

**Feras Alshaker**  
Director, Planning and Performance



HS1 stakeholders  
By e-mail only

12 December 2024

Dear HS1 stakeholder

### **Periodic Review of HS1 Ltd 2024 (PR24) Final Determination**

In accordance with the process for periodic reviews set out in the Concession Agreement between the Secretary of State and HS1 Ltd, we initiated PR24 in September 2022, and published our Draft Determination for consultation on 30 September 2024.

Thank you for responding to that consultation which closed on 11 November. We subsequently received HS1 Ltd's revised final Five Year Asset Management Statement (5YAMS) on 29 November 2024. All consultation responses have been shared with stakeholders.

We have scrutinised the 5YAMS and propose to accept the majority of HS1 Ltd's revised plans. However, there remain a few aspects that we do not accept and therefore, further to the provisions set out in paragraph 8.10.3 of Schedule 10 of the Concession Agreement, we propose to determine those elements of the operating, maintenance and renewals charge which we consider to be inconsistent with HS1 Ltd's General Duty.

Further to Part 3, Section 5 of the passenger access terms for the network, prior to the implementation of an access review of HS1 Ltd, we are required to consult parties of the access contracts, and any other interested persons, on any proposed determination in accordance with this paragraph of the Concession Agreement.

Please find enclosed details of the matters which we propose to determine. Please inform us of any views on these matters, by noon on 19 December 2024, by e-mail to [PR24@orr.gov.uk](mailto:PR24@orr.gov.uk). If you send a response, please indicate if you wish all or part of your response to remain confidential and we will consider making redactions. Otherwise, we expect to make all responses available in full on our website.

Following the conclusion of our consultation on the Draft Determination, we received further correspondence from interested parties. This correspondence can be found at the following page on our website, alongside any responses that we have issued: [Periodic review of HS1 Ltd 2024 \(PR24\) | Office of Rail and Road](#).



This marks the conclusion of consultation on the Consideration Stage of the periodic review. We will consider any responses we receive and then publish our Final Determination by 6 January 2025, after which we move into the Implementation Stage.

Yours sincerely

**Feras Alshaker**

Our Draft Determination proposed reductions to cost estimates for renewals in CP5-CP11, to reflect a lack of HS1-specific cost data (-4% adjustment) and a lack of asset knowledge (-9% in specific assets). HS1 Ltd's revised 5YAMS included no adjustments to renewals estimates.

Asset  
Management

***We are minded to determine lower charges for renewals, in line with the adjustments set out in our Draft Determination (-4% and a further -9% in specific asset groups, for renewals in CP5-CP11). This reduces the renewals annuities by £1.9m for Route and £0.9m for Stations, compared to the revised final 5YAMS.***

## Background

- It is difficult to predict accurately the volume and cost of renewals 40 years into the future.
- HS1 Ltd developed its 'cost policy' to mitigate this.
- Our Draft Determination supported the introduction of HS1 Ltd's cost policy, but noted that the model is new and the outputs are highly dependent on the inputs (cost data) and its application (asset management maturity).
- Operators welcomed the analysis and recommendations in our Draft Determination.
- HS1 Ltd considers its application of the cost policy already attempts to address our concerns.
- HS1 Ltd highlighted the risk of charges increasing at PR29 if assumptions are too optimistic now.

## Proposed Determination

- HS1 Ltd's proposed renewals charges are not efficient, as they do not sufficiently address the limitations we noted in input data or asset management maturity. As such, its plans do not meet its General Duty.
- In the absence of any new analysis by HS1 Ltd to support a different adjustment, we determine that the adjustments proposed in our Draft Determination are still appropriate.
- We recognise the uncertainty and the potential for charges to rise at PR29, but we are satisfied that the 5-yearly periodic review is the appropriate mechanism to address this uncertainty.
- Our proposed cost reduction represents a target, driving efficient and innovative behaviours over CP4.

Our Draft Determination proposed a reduction to the Route Operations and Maintenance (O&M) charge, to make it efficient. We identified a range of opportunities for HS1 Ltd to achieve efficiencies. HS1 Ltd's revised 5YAMS did not include any reduction to these O&M costs.

Asset  
Management

***We are minded to determine a lower O&M charge, reflecting a reduction in costs of £11.5m over CP4. This adjustment has reduced from £14.7m in our Draft Determination, based on new evidence provided by stakeholders. This reduces the annual O&M charge by £2.3m per year.***

### Background

- At PR19, HS1 Ltd planned to 'market test' its main supply contracts, to ensure costs were efficient. During CP3, HS1 Ltd did not undertake this market test.
- Our Draft Determination concluded that the planned activities and base costs for O&M were reasonable.
- However, we concluded that some additional costs (enablers, risk, inflation, markups and efficiencies) for HS1 Ltd's suppliers were not efficient; and HS1 Ltd should not pass on inefficiencies to operators.
- HS1 Ltd's main supplier (NR(HS)) and its parent company, NRIL have challenged our Draft Determination conclusions.
- HS1 Ltd supported the position of its supplier.
- We have reviewed all new evidence provided.

### Proposed Determination

- HS1 Ltd's O&M charges are not efficient, as they do not sufficiently address inefficiencies we identified in its supplier costs. As such, HS1 Ltd's plans do not meet its General Duty.
- We have revised our analysis since the Draft Determination, to reflect further evidence from HS1 Ltd & NR(HS) on enablers and the management fee.
- However, NR(HS)'s responses on risk funding and accelerating asset management maturity do not go far enough in addressing the opportunities that we identified in our Draft Determination.
- We determine that the efficient cost which HS1 Ltd can pass on to operators is £11.5m lower than in HS1 Ltd's revised 5YAMS. It is for HS1 Ltd to decide how to achieve this reduction.