropriate to adopt a ‘lowest credible’ annuity contribution to escrow and to accept that this probably will require some level of ‘top-up’ in the future when the actual performance of the asset is better understood.

We are keen to understand this as, should there be a return on annuity at some point in the future, HS1 retain a proportion of this and, if the annuity is overstated, who pays now may be very different to who benefits in the future.

We welcome the efforts from HS1 in this regard. We confirm that we have received the 27 November papers on renewals in PR14 and will review these. We consider engagement on this to be another example of the open approach to this periodic review that has been adopted by HS1 and we welcome this.

Q14 Do you agree with the assumptions/cost allocation in the financial model used to generate track access charges? If not, please provide an explanation.

We note that the HS1 OMRC Model includes for charge allocation between operators. There are six areas for us here:

i) From the documents that we have seen, the derivation of the maintenance costs input into the model is unclear to us. We would appreciate a detailed breakdown of how the costs were put together and the assumptions made.

ii) A key element is the wear & tear calculation. The calculation basis appears rather complex and we would appreciate an explanation of the reference to UIC714, the origin of detailed assumptions (such as the assumption that only 15% of domestic passenger trains are 12-car with 85% being 6-car) and sight of your validation of the calculations.

iii) We would appreciate further details of the traffic related allocation of maintenance costs – specifically we note that that lightly used sections of track have been assumed to only need 10% maintenance.

iv) We understand that the renewal costs for CP2 have been derived from NR(HS)’s whole life cost model and asset management plans, whereas those for CP3 onwards are from the Halcrow / G&T plans and models. We would appreciate confirmation that the two sets of costs and underlying assumptions are consistent.

v) We would appreciate a better understanding of why in CP2 the Domestic operator’s OMRC costs reduce by more than Eurostar’s (11% v 5%). It appears that this is due in part to the re-classification of sections of the route over which both operators run trains, and the way that “avoidable” costs are apportioned.

vi) We note that HS1 has undertaken a review of network allocation between operators. We have looked at this again following our meeting with your consultant last week. We have some remaining questions on allocation and would appreciate a follow up to understand the source data and method adopted for certain of the sections in the model. We suggest that this takes place in the period prior to finalisation of HS1’s 5YAMS.

In addition, as you are aware we intend to introduce new rolling stock during CP2. [ ]

We note the comment on page 97 of the 5YAMS that no provision for funding for transition to ERTMS expected in CP5 has been made in these plans. We would appreciate a discussion on this in the context of UK national plans for ERTMS.
**Q15 Do you believe that an alternative to the CP1 freight supplement is required to support the continuation of freight traffic in CP2? If so, what is the right mechanism for this support?**

As a passenger service operator, whatever the outcome of this assessment we would want to be assured that we would not be on risk for any of the costs of freight in CP2.

We would also expect that any such approach continues the balance in terms of operations being generally conducted outside core passenger hours, which we support.

**Q16 Do you agree with our proposal for each regulatory framework item?**

OMRC apportionment re-opener: As we have mentioned previously, freight is incentivised to operate on HS1 at marginal cost and through mechanisms such as subsidies provided to assist freight operators. In return, freight operations are generally conducted outside core passenger hours. Eurostar supports the balance of this approach. We note the comment in this section in respect of the impact on the possessions regime against a proposed freight reopener for more than 5 night a week working is in the context of freight charges per km, however on a more general level we think it important to register that we are concerned by this comment if this may have any impact on passenger operations. In particular, if there may be such an effect we expect that any possessions request that has the potential to impact passenger services should be considered, as now, on a case by case basis. We also expect that possessions should begin from the premise that passenger services should not be disrupted. All possessions proposals will need to be proposed to operators through the Engineering Access process and subsequently agreed by operators or determined following the Dispute Procedure.

Wash up: we are content for the current practice to continue during CP2.

Pass through costs: We support HS1’s intention to pursue further opportunities to reduce the level of pass through costs in CP2. In line with the Concession Agreement, we expect that pass through costs are incurred efficiently. We look to HS1 to satisfy the ORR on this. In particular, we would expect CP2 to include a formal commitment from HS1 to regular reviews, examining options for reducing costs to operators. This should include provision of appropriate information on this process to operators on a regular basis throughout the Control Period, for example, in respect of energy costs.

Carbon costs: We support the carbon reduction commitment. We note that the majority of costs incurred relate to stations and, as such, do not feature in this periodic review. In respect of costs that do fall within this review, we do not have the specific details of these costs and, as with pass through costs, will look to the ORR to ensure that these are efficient, reasonable, and proportionate. We would expect this review to ensure that costs are correctly apportioned to operators (for example, by confirming that costs are not inadvertently being recovered elsewhere).

Capacity reservation charge: We support the CP2 proposal to retain the current approach. We agree that the current provisions have worked to incentivise efficient use of capacity. We also agree with HS1 that there needs to be space for operators. We feel it is important that HS1 have a provision that gives a fair balance of capacity availability that allows current operators to grow their business as required along side the introduction of any new operator.

Performance regime: We agree that the performance regime should operate to incentivise all parties to keep delay and cancellation to a minimum. We favour a regime that, in the early control periods, remains unchanged as much as possible. This provides stability and certainty for operators on the railway and allows them to plan their business, investments and understand drivers for incentives accordingly.
Our comments on this broadly split into three categories: (i) recovery from major incidents; (ii) the core recalibration exercise, and (iii) the future-proofing discussions.

