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20 August 2012

Rt Hon Justine Greening MP
Secretary of State
Department for Transport
Great Minster House
76 Marsham Street
London
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Dear Secretary of State

New updated Business Case for High Speed 2 (HS2)

We understand that there will be a new business case issued for HS2 shortly.

We would be grateful if it could be confirmed that the updated case will take account of a number of changes that have been announced in recent months as part of the High Level Output Statement (HLOS) programme, the new IEP trains, the recommendations of the Public Accounts Committee, the outstanding changes to the economic forecasts and links to HS1, and the announcement of the West Coast mainline (WCML) franchise to First Group.

HLOS and IEP changes

We would expect that several of the HLOS and related improvements that will now be in place by 2019 to affect the incremental benefits of HS2, as the 'do minimum' position will have been significantly changed:

- The impact of the Midland Mainline electrification programme which is expected to increase capacity and reduce the journey times to towns and cities (eg Leicester, Nottingham, Derby and Sheffield) that are in the catchment area for the Leeds leg of the Y.
- The improvements to the East Coast Mainline, both the IEP trains announcement on 25 July together with the £240m for infrastructure investment (to sort the crossing flows of passenger and freight at Peterborough) announced as part of HLOS, will improve capacity and cut journey times from London to Newcastle (by 13 mins), again affecting the Y.

We note that HS2 is currently claiming a 51mins reduction¹ from Kings X to Newcastle (from 3hrs 9 mins to 2hrs 18mins), despite most trains on the current hourly service being typically 2hrs 50 mins (and the fastest from Newcastle already being just 2hrs 24mins). So presumably the proposed 13 mins journey time saving means the 51mins saving ascribed to HS2 comes down to just a 19 mins saving with HS2 (and even less compared to the fastest service)?

- The proposed new £500m Great Western link to Heathrow will affect the assumed passenger flows from the west using the proposed HS2 interchange at Old Oak Common for getting to Heathrow. The link will also provide direct Birmingham to Heathrow services.

We would appreciate confirmation that these changes will be incorporated.

The Next Best Alternative to HS2

We note also that DfT still compare HS2 with a 'do minimum' or the alternative of a new line at conventional speeds. It seems wrong in principle that this approach continues to be used, when clearly the next best alternative to HS2 (as assessed by the benefit to cost (BCR) ratio) is neither the 'do minimum', nor a new line at conventional speed, but an improved WCML (ie as that proposed by 51m).

Public Accounts Committee (PAC) recommendations

The PAC report on the completion and sale of HS1 made a number of recommendations on the modelling assumptions used for HS2 related to pricing and the value of time. These included a recommendation that the no premium pricing assumption be revisited (as HS2 currently ignores the effects of competition from the 'classic' rail services). This would clearly have a very substantial effect on both background growth in demand as well the numbers of new travellers attracted to HS2 (the latter currently being 24% of HS2 passengers², more than even comes from modal shift). We welcome confirmation on three aspects:

- Whether it is intended that the central demand model will be adjusted to take account of price effects. It had been confirmed to HS2AA in 2011³ that the demand model did not at that stage "differentiate between alternative routes by price". So even though Evergreen III is now part of the 2012 base case, unless the demand model reflects price (and competition from other operators, whether Chiltern Railways compared to WCML, or WCML compared to HS2) it will continue to ignore a basic factor that unequivocally affects people's choices and hence demand.
- If HS2 will not be charging premium prices then will this be given as a firm undertaking? It cannot be right to do a business case on one premise, yet actually proceed on a different one.
- We note that sensitivity tests have been done on demand. Please confirm both what impact premia pricing has on the background growth assumptions and separately the figures of new travellers attracted to HS2?

¹ High Speed Rail: Investing in Britain's Future - Decisions and Next Steps, January 2012, DfT. Map on page 15

² High Speed rail: The Economic Case for HS2: Updated Appraisal of transport User benefits and Wider Economic Benefits, January 2012, Page 23 table 2.

³ Letter of 29 June 2011 from Alison Munro to Bruce Weston, Director, HS2AA, justifying why the exclusion of Evergreen III would have had little impact on the WCML demand forecasts.

Forecasts of Economic Growth

Please could you also confirm that the business case, ie the central case and not just the sensitivity tests, will include the latest position on the economic forecasts. Presumably account still has to be taken of the November 2011, March and June 2012 GDP forecast?

Links to HS1

The business case does not yet include the proposed through services to HS1, in addition to those to Heathrow, as committed to by Government in the decision of January 2012. Please can you confirm that the revised case will incorporate these in the service patterns, and what effect adding these services will have in reducing the service frequency to Euston and thus demand.

First Group announcement

We note the First Group announcement on winning the WCML franchise that refers to the extensive unused capacity on the WCML and that their plans can accommodate 5.8% compound growth over the next 14 years (to 2026) ie 120% growth over the franchise period. We also note they refer to just 35% loading figures on WCML.

This raises some fundamental questions about the capacity grounds that the case on which High Speed 2 now relies:

- How can these numbers possibly be consistent with the idea that WCML will be full over the next decade (or even by 2024)? The DfT appear to have accepted a bid by First Group that, for the southern end of the WCML, solely relies on the additional capacity provided by the already approved 11-car pendolinos (amounting to 106 new coaches). On First's view, which is presumably shared by DfT, can you confirm that nothing further is required on this part of the WCML to meet these projections?
- To address subsequent demand growth on WCML after 2026, over and above the 120% increase, all that is therefore needed is the additional capacity provided by the 51m alternative proposal (ie switching one first class to standard, lengthening all trains (except those to Liverpool) to 12 car, and infrastructure improvements at three pinchpoints).

We look forward to your response.

Yours Sincerely,



Hilary Wharf
Director, HS2AA

cc

Alison Munro (Chief Executive, HS2 Ltd)
Doug Oakervee, (Chairman, HS2 Ltd)
Philip Graham (HSR, DfT)
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