HS1 Ltd Freight avoidable costs review

Executive Summary

High Speed 1 (HS1) provides opportunities for high-value freight to connect to European logistics networks, with speed and gauge advantages. HS1 Limited (HS1 Ltd) is keen to talk to operators and users to develop sustainable service offerings, consistent with the design of HS1 as a high-speed passenger rail network.

This paper sets out analysis and proposals arising from the HS1 Limited (HS1 Ltd) review of freight avoidable costs. The review was anticipated in the Office of Rail Regulation (ORR) Regulatory Statement for HS1 published 30 October 2009. The review methodology is largely bottom-up in nature, assessing the original calculations in light of any additional information that we have. A key part of the methodology is to expose the analysis to wider challenge based on stakeholder's own experience, business planning and expertise.

We have included a small number of top-down comparisons where these have been available. Again, a key part of the consultation document is to seek information about appropriate cost comparators that stakeholders might have access to, or know exist. A summary of the consultation proposals is as follows:

- An increase of £20k per annum for freight track avoidable costs to cover the vegetation clearance and heavy maintenance costs not included in the contract for Ripple Lane and an additional £74.1k per annum to cover the higher than assumed costs of maintenance at Ripple Lane.
- A reduction of £139.3k per annum in avoidable freight specific costs (a total of £283.5k rather than £422.8k). The reduction reflects lower likely staffing levels going forward, reduced professional fees and smaller office running costs.
- Retention of the assumption around 5 return-journeys per week-day night in line with stakeholder feedback to previous consultations and subsequent interactions.
- We have proposed various mechanisms to deal with freight bad debts and the recovery of 'mothballing' costs as these were not included in the initial calculations. And we propose an additional amount of £20k per annum to cover freight market studies.

The net impact of these proposals is a reduction of 12p per train-km for day-time freight to £7.01, down from £7.13 currently. HS1 Ltd is currently offering a discount to freight operating at night in order to encourage short and medium-term development. This discounted rate would remain at £4.00 per train-km for night-time freight. These rates would remain in place until the end of the current Control Period (31 March 2015) and will be reviewed for the subsequent Control Period beginning 1 April 2015.

HS1 Ltd invites comment on the freight avoidable costs proposals set out in this consultation document. Please send any responses by **Wednesday 13 July 2011** to:

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1. Background & context

The HS1 infrastructure was primarily designed for high-speed passenger services, with freight as a possible additional service. Within that context, HS1 Ltd is keen to work with freight operators and users to develop a service offering that makes use of the gauge and speed properties and contributes to sustainable freight services.

Part of the HS1 service offering is the charging framework, dealt with in part by this consultation document. We hope that the open-ness and transparency of this consultation document is helpful to operators.

This paper sets out analysis and proposals arising from the HS1 Limited (HS1 Ltd) review of freight avoidable costs. The review was anticipated in the Office of Rail Regulation (ORR) Regulatory Statement for High Speed 1 (HS1) published 30 October 2009. Paragraph 26 notes:

> We recognise the significant discount that HS1 Limited has offered to freight operators for the first control period and consider this would be likely to offset any inefficiencies in the level of the freight avoidable costs. However, we have agreed with HS1 Limited that the company will review the level of freight avoidable costs during the next twelve months and, if appropriate, review the level of freight access charges.

In accordance with this commitment, it is timely to test our initial methodology. The intent is to review the methodology and develop a robust basis for calculating freight avoidable costs going forward. This consultation document:

- recaps the relevant principles established in relation to charging for freight operation over HS1;
- outlines the basis on which we have calculated the freight charges set out in our Network Statement (August 2009 version), and the scope of this consultation paper;
- shows the analysis we have undertaken to review whether the historical basis of the freight charges remains appropriate; and
- in light of the analysis, sets out our proposed approach to freight avoidable costs and hence freight charges going forward.

We invite comment on any aspect of the proposals and have included a number of specific consultation questions for stakeholders to consider. The nature of the freight avoidable costs means that some bottom-up analysis and expert judgement is required. A key part of the consultation is to expose our assumptions and calculations to wider scrutiny. We would like to get feedback on our methodology, and would welcome any additional information that might be available.

