



John Jellema
Office of Rail Regulation,
2nd Floor, Tara House,
46 Bath Street,
Glasgow,
G2 1HJ.

Transport for London
Rail and Underground

55 Broadway
London
SW1H 0BD

alansmart@tfl.gov.uk

020 7027 2621

8th May 2013

Dear John,

Periodic review 2013: consultation on electricity for traction charges for Control Period 5

This letter sets out the views of TfL on the questions raised in the ORR's consultation on traction electricity charges for Control Period 5. TfL is content for the contents of this response to be published and shared with third parties.

1. 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 (the markup levied to represent transmission losses) 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?

TfL disagrees with the proposal to only make changes to the DSLF as part of an access charges review. The regulations governing the DSLF should permit it to be reduced during a Control Period if Network Rail and / or an operator can demonstrate that they have adopted measures that have reduced it. This approach will incentivise the industry to research and implement measures to reduce the losses factor on a continuous basis. The DSLF should not be increased during a Control Period to partially protect operators from the risk of rising energy costs which are outside their control. The level set at the start of the Control Period is based on past evidence and should therefore continue to be achievable throughout the Control Period concerned.

2. 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;

TfL disagrees with the proposal to set DSLF by ESTA as this could make the allocation of electricity costs less accurate. Changes in ESTA boundaries and changes to electric traction traffic levels within current routes as electrification is extended during CP5 may alter the differentials between ESTAs, making it unwise to geographically disaggregate the charge based on the current network and operations when these will be subject to significant change during CP5.

(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

TfL accepts the proposal to levy the DSLF on gross metered consumption rather than metered consumption net of regenerated energy, as this should better represent the potential losses of regenerated energy within the distribution system. This change will also help to minimise the risk that operators using modelled consumption rates suffer cost increases during CP5, by increasing the proportion of overall power costs paid by metered operations.

(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.

TfL accepts the median estimate of the DSLF, subject to it being levied on the gross consumption of metered operations. TfL does not accept Network Rail's assertion that losses will increase during CP5; this appears unduly pessimistic when much work will be done to upgrade and extend the power supply infrastructure during CP5.

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.

TfL is concerned that the proposed changes could lead to operators using modelled consumption rates being required to pay a greater proportion of the overall cost of electricity supply than is currently the case. The consultation document refers to the costs experienced by modelled operations rising by up to 10% which is a significant change. This proposal is unfair to operators such as London Underground who run older rolling stock where there is no financial or business case for metering, particularly where this rolling stock uses a Direct Current power supply which is difficult and costly to meter. The supply of power to London Underground has always been undertaken on a gross cost basis without the application of mark ups for losses and other factors. It is unreasonable to change this without making any effort to improve the quality of information on electricity consumption and supply available from Network Rail in a manner that is feasible and represents value for money.

TfL does accept the need to ensure that (as far as is practicable) operators pay for the power they use. There are other ways to achieve this besides on train metering, including the installation of more meters within the power supply infrastructure to ensure that the electricity used by certain service groups can be identified in a more accurate manner. The installation of such additional meters should underpin a robust billing process giving clear accountability for data collection, quality and supply. The ORR should incentivize the rail industry (particularly Network Rail) to improve the granularity of the metering capability within the power supply infrastructure during CP5, rather than penalising those operators who cannot readily adopt on train metering for reasons of cost and practicality. The industry should also ensure that (where used) on train metering is subject to regular auditing to confirm that it is functioning correctly, with penalties being levied for non compliance with the required standards.

Another area where greater cost reflectivity could be achieved is train stabling. Consideration should be given to separately metering (on the supply side) and billing large stabling sites, particularly where the trains themselves remain unmetered to ensure that power consumption costs are properly attributed. This alternative would be preferable to imposing additional costs on modelled operations.

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.

TfL has no comment to make on this question.

5. We also seek your comments on our assessment of risks and the incentive properties of the different options (for calculating Network Rail's share of the volume wash up).

TfL has no comment to make on this 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.

TfL has no comment to make on these questions.

7. 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.

As stated above, TfL considers that the billing system should be as cost reflective as practicable. If Network Rail's metered consumption is an accurate representation of their actual power usage then this should be treated on an equivalent basis to other metered consumption. This approach should give Network Rail the incentive to improve their metering capability. Hopefully this will also lead to improvements to the accuracy of the billing for operators currently reliant on modelled estimates of consumption, by driving the enhancement of metering capability within Network Rail's power supply infrastructure.

Yours sincerely,

**Alan Smart,
Principal Planner – Forecasting,
Rail Planning team.**