

8 January 2021

James Osborn

Executive, Access and Licensing

Office of Rail and Road

25 Cabot Square

London

EC14 4QZ

CONFIDENTIAL & COMMERCIAL SENSITIVE

Dear James

Ref: **APPLICATION BY HITACHI RAIL LIMITED UNDER SECTION 17 OF THE RAILWAYS ACT 1993**

We refer to your letter of 17 December 2020. We are pleased to enclose our proposal for the charges that should reasonably apply in respect of the services set out in the draft Depot Access Agreement.

As requested, we have enclosed a spreadsheet detailing the proposed charges, the methodology underpinning the calculation of those proposed charges together with our rationale and assumptions (including with respect to direct hourly rate, time assumed for each 'job' and materials as requested in your letter).

Our calculations, assumptions and rationale are supported by our extensive experience and knowledge of our own charges and cost base as a Depot Facility Owner across multiple depots in the UK and direct knowledge as a Beneficiary of the charges levied by other third party Depot Facility Owners at other locations in the north of England (at Edge Hill and Heaton) for the same services as those we wish to procure Abellio East Midlands to undertake at Neville Hill depot.

With regard to your request for us to clarify the 'maintenance specification' applicable to each 'job', we consider that this is common ground between the parties and not the subject of disagreement. The maintenance specification relevant to each 'job' has been provided to Abellio East Midlands and is detailed in each schedule of the draft Depot Access Agreement previously provided to the ORR. Whilst not directly relevant to our section 17 application, it is also worth highlighting that the maintenance specification for each 'job' in the draft Depot Access Agreement is also the same maintenance specification for each 'job' incorporated into the current interim depot access agreement between Abellio East Midlands and Hitachi Rail (due to expire in February 2021) and accordingly, the scope of work for each 'job' is understood by both parties and undertaken by Abellio East Midlands on a daily basis at Neville Hill depot for over 18 months (see your ref: DAA D/18/371/324/01/19/01 by way of confirmation).

Based on our experience as a Depot Facility Owner and as a Beneficiary we would observe that access and maintenance charging is rarely contentious and that the charges, allowing for certain flexibility to reflect depot usage, operate within a relatively narrow band. The charges proposed by Abellio East Midlands exponentially exceed the normal and reasonable market rate and to date AEM have not (despite repeated requests) justified or explained this exponential increase over the market norm or demonstrated how their charges reflect the cost of providing the services plus a reasonable profit.

We think it is helpful in this regard to consider the aggregate charge for the same services agreed with other third party Depot Facility Owners (both located in the north of England) under Depot Access Agreements. These are publicly available on the ORR's public register:

- Northern (Heaton) D/18/326/234/02/19/01 as amended by GAD/22/375/234/02/20/02
- West Coast Traincare (Edge Hill) GAD/18/86/234/04/20/01

We would underline that the services provided at Heaton and Edge Hill are identical to those requested to be provided by Abellio East Midlands under the draft Depot Access Agreement.

[Redacted]

Hitachi Rail's proposed price per 'job' (including reasonable profit at ^[Redacted]) is identified at tab "DAA Cost Assessment" of enclosure 1. This is underpinned by a detailed analysis of direct labour costs, overhead and material costs as follows:

- **Direct labour costs** for each job at tab "Direct Labour Assessment" (with supporting assumptions and calculations at tabs: "Hitachi Fleet Type Data Sheet" (for hours per 'job') and "Direct Labour Cost" (for labour cost assumptions));
- **Overhead costs** at tab "OH Cost Assessment" (with supporting assumptions and calculations at tab "Overhead Assumptions");
- **Material costs** for each job at tab "Direct Material Assessment" (with supporting calculations at tab: "Hitachi Fleet Type Data Sheet").

We consider that our proposed charges comply with the regulatory requirement to compensate Abellio East Midlands for the cost of providing the services under the draft Depot Access Agreement plus a reasonable profit.

These equate to the following total per annum costs:

[Redacted]

Our response and supporting enclosures are intended solely for the consideration of the Office of Rail and Road to assist in its section 17 deliberations and assessment of information provided by Abellio East Midlands. Subject to the following, other than information already in the public domain, we would request that you treat the information provided in this letter and its enclosures as confidential and commercially sensitive. Should you wish to disclose any information contained in this letter or enclosure we would be happy to discuss this with you further.

We are available to provide any further clarification on a telephone call should you wish to discuss any aspect of this letter or its enclosures.

Yours sincerely,

[Redacted]

Andrew Rogers
Contracts & Projects Director
Hitachi Rail Limited