Freightliner

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Dear John

Periodic Review 2013 – Consultation on electricity for traction charges for control period 5 (CP5)

I am writing to you in response to the ORR consultation on the proposed electricity for traction charges for CP5. This is the formal response of Freightliner Group – representing Freightliner Limited and Freightliner Heavy Haul Limited.

1. Introduction

1.1. In our previous responses to both the Office of Rail Regulation (ORR) and Network Rail (NR) consultations on the proposed traction electricity (EC4T) and asset usage charges for CP5 we highlighted that these represent material costs to Freightliner. Consequently, any changes to these costs affect our ability to compete with our road competitors and future investment decisions on the balance of diesel or electric traction within our loco fleet.

1.2. We are concerned that there has been no feedback to the previous consultation responses either in separate publications or within this latest consultation regarding the fundamentals of EC4T charging. Our primary concerns are:

a) How a modelled user will be treated under the CP5 regime should they decide not to convert their train fleet to metering?

b) What change can we reasonable expect on the asset usage charge? and,

c) Whether there will be further incentives to convert to metered billing?

1.3. In our response to the Network Rail (NR) consultation in October 2012 (on traction electricity and asset charges for CP5) we would commented that there has been no transparency or evidence to justify NR's proposed increase (near doubling) in the EC4T asset usage charge. Although this point has been acknowledged by ORR in this consultation there still appears to have been no detailed evidence made available by NR to justify the judgements they have made to date.

1.4. We support the proposal that NR should be exposed to transmission losses on the volume they consume and that an apportionment of the losses from operator consumption should also be levied to NR to deliver an incentive to reduce overall transmission loss across the network. The level of this levy has to be sufficient to genuinely incentivise improvement by NR through investment in more efficient kit.

1.5. We support the fixing of transmission losses for the whole control period to provide certainty of charges and stability to an operator’s business case when evaluating whether to fit meters to their train fleets.

1.6. Given the time left before CP5 starts (1 April 2014) and the continued uncertainty on the specifics of metered billing, we would suggest an unmetered operator will struggle to be in a position to join metered billing from 1 April 2014 with the gaps in knowledge highlighted.

2. Setting Transmission Losses

2.1. We support the proposal to set and fix the Distribution System Losses Factor (DSLF) for the Control Period. This provides certainty for operators. We agree that it is right for NR to share some apportionment of the transmission losses that are applied to operators to provide NR with an (ultimately financial) incentive to continue to reduce transmission losses.

3. Charging for losses for metered services

3.1. We feel that it is regrettable that Network Rail still appears to have little empirical evidence for transmission losses despite the considerable time dedicated to the matter, particularly given the financial impacts that pass to the operators.

3.2. We see the logic in a national DSLF, split between AC and DC, from our perspective as a national operator on a weighted by activity basis but that this should not change over the course of the Control Period unless there is a material shift in location of activity. This makes for an administrative simpler charge. For non-national operators we see the logic in transmission losses by ESTA but are concerned over the administrative cost (upgrades to NR’s billing system) that maybe associated with it.

3.3. We do not agree that it is acceptable to adjust the value during CP5 on the back of proposed electrification enhancement in CP5. Nor is it reasonable to adjust it estimated increases in losses during CP5. We contend that the majority of EC4T schemes will not be completed until well into the second half of CP5 so a sudden surge in transmission losses is unlikely and the using traffic volumes as a proxy for transmission losses is too simplistic.

3.4. In addition, the consultation document points out the fact that NR have so far provided no technical evidence to support its assumption over the estimated increase in transmission losses on the AC network in CP5. NR believe that their estimate is 'conservative' and it appears that ORR is proposing to accept their figures on the basis that this will result in a 'right side failure' should the transmission losses not match the estimates. We struggle to understand how this approach can be reliable when the consultation already acknowledges that NR's estimates have been formulated without any empirical evidence. On the face of the information provided, it would appear that NR have provided the ORR with little credible evidence to support their estimations, but yet these are being taken forward on the basis that there is no other evidence to drawn upon.

3.5. We hope that with the new infrastructure and technology being used means NR is on a continuous improvement path but this does not appear to have been considered in the estimates.

3.6. While we can see the logic in creating new ESTA's for new electrified infrastructure this may add significant complexity to the system, particularly if small infill routes are added to the existing infrastructure, which could potentially lead to a long list of very small ESTA's.

4. Exposing Network Rail to the volume wash-up

4.1. We agree with the principle that metered operators should not be exposed to the volume wash-up as this would undermine a consideration in converting to metered billing. However, the primary reason for conversion is if an operator believes their existing modelled consumption is greater than their actual (metered). This fundamental is supplemented by their expectation of consumption reduction through different driving styles and exclusion from the volume wash-up but these two do not drive the business case.

4.2. Network Rail should be exposed in some form to the volume wash-up to ensure that they are incentivised to reduce transmission losses. We do not agree with their argument that this acts as a disincentive to promote metering. As the infrastructure owner, their primary objective is not to promote metering to operators as behavioural change is determined by the ORR policy.

5. Calculation of Network Rail's share of the wash-up

5.1. The proposed calculation of NR's share of the wash-up appears reasonable although it is difficult for us to comment further with the limited technical knowledge that we have. However, a key question remains unanswered: how will the proposed changes affect an operator that opts to remain as a modelled user? The consultation does not appear to address this in sufficient detail.

6. Other matters for consultation

6.1. We regard Partial Fleet Metering (PFM) as a pragmatic solution for the DC network where the number of meters required for each train makes full conversion cost prohibitive. In some cases, particularly in the southern ESTA's there will naturally be a majority or 'monopoly' passenger operator so we don't think that the introduction of meters would add materially to the billing of consumption.

6.2. However, for AC operators the costs are likely to be significantly lower, crudely one meter per pantograph. Therefore the introduction of a quasi-scheme such as PFM undermines the management of consumption driver behind metering. Furthermore it adds complexity where a simple delineation of metered and un-metered traction sustains the full incentive to convert (if it exists in the first place). As with multiple DSLF there is the administrative cost of converting NR's billing system to cope with PFM that shouldn't be funded by operators.

If you require any further input from Freightliner or require any clarification relating to the points raised please let me know.

Yours sincerely

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