ATOC

Association of Train Operating Companies

PR13: consultation on electricity for traction charges for control period 5 (CP5)

Date: 13 May 2013

Introduction

ATOC provides a national voice for Britain's passenger train companies, helping to create, inform and shape the rail environment in Great Britain. We bring together all train companies to preserve and enhance the benefits for passengers of Britain's national rail network, which jointly we do by providing the following key services:

- A central clearing house for the train operators, allowing passengers to buy tickets to travel on any part of the rail network, from any station, through the Rail Settlement Plan
- A customer service operation, giving passengers up-to-the-minute information on train times, fares, reservations and service disruption across the country, through the National Rail Enquiries (NRE)
- A range of discounted and promotional rail cards, cutting the cost of travelling by train for groups including young people, families, senior citizens and people with disabilities
- Operational and engineering expertise, promoting safety, setting standards and encouraging excellence across the sector.

ATOC's mission is to work for passenger rail operators in serving their customers and supporting a safe, reliable, attractive and prosperous railway.

Framework for charging

We welcome the opportunity to respond to this consultation and the questions set out in the letter from Cathryn Ross dated 10 April 2013.

ATOC has been in contact with the EC4T Scheme Council, to which all Owner Groups which operate electric services belong to or participate in. The Scheme Council sets the overall procurement strategy for passenger TOCs and discusses matters of commercial concern to operators of electric traction. It has also communicated with train company members of the cross-industry Traction Electricity Steering Group (TESG).

We continue to seek a charging framework for EC4T that is as straightforward and simple to understand as possible and which gets as close to the principle that each participant (including Network Rail) should pay an accurate share of costs. This is the best way to influence behaviour and incentivise all industry players to use electricity efficiently. Several proposals within this consultation moves the EC4T framework in the right direction, particularly the ongoing management of transmission losses and providing greater certainty for operators to invest in on-train metering.

We recognise that ORR has been open and honest in addressing some long-standing EC4T issues of difference, but we feel these will only be resolved by all industry players, including ORR, increasing attention on issues such as reduction of losses and providing better management information to TOCs.

As we have made clear in responses to previous ORR consultations, each set of questions being posed need to be placed in the context of the intended direction of travel for ORR as an economic regulator. A thorough understanding of the whole regulatory picture is necessary, rather than dealing with items in a piecemeal fashion. This is why the forthcoming strategic regulatory statement is so important and we look forward to being able to review and comment on this when it is issued next month. Ultimately, the goal must be to focus effort and be ready to step in where there is clear evidence of market failure.

It is disappointing that we have only had four weeks in which to consider these important questions. The Better Regulation Task Force recognised within their five principles the need for sufficient time to be given to stakeholders for consultations (at least 12 weeks) as well as sufficient information to assess the proposed changes (regulatory impact assessments).

There are two further points that ATOC would wish to make in relation to the overall framework for EC4T.

First, on electricity prices, as we have indicated for some time including in responding to Network Rail's consultation last Autumn we believe that costs should lie where they fall. Should freight come off MLUI, as Network Rail have proposed, the question of whether freight should be part of the cost wash up arises and, if so, with what pricing. If Network Rail and ORR confirm the intention that freight should come off MLUI, we would seek to ensure that charging for freight, where this is reasonably possible, is separated from charging for other operators. This could be achieved by any cost/under recovery being charged at Network Rail's own purchase cost.

Second, although ORR is not specifically consulting on it in this letter, we continue to have significant concerns about Network Rail's proposal for the allocation of transmission costs according to TOCs' actual consumption in the triad half hours. We continue to believe that this proposal is an unnecessary further complication to the charging system, making it harder to forecast costs year-on-year and thus making it more difficult for TOCs to plan their businesses. To illustrate the issues involved, if (for example as a result of snowfall) a TOC had a significantly reduced demand in the triad half hour compared with TOCs less affected by snowfall, it would get a credit for this rather than the reduced MW triad charge effectively being shared across all TOCs on a 'self-insuring' basis as now. The following year it would most likely see an increase again. Although this might be thought to improve cost reflectivity, a recurring concern of train companies is the difficulty of forecasting their bills, either for budgets or even year, and they value simple approaches that allow them to manage their overall bills.

ATOC will continue to encourage multi-party dialogue on these matters through the EC4T Scheme Council and the cross industry TESG.

