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DEPARTMENT OF TRANSPORT
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M Scholar Esq
Private Secretary
10 Downing Street
Whitehall

22 April 1983

Prime Minister

Mr Howell feels strongly about this. Shall we arrange a meeting – Mr Howell + an official, and Alan Walters?

Dear Michael,

THE HASTINGS - TONBRIDGE RAIL SERVICE

Thank you for your letter of 14 April.

As the Prime Minister suspected, the Railways Board's submission did underestimate the cost of electrification and it also over-estimated the costs of the diesel alternatives. The Department therefore made its own evaluation, with costings based on both the investment and operating costs of all the options over a 30-year period. That evaluation included the two cheapest diesel options, which the Board's submission mentioned but dismissed without evaluation. The Department's work produced the results summarised in Table 1 of the appraisal attached to my letter of 28 March.

The Secretary of State reached his conclusion on the basis of the Department's evaluation, not the Board's. As you will see from the attached Table, the difference, in financial terms, between the options is small - £67m for the third rail electrification scheme preferred by the Board compared with £63m for the two most sensible and cheapest diesel options. But whereas third-rail electrification is tried and tested and the rolling stock that would use it already exists on neighbouring lines, the diesel replacements, which would have to be specially narrow to fit the tunnels, have not yet been developed. It is all too likely that the new vehicles would turn out to be more expensive than we have estimated; and the Board have tended to under-estimate the cost of life-extending old stock. By contrast, the Board have a pretty good record in estimating and containing the cost of electrification, and the Secretary of State intends to press the Board to reduce the cost of their preferred scheme. In other words, we are comparing the known and built with the unknown and unbuilt, and standard stock with a specialised product.

In short, it was and remains the Secretary of State's firm view that patching up the existing stock and renewal with specially narrow diesel stock could well turn out to be the most expensive course. He does not believe that it would

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be right for the Government to make BR take this risk, and it is certainly not what the customers want. That is why the Secretary of State decided in favour of electrification and against the diesel options.

The existing stock is old and corroding and visibly deteriorating. There is growing pressure from the Government's supporters for an early announcement of approval to the third rail electrification of this service. The Secretary of State remains convinced that this would be the right course - for the reasons given in this minute and in previous correspondence - and wishes to make the announcement as soon as possible.

I am copying this letter to John Gieve in the Chief Secretary's office.

Yours sincerely,

Richard Bird

RICHARD BIRD
Private Secretary

A. Board's Preferred Third Rail Electrification Option

Relevant lifetime costs derived from Board's submission	£46m
Relevant lifetime costs as estimated by the Department	£67m

The cost of electrification and track work in the Board's submission is £24m. The Department has also used this figure. The difference between the Board's and the Department's estimates of lifetime costs arises because the Department has included the cost of rolling stock which the Board treated as free. The Board's estimate included an allowance of £4m for increased revenue; the Department has reduced that figure by half.

B. Costs of Best Diesel Alternatives

Board's estimate of relevant lifetime costs of the best diesel option which they considered £73m

Department's estimate of lifetime costs of alternative diesel options:

option G:	£63m
option H:	£63m

Option G involves the same patching up of existing units, as in the Board's option, with the introduction of new stock in the early 1990s. It is cheaper because it involves an alternative design of rolling stock, with higher seating capacity, and therefore fewer vehicles with savings in capital and operating costs. Option H involves diesel replacement in 1986, but again involves an alternative design of cheaper rolling stock.

C. Costs of Life Extension (Patching Up)

The Department's option G includes the life extension of all of the existing vehicles at a cost of some £55,000 each. This is in line with the cost of similar work on other types of vehicles with asbestos insulation requiring to be removed. On past experience the costs of life extension are more likely to be under- than over-estimates. Corrosion is a special problem with these vehicles which when built included parts from earlier vehicles. There are only just enough for the service. If individual vehicles turn out to be in particularly bad condition and have to be scrapped, there is no spare capacity to maintain service quality.

All diesel powered vehicles involve more expensive capital and maintenance costs than electric vehicles but do not, of course, require lineside equipment.

D. Firmness of Cost Estimates

The Board's record on estimating the costs of electrification is a good one. The present proposal involves no untried equipment - all is already in wide use on the Southern Region. Both of the best diesel options involve some untried items which exist only as prototypes now under construction. Their capital and maintenance costs are inevitably less firm than those for existing designs of electric vehicles and associated lineside equipment.