



Department for Transport
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By email: [REDACTED]

30 September 2019

Dear [REDACTED]

HS1 STATIONS PERIODIC REVIEW 2019

Eurostar International Limited welcomes the opportunity to respond to the Department for Transport's consultation letter of 13 September 2019. We note the subsequent correspondence between the DfT and HS1 on this topic.

In its letter, the DfT indicates that it is minded to determine an efficiency overlay of 2% for CP3 and to maintain a 40 year pay-ahead basis. This results in an overall increase to LTC of 8% (approximately four times the current rate of inflation).

This determination takes place in the context of the findings of the government's own expert advisers, supported by the representations and experience of station users, that showed systematic weaknesses of management and control on HS1's part. In particular:

- A failure to set efficiency targets, define and measure efficiency or propose future efficiencies;
- A failure to measure, report or deliver virtually all of the commitments from CP2; and
- A failure of asset knowledge and ability to forecast accurately, and to link asset strategies and forecasts to the charging models.

In these circumstances, EIL believes that a rigorous approach must be taken to this determination which links HS1's ability to charge to demonstrable improvements in each of these areas. If necessary, this must include the risk of a funding exposure for HS1 in order to incentivise compliance and improvement, given the previous approaches have not secured this.

EIL therefore has the following comments:

- The efficiency overlay should be increased to 2.5%, in line with the NRIL benchmark. EIL notes that HS1 has somewhat less purchasing power. However, EIL also notes that each of the benchmark organisations are mature operators who start from a stronger basis of established efficient delivery than HS1. Early efficiency gains which emerge from the context of past poor performance in this area are easier and more significant than incremental efficiency improvements to established performance. Given these considerations there is little argument for setting efficiency targets other than at the top end of the comparators.

- The direct costs for LTC should be rebased on a 10 year pay-forward basis (rather than 40 years). Whilst it would be economically efficient to pre-pay these over the maximum period this assumes:
 - o That the forecasts are accurate (and that operators are not paying now for work the timing, scope and necessity of which had simply been mis-forecast); and
 - o The beneficiaries remain the same. For example, it is far from certain that Eurostar will continue to be the operator over this period, or to maintain the same share for operations. Indeed, HS1's own planning assumptions suggest that it may not.

In these circumstances, a significantly shorter pay forward period is both economically more efficient (accuracy as to what is being bought) and more equitable (accuracy as to who will benefit and how much).

- HS1's ability to levy any higher charges should be directly linked to demonstrable implementation of the commitments and requirements of this and previous control periods. As a minimum this should include:
 - o Achieving the recognised industry ISO standards
 - o 5 year forecasts for QX as well as LTC
 - o Agreement as to how the achievement of efficiencies will be measured and reported
 - o The measurement and reporting of accuracy in year-on-year forecasting
 - o Demonstrable movement towards condition-based or risk-based asset management
 - o Improvement in the ability to audit the models and the line of sight between the asset strategies and the charging models.

The DfT should agree with HS1 a timetable for each of these improvements and only then unlock the ability to charge at a higher rate as these are achieved. This will create a necessary financial incentive on HS1 to implement improvement.

As ever, EIL remains available to discuss any of the points raised in the letter or the wider consultation.

Yours sincerely



Gareth Williams
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