Process for setting the level of transmission losses

<u>Question 1</u>

We would like to know your views on all of the issues raised in this section of our letter. In particular, should we amend the traction electricity rules so that we take the decision on the DSLF as part of an access charges review (i.e. a periodic review or interim review), and remove the industry's ability to propose and vote on the same?

ATOC agrees with the mark-up to reflect transmission losses (known contractually as DSLF) being set for CP5 as part of the periodic review process. However, we are not yet persuaded about the proposal to remove the ability for the industry to discuss and amend the DSLF subsequently during CP5 using the EC4T metering rules. Although ORR states the latter inserts an uncertainty into the regulatory framework and thus results in cautiousness and franchise risk bid premiums from operators, ATOC would argue that the concept of needing formal proposals, voting and a majority (of metered operators plus Network Rail) injects sufficient checks and balances into the process. One suggestion would be to include a reopener provision after three years, provided the change methodology is clear and the evidence for change exists.

ORR proposal for charging for losses for metered services

<u>Question 2</u>

We would like to know your views on all of the issues raised in this section of our letter, in particular the questions below:

a) **We are minded to set a DSLF by ESTA and establish new ESTAs for new electrified infrastructure, at least for CP5. Do you agree with this policy? Please give reasons for your view. It would be useful if you could cite specific examples why you think this would or would not be appropriate;**

b) **We propose to change the basis on which transmission losses for metered consumption are charged so that the DSLF is applied to the gross metered consumption, rather than metered consumption net of metered regenerative braking, as it is currently. Do you agree that this will deliver a more cost-reflective basis of charging for transmission losses? Please give reasons for your view; and**

c) **We propose to accept Network Rail's median estimate of the DSLF, subject to it being levied on gross consumption, but we do not accept Network Rail's assertion that losses would necessarily increase over CP5. Do you agree with our assessment? Please give reasons for your view.**

a) ATOC agrees with the proposal to set DSLF by ESTA and to set up new ESTAs for new electrified routes. A key principle for adjusting existing ESTAs or setting up new ones should be the commercial landscape of the disaggregated railway, rather than the internal operational or organisational landscape of Network Rail. New ESTAs for GWML west of Heathrow Junction and MML north of Bedford should be set up, even if driven from the same substations and HV feeders as southern & central WCML or southern & central ECML. ATOC would also argue from a commercial perspective that any DC consumption should not be embedded in AC ESTAs. There should be a separation of DC consumption on southern WCML and southern ECML out from AC consumption. Given that any changes to existing ESTAs involve spillover effects on volumes and cost, we also believe that Network Rail bring all proposals for additional ESTAs, or for changes to existing ESTA boundaries, to a recognised cross industry forum to seek their views and endorsement of such proposals before they are instituted. Thought will need to be given to measurement of consumption by Network Rail associated with commissioning the newly electrified lines.

b) ATOC agrees with the proposal to move to losses being accounted for in the billing process via a gross basis rather than net basis. However, ATOC would recommend engagement with Network Rail and the adoption of a possible migration timescale within CP5 given the level and scope of changes understood to be needed to the TABS billing system anticipated to accommodate this change. Network Rail will have to consider how non metered consumption by third parties (e.g. LUL) is treated during CP5 under the revised proposals for DSLF and metered services.

c) ATOC agrees with the proposal that losses should be assumed constant for the whole of CP5 and derived from Network Rail's median estimates per AC ESTA (corrected to gross basis). However, we would seek further evidence for the proposed figures for DC ESTAs to confirm that they are both correct and challenging.

Exposing Network Rail to, and exempting metered services from, the volume wash-up

Question 3

We would like to know your views on all of the issues raised in this section of our letter, in particular we propose that metered services be exempt from the volume wash-up, even in cases where more than 90% of consumption is metered, this reform would be coupled with Network Rail being exposed to the volume wash-up. We seek your views on this proposal.

ATOC understands the end target of Network Rail being exposed to volume wash-up over and above its own consumption, but this should only be enacted once there is agreement that the DSLFs proposed for all ESTAs are correct and challenging. It is important also that the other causes of the volume wash-up (including other parties' consumption and inaccurate consumption rates) are better quantified. This is a multi-year task and progress has been slow. The position on DSLFs should be the case irrespective of whether Network Rail promotes or does not promote on train meters (OTM). We recognise the work carried out by Network Rail in support of on-train metering to date. ATOC agrees with the proposal to abolish the requirement to revert back into the wash-up arrangements where more than 90% of consumption is metered (per ESTA). This is currently one of the prime disincentives for operators to move to OTM.