2. Freight charging principles

HS1 Ltd has established a number of principles in relation to freight charges. As set out in paragraph 21 of our second consultation on charging[1]:

[1] HS1 Ltd (September 2008) *Second consultation on prospective levels and principles of track access charging for the High Speed 1 railway.* http://www.highspeed1.co.uk/resources/documents/Second%20Consultation%20on%20Prospective%20Levels%20and%20Principles%20of%20Track%20Access%20Charging.pdf

> "The proposed charges have also been set so that they should encourage, as far as possible, the maximum use of HS1 subject to the need to recover investment costs and:
>
> - encourage the use of HS1 as a high speed railway for which it was conceived, designed and financed;
>
> - not discourage the use of intermediate stations on HS1; and
>
> - recover investment fairly between different types of user."

Specifically for freight, paragraph 67 of the consultation document set out the following:

> "HS1 Limited's main objectives with respect to the freight charging framework are to:
>
> attract freight traffic which can bear the additional costs incurred by HS1 Limited as a result of freight services running on HS1; and
>
> create a flexible charging framework which allows for future adaptation to enable freight services to make a contribution to common costs where possible."

Further in paragraph 70:

> "The HS1 Line was built primarily for high speed passenger trains with freight as a potential future additional service. Thus freight access charges should reflect the marginal costs to HS1 Limited of providing for freight services. In the context of freight, directly incurred costs can therefore be defined as the long run incremental costs of freight (i.e. the costs that would be avoided in the long run if freight did not operate on the line)."

3. Current approach to freight charges

Our current charge for freight is £7.13 per train-km for freight operating during the day, discounted to £4.00 per train-km for freight operating at night[2] in order to encourage short and medium-term development. These rates are effective for the remainder of the current Control Period (concluding on 31 March 2015) and will be reviewed ahead of the next Control Period commencing 1 April 2015. This section sets out how these current charges have been calculated. Subsequent sections review whether the basis of these calculations remains appropriate.

As set out in our Network Statement (August 2009), freight OMRC charges are based on directly incurred costs, which comprise three sub-components:

- Costs associated with track infrastructure used solely by freight (avoidable cost).
- Other avoidable costs – non-track costs such as staff time and other overheads that are only incurred because of freight operation (avoidable cost).
- Variable costs associated with freight operation on 'shared infrastructure' which is used by both passenger and freight trains. These are the additional costs arising from freight operation (variable cost).

Further detail of the breakdown of the current charges is set out in the following table. The £ per train-km numbers are calculated on the basis of 5 return train services per week-day night (i.e. 10 services in total each night) from Ripple Lane to the Channel Tunnel boundary, a distance of 88.2km (one-way).

[2] As per the definition of 'night' in the Rules of the Route.

On the basis of 253 week-days per annum, this translates to 2,530 trips per annum x 88.2km = 223,146 train-km per annum.

Table 1: Freight costs and prices as set out in HS1 Ltd Network Statement (August 2009)

Cost category	Cost derived from...	£k TOTAL (Feb 09 prices)	£ per train-km (Feb 09 prices)
Variable OMR	OMR spend *in addition* to that required to satisfy passenger usage, as a result of freight traffic operating on shared infrastructure. Based on the weight of a class 92 locomotive and 20 wagons (empty in one direction), freight has a 6.44% share of equivalent gross mega tonne per annum (EGMTPA over shared infrastructure. This is used in the engineering relationships around maintenance and renewals costs. The share of EGMTPA is multiplied by the relevant component of the efficient OMRC budget (the track and traffic dependent element) to identify the freight variable OMR.	457.4	2.05
Avoidable freight specific costs	Non-infrastructure costs that would be avoided if freight traffic did not operate over HS1 in the longer-term. Includes staff cost and other administrative resources such as legal advice.	422.8	1.89
Avoidable track-specific costs	Costs relating to track dedicated to freight use. Covers the contract in relation to Ripple Lane sidings, and a share of the overall efficient OMRC budget that relates to Cheriton Chord.	708.5	3.18
TOTAL		**1,588.7**	**7.13**

The purpose of this review is to look at the two 'avoidable cost' elements *only* and is intended to generate outcomes that will apply for the remainder of the current Control Period. The outcomes of the review will not have any impact on passenger charges which have been set for the remainder of the current Control Period which concludes on 31 March 2015. Sections 3.1 and 3.2 below sets out the detailed calculations underpinning our current approach for each of the two avoidable cost categories.