(i) recovery from major incidents

As HS1 is aware, Eurostar is very interested in how HS1 can be incentivised to recover quickly from major incidents. This is because it is these incidents that cause most disruption to our passengers and to our business, and cause us significant financial loss when they do occur. We welcome the comments in the 5YAMS on this subject, recognise the work that has been undertaken between HS1, NR(HS) and operators, and want to continue working with HS1 on this subject. We expect HS1 to adopt some firm targets and commitments for CP2 in respect of this overarching commitment and for the ORR to consider these to ensure sufficient incentives are in place to encourage efficient and effective recovery. We believe that continuous improvement in this field will ultimately be of real benefit to passengers, as well as to operators.

(ii) core exercise: We agree that the performance regime should operate to incentivise all parties to keep delay and disruption to a minimum.

We consider that a 60% MRE and PDFH 5 are the most appropriate for the methodology to use for calculating the payment rates, with no changes to the 4% sensitivity of the reopeners. We support a retention of the 60% MRE for CP2 as (i) this would still not exceed 1/13 of the annual performance payment cap except in an extreme period (as the MRE was originally designed to do) and (ii), as this is only the second control period, we consider it important that this MRE provides consistency and a good base from which to assess the regime for future control periods. Our issue in relation to the debate over which version of PDFH to use is based on consistency. We do not believe that either PDFH5 or PDFH5.1 (or, for that matter, 4.1) in any way accurately reflect the actual elasticities of international rail services (a purpose for which they have not been designed). From our perspective their usefulness is simply to provide a common set of assumptions around which to design a regime. Given this, it is important that we stick consistently to the same assumptions throughout. The tool is there to shape the debate around preferred risks and outcomes, rather than determine them, and any change to the tool in our view would simply prompt an arid revisiting of the original debate rather than automatically drive a change in outcomes.

In terms of new operator entry in CP2, we would not expect this to be detrimental to our position. We are paying for a railway at a certain level of performance and it is axiomatic that we should also pay or suffer loss if another operator affects this. It will be HS1 that receives the benefit, in the form of track access charges, for new entrants on the network and it follows that HS1 should also bear any performance deterioration risk which results from this entry for at least the next control period.

(iii) future proofing: Actually, what Joe Strummer said was ‘the future is unwritten’ but we think he probably would agree that this would apply here too (13.8.4, p 117).

The principle here is the same as for the core regime, HS1’s provisions for introducing another operator onto the network should not operate in such a way to be at the expense of current operators who will have contributed to existing performance and planned in terms of future performance in accordance with the regime. This principle applies to the reopeners currently in place and also in terms of HS1’s additional proposal to recalibrate the performance regime following the first 12 months of new operator entry. We have stated previously that we do not consider that the AECOM future model should form part of this periodic review, not least as we have not had the opportunity to examine the detail of this work to understand how this is intended to work and the impact on operators.

Taking these points as a whole, and bearing in mind the objectives of the regime, we are prepared to accept the HS1 proposal to keep the current core performance regime, however in doing so we would expect a commitment to future CP2 recalibration on the basis of 60% MRE and PDFH 5. As noted above, we also expect no detrimental changes in terms of recalibration reopeners.
Possessions regime: We agree that the existing possessions regime should be retained. We have made additional comments on the regime in Q17 which we do not repeat here.

Outperformance sharing: Our comments on this link to the overall efficiency review of the proposed charges. We have said previously that we consider the efficiency review to be a very important part of the periodic review. In view of the possibility that this may in future exert some influence on targets, establishing an efficient starting place from which outperformance may be measured is key. As a result, we consider it important that the ORR’s starting point for this review is a first principles consideration of what is an efficient cost for this railway, putting the NR(HS) and HS1 contracts aside in order to consider this question.

That done, we strongly support High Speed 1’s proposals in relation to the sharing of future outperformance. All parties recognise that, for this to be effective it has to be based on a challenging baseline efficiency target (to avoid the perverse incentive of HS1 encouraging a softer efficiency target so as to benefit from resultant greater outperformance). But Eurostar also recognises that this approach goes beyond that which is contractually obligated and we very much welcome it.

Q17 Do you believe we have properly and completely identified the key risks?

These categories appear to us to cover key risks faced by HS1.

In terms of the subject matter of the risks identified, where we have made comments on a number of the areas identified in this list elsewhere in this response we have not repeated them here, for example in relation to efficiencies, the correct level of funding of the escrow account, major TSI requirement, keeping pass through costs under review and the performance regime.

Possessions availability: We have already stated our position that we do not consider it appropriate to move from the current regime. Notwithstanding this, given the comments in this section it is important to note that any additional costs as a result of moving from the current arrangements would need to be based on the operating hours available to an operator in their FTAA. Should additional possessions be required due to another operator’s operating requirements outside the operating times for Eurostar, then we do not consider it appropriate that Eurostar should pick-up any additional costs.

Freight deliverability: these activities should not be at a cost to Eurostar.

Signalling, control and communications delivery: we expect HS1’s renewal delivery plan to be robust and risk adverse to operators.

Q18 Overall do you believe that this 5YAMS plan when delivered is the right balance of affordability and asset stewardship and that it will support a safe, reliable and great customer experience railway?

While we share the aim for a safe, reliable and great customer experience railway, we are not able to confirm at this stage whether the right balance of affordability and asset stewardship has been achieved in these proposals.

As set out in our responses to the previous questions, we are unclear about the cost / performance trade off and would wish this to be explored in more detail by ORR.
Q19 What are the three most important issues for you within these plans?

We have commented on these areas in this response, they are:

- cost / performance trade off and renewals / maintenance trade off
- efficiency assumptions applied for control period 2 and beyond
- the correct level of contributions to the escrow account to allow for operator business certainty with a smoothing of contributions throughout the control periods, without over-funding in early years

Once again, thank you for the opportunity to comment on the draft 5YAMS. We look forward to continuing to work with you, NR(HS), operators and the ORR on this periodic review,

Yours sincerely

Samantha Spence
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cc Alan Price and Paul Stone, ORR
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