Question 4

We would like to know your views on the issues raised in this section of our letter, in particular our proposed formulation for Network Rail to share the volume wash-up. We welcome your suggestions for specific alternative formulations.

Network Rail would be able to gain as well as lose from sharing in the volume wash-up and we would not support a blanket policy of Network Rail sharing in the volume wash-up whilst so many outstanding questions remain about the size of the wash-up. If it were largely or entirely driven by transmission losses, we would be more comfortable, but errors in consumption rates clearly remain. Any gains should not be at the expense of operators in ESTAs where the proposed DSLF may have been set inadvertently at too high a level. The proposed formula for any sharing of the volume wash-up would have to strike the balance between being reflective of actual manageable losses and not being overly complex. There would need to be sufficient checks and balances in place to intervene where there is clear evidence that the DSLF has been set incorrectly.

We continue to believe there is a case for a general review of consumption rates to address long-running discrepancies that cause significant financial swings in the cost wash-ups. Our view, which we put forward in the last Control Period as well, is that adjustments could be made relatively easily where a single TOC dominates the ESTA e.g. c2c or Merseyrail.

Question 5
We also seek your comments on our assessment of risks and the incentive properties of the different options.

ATOC does not have access to individual operators' bills and wash-up credits/debits, so we are unable to comment on risk quantification. The proposal does seem to have an incentivising effect and should encourage a further move towards OTM.

Applying an uplift on modelled consumption

Question 6
We would like to know your views on the issues raised in this section of our letter, in particular:

a) **Do you agree with our views on PFM and the basis on which it should be charged?**

b) **What is your view of our suggested method for allocating the volume wash-up?**

c) **Do you have an alternative formulation that you wish to propose?**

In all cases, please give reasons for your views and/or proposals.

a) ATOC agrees with the proposal to incentivise partial fleet metering (PFM) through reduced volume wash-up exposure. We believe that Network Rail should be continuing to invest in cost-effective techniques for billing metered trains, particularly partially-metered fleets.

b) ATOC believes that Network Rail retains an obligation to ensure a reasonable and accurate allocation of the wash-up amongst operators as set out in Schedule 7 of the Track Access Contract. We are uncertain of the basis of the exponential factor 4 in the proposed charging formula and we would only support it if it could be clearly tied back to actual consumption patterns from a part-metered fleet. It seems it stems from the objective of having a non-linear relationship between the metered fleet percentage and residual volume wash-up share. If the value of the exponential factor is not underpinned by a theoretical basis, but has been chosen rather more arbitrarily, then it should be set at such a level that the incentives it creates operate in line with industry expectations. In line with TESG discussions during the latter part of 2012, we would endorse the Birmingham University study which concluded that 30% fleet metering should be seen as the level necessary to achieve a reasonable degree of accuracy for energy usage. The incentives should be built around achieving this level of partial fleet metering rather than the proposed non linear equation that does not seem to show a significant benefit until the fleet rises above 40% metering.

c) We do not have an alternative formulation to propose at this stage, but would like the issues we have raised above to be addressed.

Network Rail's own consumption of EC4T

Question7
We would like to know your views on the issues raised in this section of our letter, in particular whether you agree that Network Rail's metered consumption should be treated on an equivalent basis to other metered consumption? What conditions do you think should apply to this? Please give reasons for your views.

ATOC agrees that Network Rail's metered consumption should be treated like all other metered consumption (so long as the meters meet equivalent accuracy targets and are subject to third party audit on ORR or operator request). ATOC proposes that Network Rail should be obligated to meter any consumption resulting from new, or enhanced network performance initiatives, e.g. points heaters, 3rd rail heaters, line-side power factor correction equipment, signalling equipment etc. For multiple instances of notionally similar, but individually low consumption, the concept of partial fleet metering could be extended to Network Rail by agreement.

Enquiries

Please address any enquiries to:

Jonathan Chatfield
Manager Regulation
Association of Train Operating Companies
3rd Floor
40 Bernard Street
London
WC1N 1BY
jonathan.chatfield@atoc.org