It should be noted that these figures are in February 2009 prices, and as set out in our Network Statement (August 2009), subject to annual indexation based on the retail price index plus 1.1 percentage points.

For consistency, and so that figures can be compared to the prices in our Network Statement (August 2009), unless stated otherwise all figures presented in this consultation paper are in February 2009 prices.

3.1 Current approach to other freight-specific costs

As well as the track costs for infrastructure used only by freight, the charges also cover 'other incremental costs'. The following table sets out the basis of the amounts currently included in this category.

Table 2: Components of current calculations for 'other' freight avoidable costs

Item	Calculation / assumptions for current charge	£k p.a.
Business Manager + 2 freight FTEs	Resources across HS1 Ltd and NR(CTRL) to handle freight-specific tasks, including: - completion of Freight Access Terms - provision of information to freight operators and access seekers - timetabling issues, including timetable development and spot bids - RNE involvement - other European policy involvement - billing and wash-ups - day-to-day enquiries and customer relations - big issues such as treatment of freight during Olympics - handling of any disputes - completion of track access agreements for any new operators - addressing any new or changed circumstances that need changes to policy and/or existing terms and contracts - performance regime establishment, ongoing delay attribution and annual benchmarking recalibration - safety approval processes, for example in relation to new rolling-stock operating on the line	225.0
Liability	Set at £0 on the assumption that appropriately dealt with via other contractual arrangements.	0.0
Other office running costs	Largely based on a judgement around the appropriate share of total HS1 overheads that would be avoided if there were no freight operators. We excluded items such as rent that would not be avoided.	19.3
Legal & Professional Fees	25 days @ £3k per day for legal fees. Approx. £25k for other specialist advice such as performance regime set-up and calibrations, rolling-stock acceptance etc.	100.0
Professional subscriptions	RFG etc	12.0
Flat Detection System	Annualised cost associated with equipment to detect whether any of the freight rolling-stock has irregularly-shaped wheels prior to moving onto HS1 proper. The idea is to mitigate damage to HS1.	66.5
		422.8

3.2 Current approach to avoidable track OMR

Certain parts of the HS1 track infrastructure are only used by freight. There are two steps to calculating the relevant costs:

- identifying the track-infrastructure that is specific to freight operations; and
- determining the OMR costs that are specifically associated with these bits of the network.

The current approach includes two pieces of track infrastructure that are deemed specific to freight – Ripple Lane Exchange Sidings and Cheriton / Dollands Moor Freight Chords.

Ripple Lane Exchange Sidings

Ripple Lane Exchange Sidings are used for freight stabling and train formation. We have a long-term arrangement with NRIL for the maintenance and repair of the sidings, and in our calculations assumed that we would pay £402.8k per annum.

Freight chords

The other freight avoidable track costs relate to Cheriton Chord and Dollands Moor. We have a total OMR budget that has been agreed for the current Control Period, and forms the basis of our charges to passenger and freight operators. The issue is to identify which part of this overall budget relates specifically to the freight chords. Our current approach to freight access charges allocates £305.7k p.a. to freight chords. This represents the part of the overall agreed OMR budget that would be avoided if freight did not run on the network.

Our methodology to identify this amount comprises two steps:

- The first step is to identify the proportion of total track represented by the freight chords. The freight chords total 4.4km. However, they have been ***weighted by half*** to 2.2km to reflect our expert judgement that there are lower OMR costs for freight as opposed to common track. As there is a total of 272km of track on HS1, The weighted proportion is therefore 2.2 / 272 = 0.8%.

