

East Midlands Railway Limited  
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Derby  
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James Osborn  
Executive, Access & Licensing  
Office of Rail and Road  
25 Cabot Square  
London  
E14 4QZ

23 October 2020

Dear James

**Re: Hitachi Rail Limited - Application for Directions under Section 17 of the Railways Act 1993.**

Abellio East Midlands Limited (AEM) hereby presents its response to the request made by ORR for the completion of a Draft DAA in respect of Hitachi Rail Limited's application for directions under Section 17 of the Railways Act 1993. EMR has completed the Draft DAA as laid out by the ORR and note that this meets the MSL values for steady state services post fleet introduction and removal of legacy fleet from 01/04/2020 as included under Appendix 4 to HREs Section 17 application.

In addition to the completed Draft DAA AEM is pleased to present further documentation to aid understanding of the basis of AEMs pricing in relation to the activities referenced within the Draft DAA – this is in the form of a tabular breakdown of Direct and Indirect Costs per activity. Direct costs being those specifically employed in delivering the activities, indirect being an apportionment of both the base overhead (excl direct costs) of Neville Hill Depot along with an apportionment of the cost of the wider business support functions centrally held overhead.

In order to arrive at an authorised completed Draft DAA AEMs finance function employed the services of Business Analysts and Finance Managers with particular responsibility for, and knowledge of, Neville Hill Depot and the fleets and associated services provided. The base costs used to drive both the direct and indirect costs have been prepared, peer reviewed and authorised as true and fair representation by AEM of the current (2020/21) forecast cost to the business.

It should be noted that in reaching the proposed pricing as seen within the Draft DAA AEM has **not** then added a profit margin. This is in recognition of the fact that the total overhead of the depot is higher than might otherwise be expected due to the fluidity and uncertainty of the fleet cascades over the course of the introduction of IEPs. Additionally AEM has had very limited ability to address the changing production environment of the depot due to the expected (and franchise mandated) change to the DFO in the very near future. To that end AEM has treated the pricing proposal to HRE as purely a recovery of costs/contribution rather than a traditional profit based sales activity.

**E M R**

AEM trust that the detail here along with the enclosed supporting schedules and the completed Draft DAA provides ORR with sufficient information to move forward in its review and ultimate determination.

Furthermore AEM is pleased to supply comparative beneficiary pricing for related activities provided by AEM at Neville Hill Depot. To support understanding some high level annotation of the key points of differences between the beneficiary fleets has been added.

AEM trust that the detail here along with the enclosed supporting schedules and the completed Draft DAA provides ORR with sufficient information to move forward in its review and ultimate determination.

AEM remains committed to supporting the Section 17 application process to completion and would encourage ORR to refer to either myself or Simon Kelly in the first instance if we can be of any assistance.

Yours sincerely

[Redacted]

**Commercial Regulatory Access Manager**  
[Redacted]