

ORR Consultation on Biomass charges

1. Thank you for the opportunity to comment on the consultation on biomass charges.
2. Freight on Rail, a partnership of the rail freight industry, the transport trade unions and Campaign for Better Transport, works to promote the economic, social and environmental benefits of rail freight to local and central Government.

3. Summary

The proposed increased freight access charges for biomass are not in line with the Government biomass energy policy. The use of biomass, which is intended to be a lower carbon renewable fuel, could ameliorate energy problems especially in the short to medium term as it can be brought on stream quickly unlike most other fuel sources. This negative approach towards biomass could also serve to make the UK more dependent on gas with the resulting loss of control over energy and security costs to the economy and society as a whole.

However, Biomass can only be part of the UK's low carbon renewable energy solution as long as it is supported by Government policy across the different departments. At the moment the ORR proposed increases to freight charges are not aligned with DECC work on renewable obligations (ROCs). Biomass requires DECC direct subsidies in order to be priced into the energy market. As a subsidised fuel it is entirely unclear how ORR can possibly conclude that "it can bear higher charges". Biomass is an emerging market and needs Government support if it is to expand and become a viable alternative to coal which makes up around a third of rail freight traffic and the use of which is expected to diminish sharply between now and 2020.

Worsening the financial case to use biomass by increasing its transport costs above a level supported by the ROCs subsidy would result in investors failing to commit to the market. Without investment, biomass generation and rail freight will fail. Therefore we question whether the ORR is fulfilling its duties. High charges now before a market has had time to develop could undermine biomass generation and rail freight services.

If the ORR believes that higher charges would have to be met by higher ROCS subsidies it would be interesting to know:

- Whether DECC agrees with this position?
- What advantage to the country and the taxpayer would be gained by reducing the subsidy paid by DfT in order to channel higher subsidies through DECC?

4. This lack of joined up approach to energy policy could have a serious impact on

- a) Energy supplies
- b) Impact on jobs and investment including rail jobs.

From a rail side that would mean lost investment in ports, terminals, wagons etc, and worse, biomass would not provide a substitute traffic for coal for rail operators and we would expect job losses and possibly market exits.

5. The ORR's proposals to increase freight charges contravene the Government's policy to encourage the conversion of existing coal-fired power stations.



6. Proposed charges could increase biomass charges from between £0.50 to £1.50 per tonne which could cause investors to withdraw from biomass projects resulting in the loss of jobs across the power, construction ports and rail industries. Because of the lower caloric value of biomass than coal, more train capacity will be needed to provide the equivalent power, in the order of one and a half to two trainloads of biomass compared to coal. The proposed charging would penalise biomass compared to coal despite the fact that other Government Departments are trying to reduce these barriers to conversion to biomass.

7. ORR charging consultation implies that coal and biomass are similar economically. This is entirely untrue because, whereas investment has been sunk into coal transport, handling and combustion, in order to use biomass considerable investment will be needed to:

- Convert power stations
- Build supply chains involving rail, ports and pelletising plants abroad
- Provide suitable storage and handling capacity both at ports and power stations
- Convert rail wagons in Britain.

8. Prior to this consultation on increased charging, the Government established financial support systems through the Renewables Obligation (RO) and is in the process of agreeing details of the new feed in tariff with contracts for difference (CfDs). However, this proposed ORR charge is too late to be incorporated into this process demonstrating the lack of joined up Government policy.

8. There has already been some limited investment in biomass by the power, port and rail freight industries which could be made redundant.

9. These proposed charges raise longer term questions about whether the regulator should be pricing off demand from the railways.

10. Duties of the ORR

We would like to highlight that the Secretary of State's guidance to the ORR spells out in more detail the Government's commitment to rail freight expansion. The guidance not only highlights the importance of rail freight distribution to society and the economy (paragraph 32) but stresses the need to take into account the Government's policies to develop rail freight¹ and the need for the ORR to discuss with the DfT any policy which would adversely affect the competitiveness of rail freight compared to other modes (paragraph 34).

*The Secretary of State's guidance expressly states that **the Government recognises the important role that rail freight plays in the nation's logistics and ...the achievement of the sustainable distribution objectives. And that the Government wishes to facilitate the continuing development of a competitive, efficient and dynamic private sector rail freight industry and is committed to ensuring that policies and regulations should work to this end and should not create unnecessary transactional costs or other obstacles to the achievement of these objectives and future growth. (Paragraph 32)***

11. The ORR is only supposed to make charges which *the market can bear* which we do not believe is the case as biomass generation requires Government support through RO's which cannot be increased.



12. A parliamentary response w/c March 24th from the Parliamentary Under-Secretary of State, Department of Energy and Climate Change Baroness Verma must be taken into account. It stated that the Renewables Obligation (RO) biomass subsidy levels, which, subject to state aid approval will take effect on 1 April 2013, do not reflect the Office of Rail Regulation's (ORR) proposal on track access charges, published on 15 February. The (RO) support levels for biomass power generation announced by the Government on 25 July 2012¹ reflect the decision taken by the ORR in May 2012² not to propose a charge at that time, but to await the outcome of the comprehensive review of RO subsidies before considering whether to propose such a charge as part of its 2013 periodic review of rail freight charges.

13. There appears to be a lack of clarity on how ORR have assessed the market, and how they propose to calculate the charge.

14. If biomass is supported by the Government, it can be used to replace coal fired power stations; biomass can also substitute coal traffic which currently accounts for around a third of rail traffic. Loss of this potential traffic will have serious impacts across all sectors. This will have knock on effects on other parts of rail freight, for example locomotive use, maintenance and terminal costs across other commodities which could render other traffic unviable.

15. Freight on Rail members are better placed to comment on the detail in the proposals but we wanted to raise these fundamental issues and ask what assessments has been made of the overall impacts on the rail freight sector of these proposed changes?

16. Long term confidence for customers to commit to investment

Private investors face risks when they invest – risk in changing markets that involve both suppliers and customers. However, they accept those commercial risks and seek to manage them in the normal course of doing business. A major change in ORR policy stands outside normal commercial risk by overlaying a political risk upon the commercial ones.

17. These proposed charges also have to be considered alongside the ORR conclusion on freight charges announced on 11 January which mean that the variable access charge paid by all freight traffic could increase by up to 23% on today's level. Certain commodities namely coal to power stations, spent nuclear fuel and iron ore will also pay a freight specific charge phased in between 2014 and 2019.

18. ORR should take into account the following extract from the McNulty report

The Study has taken full account of the Secretary of State's commitment in his written submission that accompanied the publication of its Interim Submission on 7 December 2010, in which he said:

"I am also clear that the changes the Study is proposing must protect the interests of freight operators on the network."



19. Rail freight's economic, environmental and social benefits must be taken into account in these assessments.

Rail produces 70% less carbon dioxide than road per tonne carried for the equivalent journey so it has a crucial role in reducing freight's overall carbon footprint. *Source DfT Logistics Perspective P8 section 10 Dec 2008*

Energy efficiency of rail - A gallon of diesel will carry a tonne of freight 246 miles by rail as opposed to 88 miles *Source Network Rail July 2010*

An average freight train can remove 60 HGVs from our roads; the largest trains on the network can each remove up to 160 HGVs – *Source Network Rail Value of Freight July 2010*

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ⁱⁱ *The Strategic Rail Freight Network Vision and the Strategic Rail Freight Interchange Policy*



tssa the union for people in transport and travel



SCHENKER

DIRECT RAIL SERVICES



RMT

Freightliner

Campaign for Better Transport



RFG
Rail Freight Group

Freight on Rail is a partnership of many organisations promoting the economic and environmental benefits of rail freight