  The weighting to reduce the freight chord proportion of total track by half reflects our expert judgement about two competing factors:

  - the first is that our expert judgement is that the maintenance costs for freight specific 'plain-line' track is around 20 per cent of that of other track segments due to the relatively lower traffic levels; and
  - the need to take into account the higher density of junction points on the freight chords with a significantly higher maintenance cost than plain-line track. Once we take this into account, our judgement is that overall the freight specific chords on HS1 are around 50% of the maintenance charge of other sections.

- Secondly, we multiply the weighted proportion of freight track (0.8% as calculated above) by the relevant OMR costs. The relevant costs are the track dependent traffic independent category. This generates the £305.7k p.a.

4. Review of freight avoidable cost components

4.1 Review scope and methodology

As set out above, this consultation focuses on the two 'avoidable cost' components. Section 3 above set out the detail of the calculations underlying the current price. This section considers whether these calculations remain relevant and seeks stakeholder comment and input.

The review methodology is largely bottom-up in nature, assessing the original calculations in light of any additional information that we have. A key part of the methodology is to expose the analysis to wider challenge based on stakeholder's own experience, business planning and expertise.

We have included a small number of top-down comparisons where these have been available. Again, a key part of the consultation document is to seek information about appropriate cost comparators that stakeholders might have access to, or know exist.

The search for top-down comparators has been significantly hampered by a number of factors set out below.

- **Unavailability of comparators** – There are very few European Infrastructure Managers that operate freight on their high-speed lines. We are aware only of the Spanish Infrastructure Manager (IM) who has recently allowed freight from Barcelona to the French border due to gauging issues. The 'freight corridors' set out under European Regulation[3] and currently being established, will not cover high-speed lines for example.
- **Lack of comparable cost allocation methodologies** – It is not possible to identify comparable cost data because there is no common agreed methodology. This is partly due to the lack of comparators, but also more fundamentally that no other IM has an approach to identifying freight costs on the basis that HS1 Ltd has adopted. We have talked to our colleagues in the European Infrastructure Managers (EIM, the European trade association that HS1 Ltd belongs to) to establish this. Indeed, there are a number of Working Groups convened under the auspices of EIM that are seeking to establish a common set of cost definitions and to generate comparable data across IMs. In particular, there is a 'Charging and Accounting' Working Group which is sharing information about charging regimes and working to establish a common understanding of key terms such as 'Directly Incurred' and 'Marginal' cost. The work programme is set for the coming 12-18 months and hence is not available for the purposes of this consultation. The timeframe reflects the current divergence in approach and the complexity of getting comparable data. The other Working Group concerns asset management. This will include work to define, in detail, the cost components to facilitate better comparability of benchmarking data.
- **Results from our comprehensive benchmarking work will not be available for this study** – as per the ORR Regulatory Statement[4] we have developed a programme of work to inform the setting of efficient OMRC for our next Control Period beginning April 2015. This comprises both top-down and bottom-up benchmarking activities and will take place over coming months / years ahead of the ORR Determination expected around October 2014. We are at the initial stages, finalising the methodology and models that we wish to use, identifying potential comparator organisations and preparing to send out data requests. As such, no data relevant to this consultation is currently available. We would of course be keen to hear from stakeholders who have access to relevant data. Part of this programme of work will be to test our hypotheses around the impact of the 'unique' features of HS1 Ltd that hinder direct comparisons with other IMs. For example, our scale, operating requirements, and contractual structure.

Consultation Question 1: Do stakeholders have access to other data that would provide helpful top-down comparisons for this review?

