

27 March 2013

Joe Quill  
Office of Rail Regulation  
One Kemble Street  
London  
WC2B 4AN

Dear Mr Quill,

**Re: PR 2013: consultation on a freight specific charge for biomass**

Thank you for your invitation to respond to this consultation. I start with some general comments followed by specific responses to the questions:

In principle it is hard to argue against a payment for rail freight based on usage and impact on the network. However, it is unfortunate that the freight specific charge is now proposed after the Renewable Obligation banding review and consultation on strike prices for contracts for difference have completed for biomass. Support levels for biomass will probably be based on an under-estimate of its true freight cost if the charge comes into effect.

As a further comment, it is not immediately clear how the charges would be calculated if a freight specific charge is established.

**Q1. To what extent might higher access charges increase biomass road transport?**

Road is unlikely to be a viable alternative means of transport for conveying imported biomass (pellets) to the known coal conversion plants. These plants have existing rail infrastructure, loading and unloading facilities so substitution is not realistic.

There needs to be careful definition of biomass under the freight specific charge since biomass is not exclusive to the power industry. Consider the paper and pulp and construction industries for instance. A freight specific charge will provide a disproportionate disincentive to use rail rather than road for biomass such as timber,

wood chips and recycled wood which have a lower calorific density per m<sup>3</sup> than pellets.

Purely from a power generation perspective it will be better if recycled wood, which is currently conveyed by road (and sea), is excluded from the biomass freight specific charge to avoid introducing a prohibitive disincentive to convey it by rail in the future.

**Q2. Should a biomass freight specific charge be calculated on the basis of avoidable costs as was done for the commodities on which caps have already been set?**

Yes - In principle. If a freight specific charge exists for biomass, it is appropriate to use the same methodology as for other commodities.

**Q3. Should the charge be modified, for example to reflect calorific value or exempt small stations?**

The energy (calorific) content of biomass is less than coal on an equivalent volume and weight basis. You might need between two and two and a half times the number of rail journeys to convey biomass pellets of the same calorific content as one train of coal. This means that biomass will pay a greater freight specific charge than coal on a per MWh basis if the charges for each commodity are the same.

On a pure allocation of rail costs, there is an argument that the freight specific charge should be calculated on a kg/tm basis for both coal and biomass. However, if you consider the overall social and economic benefit of switching power generation from coal to biomass, it seems appropriate that biomass should pay a smaller charge than coal on a kg/tm basis to be consistent with energy policy and avoid undermining renewable incentives.

Recycled waste wood should be excluded from the charge

**Q4. Should freight avoidable costs be allocated to biomass using the same methodology as that used for the other market segments to which a freight specific charge applies?**

Yes, if a freight specific cost exists, the same methodology should apply for biomass subject to the points raised in the response to Q3.

Given that the likely main biomass pellet rail flows are largely known for the 2014-2019 period, there may be merit in calculating in detail the freight specific charges

that relate specifically to these known rail routes. This may be a fairer approach for biomass freight if considered in isolation.

**Q5. Is the resulting cap on the freight specific charge, of £4.04 per kgtm, for biomass reasonable? How would such a charge affect existing biomass flows and development of future flows?**

The £4.04 per kgtm cap feels as if it has been set simply because it is the cap for ESI coal. Biomass flows will differ from coal flows since there is unlikely to be any domestic rail freight of wood pellets. Instead the flows will concentrate on the route between the known coal conversion plants and their closest ports.

For this reason, it seems that more analysis can be done on the freight avoidance costs to the specific biomass routes as opposed to a broad-brush 'it is the same as coal' approach.

The charge penalises longer rail routes and incentivises biomass generators to bring as much volume as possible through the closest port and then the next closest port. This increases the competitive advantage of the port that is closest to each biomass conversion plant.

It also encourages any future biomass developments to locate at a deep water port.

**Q6. Should a freight specific charge for biomass be phased in? Would it be appropriate to apply the same phasing to a biomass freight specific charge as to the ESI coal freight specific charge?**

Phasing seems reasonable, particularly if existing freight operators would be unfairly penalised by the charge where they have longer term contracts that run 2014 - 2017. It seems appropriate that the phasing is the same as for the ESI charge.

**Q7. Should biomass be subject to a freight-only line charge, calculated on the same basis as for other market segments?**

If there are no freight only lines on the port to biomass conversion plants route, it seems unreasonable to include contributions to these costs within the freight specific charge.

Yours sincerely

**Niall Thorburn**  
**Commercial Manager - Power**  
**Centrica Energy**

07789 572032

Niall.thorburn@centrica.com