southeastern

[redacted]
Department for Transport
Great Minster House
33 Horseferry Road
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8 August 2019

Dear [redacted]

HS1 Stations Review (Control Period 3) Draft Decision

Thank you for the opportunity to comment on the Department's HS1 Stations Review for CP3, published last month. Our responses to the questions you raise in your review are presented below.

Question 1: Consultees are invited to comment on HS1 Ltd's obligations under the HS1 Station Leases, the extent to which these obligations are currently met and the proposed process by the Department to seek assurance of continuous improvement against an agreed action plan

Southeastern is supportive of HS1's adoption of the industry best practice ISO 55000 standards for asset management. It is clear improvements are needed in this area.

HS1 must improve its communication with its customers and most importantly, its management of its primary contractor Network Rail High Speed (NRHS). Southeastern does not believe HS1 effectively manages NRHS to deliver on its commitments, which leads to a poor level of service for its customers.

Question 2: Consultees are invited to provide comments on the draft conclusion that the definition of asset condition at handback should be retained, and that focus is placed on asset monitoring.

Southeastern is supportive of the draft conclusion that the definition of asset condition at handback should be retained to ensure the assets remain fit for purpose and that focus should be placed on asset monitoring.

Question 3: Consultees are invited to provide their comment on how the processes described in this section are applied to station enhancements on the HS1 network, or on alternative proposals.

Southeastern is content for enhancements to be addressed separately, outside Station Leases and this Periodic Review. Given the small number of HS1 Stations, it may make sense to address enhancements on a case by case basis rather than designing a framework, in the absence of a pipeline of work.

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Southeastern agrees with the concept the Department is describing under paragraph 3.11, however we believe the term 'beneficiary' would be more appropriate than 'user'. The retail units at St Pancras for example, benefit from the facilities at the station such as lifts, escalators, toilets, etc and should therefore contribute to any such enhancements to these facilities.

There is a strong industry view that operators are charged excessively to compensate for the lack of contribution from retailers at all the HS1 stations. HS1 is receiving income from retailers at its stations and therefore the charge should be adjusted accordingly. This is consistent with the approach taken by Network Rail at Managed Stations.

Question 4: Consultees are invited to comment on how a modification of the annuity calculation can seek to ensure there are sufficient funds in the station escrow accounts to deliver the maintenance and renewals required to meet the asset stewardship obligations.

We agree with the proposal the Department made at the stakeholder event on 24 July; the annuity issue should be separated from this consultation process to allow more time to determine an appropriate way forward and to coincide with the ORR determination on the annuity for track, to ensure both approaches are consistent.

Southeastern is not supportive of the proposed 40 year profile. It is not appropriate or affordable for current users of the infrastructure to be required to fund the historic costs of construction (through the IRC) and the future cost of renewals (via the annuity) at the same time.

We refer the Department to our comments on the annuity included in our response to the HS1 5YAMS. The escrow account should target a zero balance by 2040; at this point the concession could be re-let on more of a steady state model, perhaps adopting a RAB. The renewals charges (equal to RAB amortisation) would replace the IRC as the main component of access charges at this point.

There is a distinction between maintaining asset stewardship levels which consider a 40-year time horizon and pre-funding it all through the annuity.

Question 5: Consultees are invited to comment on whether they are willing to accept lower customer experience and service quality outputs from critical assets such as lifts and escalators to reduce charges.

There is insufficient evidence to show what impact this would have. This needs to be more clearly defined to allow operators to make a judgement. As a general principle, Southeastern is not willing to accept lower customer experience and service quality outputs from critical assets, such as lifts and escalators, which would negatively impact the experience of our passengers in order to reduce charges.

HS1 should be incentivised to maintain high standards for reduced cost by delivering efficiencies.

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Question 6: Consultees are invited to provide their comment on HS1 Ltd's asset stewardship proposals, the underpinning asset management documentation and HS1 Ltd's compliance with its asset stewardship and life cycle purpose.

Southeastern has been consulted by HS1 on its escrow cash management policy and we are supportive, however we note that this approach to funding is inefficient and could be improved by changing the regulatory model.

Despite this being a broad question, the section this relates to in the Department's document is narrowly focused on cash management. It is important that the Department

challenges HS1 to improve its asset stewardship, including by effectively managing NRHS to deliver on its commitments. As mentioned above under Question 1, Southeastern is supportive of HS1's adoption of the industry best practice ISO 55000 standards for asset management because it is clear improvements are needed in this area.

Question 7: Consultees are invited to comment on the proposal to reinstate the efficiency overlay, and at what level it should be set; also, provide any further views on how efficiency could be applied more effectively.

Southeastern is supportive of the Department's proposal to reinstate an efficiency overlay as this will provide HS1 with a stronger incentive to improve its asset knowledge as a route to reducing costs. There is a lack of clear evidence on the efficiency achieved in CP2 against the target of 0.6%; it would therefore not be appropriate to default to rolling forward this target.

HS1 is not efficient and the Department should be robustly challenging this. There appears to be a lack of authoritative proposals from the Department in this area.

It is our strong view that there must be an incentive on HS1 to budget appropriately to deliver its obligations in CP3, rather than transferring all liability to operators. Operators are not to blame for the errors in CP2, however it is the operators who are paying for the shortfall. HS1 must be exposed to the risk of poor budgeting; at least through a tougher efficiency target and hard budgetary constraints.

Question 8: Consultees are asked to provide any other comments which they may have which are not covered by the other questions contained within this consultation document.

The assessment conducted by GHD on behalf of the Department appears to show HS1's costs are considerably higher than the industry benchmark and the contingency it applies is significantly greater than the industry comparison, despite having a smaller portfolio. This is a concern and we believe this should be robustly challenged by the Department. Operators are not experts in this type of asset management; the Department's role as regulator in this case through the Concession Agreement is to challenge HS1 with expert analysis.

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The contingency level at 13.9% has been notionally agreed, however Network Rail (which is the only appropriate benchmark available) operates at a contingency level of 10.7%. We would argue that the contingency rate should be the same as Network Rail (if not lower), in the absence of any other benchmark. Increasing the contingency rate when costs increase is also not clearly explained; this is providing for much more on a higher base.

We are concerned that the Department has only allowed itself three weeks between receiving responses to publishing its Final Decision; this does not allow much time for consideration of the points raised by respondents.

Due to the short timescale, key aspects which we believe can easily be reflected are: to match the contingency rate to that applied by Network Rail (as the only appropriate

benchmark available); and set a meaningful efficiency target at 15% - 20% to keep HS1 incentivised to monitor costs and keep within a tighter financial envelope.

If you have any questions regarding our response, please do not hesitate to contact me.

Kind regards

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Senior Commercial Manager