4.2 Other freight specific costs

On the basis of an initial review of the bottom-up calculations, HS1 Ltd considers that the original approach – as set out in Table 2 – remains largely valid, with 3 exceptions:

[3] See: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:276:0022:0032:EN:PDF

[4] Available at: http://www.rail-reg.gov.uk/upload/pdf/hs1-regulation-orr-statement-301009.pdf

- While to-date there has been the equivalent of 3 positions working on freight issues, this is likely to reduce going forward assuming imminent completion of the Freight Access Terms and the Freight Track Access Agreements. We therefore propose 2 (FTE) staff at a total cost of £150k p.a.
- Having reviewed the extent of the freight work during the consultation period and the lead-up to the period, our judgement is that the provision for 'other office running costs' is likely to be too high. We propose £5k p.a. instead of the current allowance of £19.3k p.a.
- Actual legal and other specialist professional fees have been considerably higher in the past couple of years than our original assumption of £100k p.a. We are proposing an allowance of £50k p.a. for legal and professional fees in order to cover activities such as recalibration of the freight performance regime, and some legal advice to interpret the contractual provisions recently put in place. Our assumption is therefore on the basis of largely agreed contractual arrangements and no major disputes. As with other cost components, we will track actual expenditure and review this amount ahead of the next Control Period.

We have also included no rate-of-return component. Along with setting liability to £0, this means that HS1 Ltd has no freight-specific contingency element within the calculations.

The impact of adopting the three specific proposals set out in this section is shown in Table 3 below. We propose a new total of £283.5k per annum, which is a reduction of £139.3k per annum on current charges.

Table 3: Proposed changes to other freight specific costs

Other freight specific cost item	CURRENT £k p.a.	PROPOSED £k p.a.
Staff FTEs	225.0	150.0
Liability	0.0	0.0
Other office running costs	19.3	5.0
Legal & Professional Fees	100.0	50.0
Professional subscriptions	12.0	12.0
Flat Detection System	66.5	66.5
Total	**422.8**	**283.5**

On the same assumption of annual train-km (223,146) this proposal yields £1.27 per train-km as compared to the £1.89 shown in Table 1 above.

Consultation Question 2: Are the calculations and proposals in relation to the other freight specific costs appropriate? Do stakeholders have access to any other relevant information or know of helpful top-down comparisons?

Consultation Question 3: Should we include a rate-of-return component within the calculations?

4.3 Review of avoidable track OMR

Ripple Lane Sidings

As noted above, we currently have a long-term arrangement with NRIL at an assumed cost of £402.8k per annum. Our actual cost under this contract is £476.9k per annum.

As this arrangement is long-term in nature and relates to infrastructure used exclusively by freight, we propose to continue to include the full amount within the avoidable track OMR component of the freight avoidable costs.

On further analysis subsequent to our initial calculations, we have identified that the contract ***does not*** include vegetation control or heavy maintenance. Following discussions with NR(CTRL) and analysis around the most cost-effective contracting solution (piggy-backing on other contracts for vegetation and heavy maintenance) we calculate that it will cost an additional £20k per annum.

We propose that the avoidable track OMR costs associated with Ripple Lane be set at £476.9k + £20k = £496.9k per annum.

Consultation Question 4: Is the methodology we have used to calculate the avoidable track costs for Ripple Lane sidings appropriate? Are there any other benchmarks that we should consider?

Cheriton Chord / Dollands Moor

We set out in section 3.1 above our methodology to identify what proportion of the agreed OMRC budget for the current Control Period should be attributed to the freight-only chords (Cheriton Chord / Dollands Moor).

Based on weighting the chord length by half we attributed £305.7k per annum. This is a cost of £305.7 / 4.4 = £69.5k per track-km per annum.

It is hard to get a direct comparison, but this is in the middle of two other benchmarks that might be used:

- Maintenance of Ripple Lane sidings: greater than £115k per track-km.
- Freight Only Line costs for Network Rail: £34.2k per track-km after taking into account ORR efficiencies which were set on an 'end of Control Period' basis[5]. Over the course of the review the proposed costs moved from Network Rail's proposal of around £68k per track-km in October 2006 to the final ORR determination of £34.2k per track-km in October 2008.

The main question is whether the decision to give a 50% weighting to the length of the freight chords as part of identifying the relevant share of the OMR costs is appropriate. It remains something of an engineering judgement given we have not had any experience with freight operations to-date, and we consider that it remains a good proxy, without any obviously better approach.

