Subject: ***HS1 Ltd response to ORR consultation: Network Charges – A consultation on how charges can improve efficiency***

Date: ***04 March 2016***

1. Context & overview

HS1 Ltd holds the 30 year concession from the Government to operate, manage and maintain High Speed 1, the 109 kilometre high speed rail line connecting St Pancras International to the Channel Tunnel. The line is used for international passenger services to destinations in continental Europe, including Paris and Brussels; high speed domestic services throughout Kent; and for freight traffic. The concession includes the stations along the route: St Pancras International, Stratford International, Ebbsfleet International and Ashford International.

Whilst we note that HS1 is beyond the scope of this review, we support ORR's work to investigate the ways in which the charging regime for NRIL (Network Rail Infrastructure Ltd) could be more effective at incentivising efficient behaviours. HS1's charges are set in a different way to those for NRIL and are not directly affected by the outcomes of this review; however HS1 still has an interest in any possible changes as:

- we are an adjacent IM with a keen interest in the efficient and customer focussed operation of the railway network generally. The domestic high speed train services use NRIL infrastructure as well as HS1 and therefore we have an interest in possible changes which may affect those services; and
- being a regulated entity like NRIL, we seek to promote and maintain a stable regulatory environment to facilitate efficient and effective decision making.

We note however that there are other wider reviews currently in progress (e.g. The Shaw Report) which may have a significant impact on the industry and its structure. Therefore any responses to this consultation must be considered in light of the outcomes of those reviews.

2. Consideration of ORR proposals

HS1 is supportive of changes which seek to align incentives, and consider that sending efficient price signals through an appropriate charging regime is likely to be the most effective way of doing so. We agree that the current charging structure does little to provide correct incentives for efficient use of the infrastructure.

ORR's decision to focus on the infrastructure costs package is a sensible approach as we consider that in the first instance, the identification and understanding of the key drivers and possible allocation methodologies of fixed costs is fundamental to incentivising efficient use of the railway – whether or not this is then reflected in the charges faced by TOCs. There are significant benefits to understanding this information, which have been highlighted in the consultation, namely:

- More informed decision making around capacity provision and allocation; and
- A more transparent assessment of costs by ORR during Periodic Reviews or planning of major infrastructure projects.

Reflecting information about drivers of fixed costs in the charges faced by TOCs would provide the strongest signals and therefore align incentives. TOCs would have an interest in the scoping and specification of infrastructure projects to ensure they are conducted in an efficient manner (lowest cost) whilst still meeting the desired outcomes. This facilitates a common aim, and customer focussed relationship between NRIL and TOCs - ultimately leading to decision making more in line with the best interests of the rail passengers.

There are clear theoretical benefits to a value based charging approach – the main one being that it best reflects the scarcity of capacity. However, there are well-known and well-recognised challenges in implementing such an approach – these are discussed in more detail below.

The proposed refinements to short run variable charges are sensible, although we note that due to this component only being 16% of total cost, the effect is likely to be limited.

3. Implementation issues

There are benefits to moving toward a charging structure that has greater cost-reflectivity or better signals the value of paths on routes. The challenging aspect is:

- identifying which of these two options may be preferable as it is not possible to do both; and
- within each of the options, determining the best way to implement.

We support ongoing ORR analysis of these issues, which needs to take into account the following factors so that the extent of the consequences are fully considered and the balance of risks understood:

- The risk of unintended consequences, such as disincentivising the use of spare capacity on lines which are high cost, or promoting the use of low cost but high value (and already heavily congested) lines.
- The ability of TOCs to respond to the charges, recognising the incentives and requirements of the TOC as part of the franchise arrangement which means that TOCs are held harmless to changes in charges.
- The possibility of introducing an even more complex charging structure which could lead to confusion.
- Conflict between cost/value reflective charges and policy objectives relating to provision of paths for freight services.
- Ensuring there is the incentive for NRIL to continue to support the growth of services on the network.
- The difficulty and complexity of allocating fixed costs across the network.
- The difficulty and complexity in determining the value of sections of route – potentially leading to significant one-off changes to charges to some TOCs on implementation, but also potential for non-trivial fluctuations over time.

4. Concluding remarks

We consider that information gathering and a greater understanding of what drives fixed costs could provide significant benefits without the need to flow this through to charges – thereby avoiding unintended consequences or introducing potential uncertainty. Any available information which helps to inform the DfT of the value of routes could also be beneficial in the specification of franchises, and for use by operators to best schedule their services. Subsequent to gaining this understanding, we consider there is merit to making charges more cost reflective, but only once the consequences of such a change are fully known.

As a more general comment, we share the view of recent Rail Delivery Group work, and echoed at the recent ORR business planning workshop, that there are a lot of potential incentives that ORR could focus on to address issues within the industry, but that a focus on only a few key areas would be the most effective approach. We recognise there may be significant costs associated with some changes, and suggest that before any such changes are made, consideration is given to the extent to which the benefits exceed the costs.

We reiterate that any conclusions from this consultation must be considered, and possibly adapted, should any wider industry changes occur as a result of the current industry reviews.

Should you have any queries or wish to discuss our response in more detail please do not hesitate to contact me (ph: ✂ or email: ✂. No part of this response is confidential.

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