10 August 2012

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

Dear Mr Quill,

Re: Periodic Review 2013: Consultation on the variable usage charge and on a freight-specific charge - Response from Centrica Energy

I divide our response into general comments in response to consultation document and then specific responses to the questions posed:

1. General Comments

Points 18, 24 and 25

The judgment that the coal and spent nuclear markets can bear an increase because demand is inelastic feels uncomfortable. Of course demand is inelastic. There is no real substitute to rail for coal power stations that are not located on a deep water port. The only realistic substitution for an inland power station is with shorter rail journeys (E.g. imported coal via sea and shorter rail journey as opposed to Scottish coal by longer rail journey).

Point 20

Network Rail will effectively self-assess its freight–avoidable costs. Extensive independent scrutiny will be required for the industry to take confidence in the figures provided by Network Rail.

2. Specific responses to Questions (Where blank indicates no response)

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4.56 A commitment not to impact rail freight by more than 10% is good since it provides a mechanism to redress unintended consequences for the new charge. However, disentangling the impact of the new charge from external factors affecting coal volumes will be problematic. For instance, how do you separate the % decline as a result of the imposition of a freight avoidable charge and the % decline as a result of wider industry influences (E.g. rising carbon price, change in clean dark spread in relation to clean spark spread, IED or other European emissions directives).

These latter influences will have a much greater impact on rail freight volumes of coal than the variable track charge or freight avoidable charge. Indeed, it is quite conceivable that we will see a 10% decline in coal volumes from 2014 to 2016 irrespective of any changes in rail freight charges. How will ORR separate this impact from the impact of the new charge?

A further problem will arise as to how and where you set the baseline against which you are measuring the impact of a new charge.

- Alternative 1: The new access charge is only applied to new supply chain routes and new volumes with no cap. This allows operators to factor in the costs in advance of deciding between supply routes. Existing routes (and volumes) would be grandfathered at the existing rates.

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6.83 The studies do not adequately capture the impact of proposed changes on UK CO_2 emissions. For instance, would an increase in road transport in place of rail or the displacement of Scottish coal by coal imported via sea increase supply chain emissions? The documentation does not address this question but if emissions were to increase as a result of proposed changes, it would undermine the national approach and policy towards emissions reductions.
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6.85 No – disagree due to concern about the impact on consumer bills at a time when so many households are in fuel poverty
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6.88 Yes – agree due to the existing regulatory uncertainty surrounding biomass. The definition of biomass will need careful consideration since biomass is not exclusive to the power industry. Biomass includes pulp (paper and pulp industry) timber (construction industry) and recycled wood (waste industry). There is a heightened risk of unintended consequences for a variety of industries if biomass is subjected to an asset specific charge.

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Yours sincerely

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