If we were to take a weighting of – say – 25%, then the allocation to the freight track infrastructure would effectively be halved. This would bring it into line with the post-efficient freight only line costs for Network Rail. However, this does not appear to reflect the relatively higher density of the junction points on the HS1 freight chords compared to Network Rail freight-only lines, which in turn are more expensive to maintain than plain-line.

[5] p321 of the ORR Final Determinations.

While there is considerable difficulty in interpreting the top-down points of comparison, the analysis suggests that our proposal is reasonable – the costs associated with maintaining Ripple Lane should be more comparable than the lines on a different network.

As noted above, the methodology apportions the relevant part of the efficient OMRC budget. This budget has been set for the first Control Period and used to calculate both freight and passenger operator charges, which means that if freight costs are reduced, then HS1 Ltd would be under-recovering its overall OMRC budget. That is, any lower apportionment to freight would have meant a higher apportionment to passenger. Rather than a price re-opener within the current Control Period, HS1 Ltd would expect this to be 'logged up' for CP2.

Consultation Question 5: Is the 50% weighting applied to the freight OMR costs in relation to the Freight Chords appropriate?

Consultation Question 6: Are there other £ per track-km comparators that are helpful to this analysis?

Other freight loops

There is a question about whether other freight loops should be included in the calculations, notably:

- Lenham freight loops (freight only section); and
- Singlewell freight loops.

There is a *prima facie* argument that we should include the costs of these freight loops in the calculations. While the loops are used by maintenance trains, they were designed and constructed specifically for freight traffic. Maintenance trains are the marginal user. We are interested in stakeholder feedback on this point. Including these additional loops on the same basis of the other track-specific infrastructure would add approximately £300k per annum to the freight avoidable costs.

For the purposes of this consultation paper we have **not** included the costs of these loops in the freight charges. We will continue to monitor the usage of these loops, and propose that the issue be reconsidered as part of the review for the next Control Period.

Consultation Question 7: Should we include the costs relating to the Lenham freight loops (freight only section) and Singlewell freight loops in the freight avoidable costs calculations?

4.4 Assumptions around number of services

The previous sections dealt with the costs that would be avoided if freight were not to operate on HS1 in the longer-term. Together with the variable freight costs, this generates the total freight costs. The total costs need to be divided by the estimated total freight train-km to generate the price, expressed in £ per train-km. The process to estimate the frequency of freight traffic is thus a key determinant of the price.

As noted above, the initial analysis assumed 5 return trips per weeknight, translating to 2530 trips per annum.

Using current costs, the impact of varying the paths assumption is as follows:

- 4-return trips per weeknight = £8.90 per train-km, an increase of £1.77 per train-km.
- 3-return trips per weeknight = £11.87 per train-km, an increase of £4.74 per train-km.

- 6-return trips per weeknight = £5.93 per train-km, a reduction of £1.20 per train-km.

We propose to continue with our assumption of 5 return trips per weeknight as this was endorsed by stakeholders in our previous charging consultation, and continues to reflect the level of interest in train-paths. This is an important issue on which we are clearly keen to receive stakeholder feedback.

We understand the freight operators' desire to offer services 6-days per week and will continue to keep this possibility under review as we look for more and more efficient ways to maintain and renew the railway. We are also continuing to assess the potential capacity constraints around Ripple Lane. As with the other assumptions we will monitor actual usage for the remainder of the Control Period as part of the contributory analysis around setting freight charges for the next Control Period.

Consultation Question 8: What number of journeys per annum should we assume for freight traffic? Why?

4.5 Other possible components for inclusion

The previous sections have reviewed whether the cost components previously included in freight avoidable cost calculations remain valid. This section sets out – for comment – other potential cost components to be included.

- ***Component for bad debts*** – any bad debts arising from freight operations can be deemed to be freight avoidable costs – they would not occur if freight were not operating on HS1. Our approved OMRC budget for the Control Period does *not* include any provision for bad debts so this is a cost that is currently not accounted for. Any freight bad debt is likely to be driven by a specific issue so we propose that in the event of a bad debt we will include the unpaid amounts as part of the other freight avoidable costs to be recovered via freight charges. The other option would be to address any such amount via the 'logging up' process to be dealt with as part of the analysis around the next Control Period.

