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Dear Geoff

HS1 Ltd: Five Year Asset Management Statement (5YAMS)

Network Rail welcomes the opportunity to comment on HS1's 5YAMS consultation.

We note the considerable amount of analysis and evidence set out in the consultation, which is clearly articulated. However, we consider that it is important that the regulatory burden, in terms of the amount of information that is required for PR14 should be considered by ORR, consistent with regulatory best practice.

Charges Principles

The main purpose of this letter is to set out a few considerations with regards to HS1's proposed approach to recover costs from its customers by way of access charges. We note that HS1 is not proposing any significant changes to its charging framework for CP2, so the following points should be considered over the longer-term in the context of the development of a Great Britain wide System Operator.

Network Rail considers that the charging approaches used by Network Rail and HS1 should be informed by a consistent framework, although we accept that there may be good reasons to depart from a completely consistent charging framework for example, to reflect the charging objectives for each network.

Consistency in approach should lead to charges that:

- are easier for train operators to understand;
- translate into charges to end-users (i.e. passengers and freight customers); and
- can be responded to by train operators.



We consider that train operators that make use of both Network Rail's and HS1's infrastructure, are likely to value a 'whole industry' approach. I briefly discuss each of these considerations, in turn, below.

Understanding

The rail industry is typically considered to be relatively complex. Complexity goes 'hand in hand' with accurate cost recovery. However, it also risks introducing a burden on train operators' ability to engage with periodic reviews in a meaningful way. We, therefore, consider that there could be merit in HS1 and Network Rail striving to minimise the differences in their respective charging frameworks to avoid the risk of doubling the complexity of the 'whole industry' charging approach. We do, however, accept that to the extent that HS1 has a fundamentally different cost model (given its high speed infrastructure compared with our more legacy assets) this is likely to ripple into its preferred charging approach such that its charges are reasonably cost reflective.

Translating into end-user charges

Charges to train operators will ultimately be reflected in the way that end-users are themselves charged. Fares charged by passenger operators will be informed by the way that the infrastructure manager levies access charges – for example if access charges have geographic or time of day differences, it is likely that these will be reflected in passenger fare structures. Similarly freight operators will seek to reflect the ways in which they are charged to access rail infrastructure. For train journeys that use both Network Rail's and HS1's infrastructure, having two different charging arrangements could lead to undue complexity in devising end-user charges.

Responding to price signals

Broadly speaking, access charges have two aims: (1) to recover the infrastructure manager's efficient costs; and (2) to provide incentives to users of their infrastructure to do so in a way that overall maximises use of the assets and minimises costs. If HS1 and Network Rail have widely different ways of charging for their infrastructure, there is a risk that the incentive properties of the charging approaches will be blurred. As far as practical, we consider that the two infrastructure managers' charging regimes should be consistent – particularly in the context of rail journeys that use both companies' infrastructure. Freight operators are particularly likely to wish to use both Network Rail's and HS1's infrastructure in moving goods from mainland Europe across Great Britain. We consider that HS1 and Network Rail should continue to work closely to facilitate trains that use both companies' assets so as to ease this 'dual burden' on our respective customers.

Freight charging

We note that HS1's proposed freight charges for CP2 are considerably higher than they are currently. The rationale for the proposed increases is well set-out in HS1's consultation document, primarily reflecting a much more accurate forecast of future freight use of HS1's infrastructure. We anticipate that the proposed scale of the increase in freight access charges will be difficult for freight operators to absorb, as HS1 itself observes.

Because HS1 provides a very important rail freight corridor for Great Britain, we are concerned about the impact of these changes on pan-European rail freight. We share HS1's concerns about the potential impact on rail freight on both HS1 and Network Rail's networks if the current freight operator subsidies are withdrawn.

Summary

We consider that HS1 has clearly set out the issues and underlying evidence in its consultation. As highlighted, above, we consider there to be merit in HS1 and Network Rail developing broadly consistent charging frameworks so as to create a joined-up rail experience for our customers – consistent with the concept of an overall System Operator approach. Building on the above observations, we would welcome continued close working with HS1 on this and other PR14 issues.

We would be very happy to discuss any aspect of this letter, or indeed any other matter that HS1 would find helpful in concluding its periodic review.

Yours sincerely



Peter Swatridge
Head of Regulatory Economics