Consultation Question 9: What approach to the treatment of bad debts do stakeholders consider to be the best way forward?

- ***Freight market studies*** – There are likely to be market studies required during the remainder of the current Control Period in order to analyse what traffics might be viable, and to undertake detailed operational planning across the relevant European networks. While operators will no doubt undertake their own analysis, it will be important for HS1 Ltd to be informed, and it may make sense for HS1 Ltd to undertake studies where the information can be shared with all potential operators. We estimate that the cost of such studies will be £20k per annum. It should be noted that HS1 Ltd has spent more than this on freight studies in the past years, the cost of which has not been recovered from freight charges.

Consultation Question 10: What freight market studies do stakeholders consider are likely to be required during the remainder of the Control Period? How much are they likely to cost?

- ***Freight mothballing costs*** – While there has not been any freight operating over HS1 to-date, we have incurred costs to preserve the assets in working order so that they are ready for the commencement of freight operations. We refer to these costs

as 'mothball costs'. We expect to recover these costs through the 'freight supplement' which is paid by franchised passenger operators. However, should this not be the case we reserve the right to add these costs to the freight avoidable track OMR costs.

Consultation Question 11: What do stakeholders consider to be the best way of recovering the 'mothballing' costs associated with the freight-specific infrastructure?

5. Proposals for freight avoidable costs

To summarise the proposals arising from this review:

- The variable OMR component of freight charges is unchanged, as that has not been part of this review process.
- We propose an increase of £20k per annum for freight track avoidable costs to cover the vegetation and heavy maintenance costs not included in the contract for Ripple Lane, and an additional £74.1k per annum to cover the higher than assumed costs of maintenance at Ripple Lane.
- We propose a reduction of £139.3k per annum in avoidable freight specific costs. The reduction reflects lower likely staffing levels going forward, reduced professional fees and smaller office running costs.
- Retention of assumption around 5 return-journeys per week-day night in line with stakeholder feedback to previous consultations and subsequent interactions.
- We have proposed various mechanisms to deal with freight bad debts and the recovery of 'mothballing' costs as these were not included in the initial calculations. And we propose an additional amount of £20k per annum to cover freight market studies.

The upshot of this is a 12p per train-km reduction in the day-time rate from £7.13 per train-km to £7.01 per train-km, as summarised in the following Table 4.

Table 4: proposed versus current freight avoidable costs and charges by cost category

Cost category	Current total £k / (£ per train-km)	Proposal £k / (£ per train-km)
Variable OMR	457.4 (2.05)	457.4 (2.05)
Avoidable freight specific costs	422.8 (1.89)	283.5 (1.27)
Avoidable track OMR	708.5 (3.18)	802.6 (3.60)
New item (freight market studies)	-	20.0 (0.09)
TOTAL	**1,588.7** **(7.13)**	**1,563.5** **(7.01)**

The night-time rate would continue to be set at the discounted rate of £4.00 per train-km for the remainder of the Control Period (concluding 31 March 2015).

6. Invitation for comment

HS1 Ltd invites comment on the freight avoidable costs proposals set out in this consultation document. Please send any responses by **Wednesday 13 July 2011** to:

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London N1 9BE

Email: geoff.jones@highspeed1.co.uk

If you wish to discuss any element of the consultation or have more general queries, you can contact Geoff via email (as above), or by telephone on: 020 7014 2724. Please indicate if you wish any part of your submission to remain confidential. Otherwise, we will expect to share the response with the ORR and place it on our website.

7. Next steps

We will submit our proposals to the ORR – addressing any issues raised by stakeholders during the consultation period – by Friday 29 July 2011.

Following approval by the ORR, we will update our Network Statement within 3 weeks, as well as reflecting any changes as appropriate in the Freight Track Access Agreements.