OFFICE OF RAIL REGULATION

Periodic Review 2013: consultation on a freight specific charge for biomass

February 2013

Contents

1. Introduction

1.1 This consultation concerns the introduction of a freight specific charge for the haulage of biomass. We have previously announced, in January 2013[1] (the January document), a decision to introduce such a charge for coal for use in the electricity supply industry (ESI), spent nuclear fuel and iron ore, and we set caps for those charges.

1.2 In the January document we explained that we would consult on a charge for biomass for CP5[2] as part of PR13. This represented a change in position from our May 2012 consultation document[3], in which we proposed to delay making a decision on a freight specific charge for biomass until after PR13. We had proposed this on the basis that the market for biomass was emerging, and that it was not yet clear how the market would develop. The majority of consultation respondents told us that they would prefer to know in PR13 whether we would introduce a freight specific charge for biomass, not least as this would provide greater certainty for their forthcoming investment decisions. In addition, a number of respondents argued that biomass, as a close substitute for ESI coal, should be charged on an equivalent basis to it.

1.3 We agreed that any charge for biomass should be determined as part of PR13. We are therefore now consulting on a proposed freight specific charge for biomass, with a view to setting out our provisional assessment as part of our draft determination in June 2013 and the level of the charge as part of the final determination in October 2013.

1.4 This consultation discusses:

(a) The background to the proposed freight specific charge and the industry sector (in section 2); and

(b) The proposed level and coverage for the charge (in section 3).

1.5 Two annexes set out the consultation questions and consider the biomass specific responses received to the May 2012 consultation.

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[1] Rail freight: conclusion on the average variable usage charge and a freight specific charge, January 2013, http://www.rail-reg.gov.uk/pr13/PDF/freight-conclusions-jan-2013.pdf

[2] Control Period 5, 1 April 2014 to 31 March 2019.

[3] Consultation on the variable usage charge and the freight specific charge, http://www.rail-reg.gov.uk/server/show/ConWebDoc.11083

1.6 We welcome responses on any aspect of this consultation. Please send your responses in electronic (or, if this is not possible, in hard-copy) format by Thursday 28 March 2013 to:

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1.7 Our aim is that all documents on our website adhere to certain standards of accessibility. For this reason, we would prefer to receive your correspondence in an editable format such as Microsoft Word. If you do send a PDF document or similar, we would be grateful if you could create it from an electronic file rather than an image scan, and ensure that no security is set in the document properties.

1.8 If you send a response, you should indicate clearly if you wish all or part of your response to remain confidential to ORR. Otherwise, we would expect to make it available on our website and potentially to quote from it. Where your response is made in confidence please can you provide a statement summarising it, excluding the confidential information, which can be treated as a non-confidential response. We may also publish the names of respondents in future documents or on our website, unless you indicate that you wish your name to be withheld.

2. Background

The freight specific charge

2.1 We have decided to introduce a new charge in CP5 – a "freight specific charge" – for freight services carrying commodities where there is comparatively little competition with road haulage.

2.2 In CP4[4] Network Rail receives an average of £4bn a year from network grants direct from government, in addition to the £2.3bn a year it receives from passenger and freight operators and other sources (such as property revenue). Now more than ever it is vital that everyone plays their part in maximising the value for money that users and taxpayers get for their contribution to the rail industry. We are keen to improve the extent to which the charges that Network Rail's customers pay reflect the costs they impose on the network. More cost reflective prices help to drive cost savings and send better signals to Network Rail and its customers for the efficient provision and use of access to the network, which is itself a scarce resource. More cost reflective charges also improve transparency – making it clearer who pays for what and what they receive in return. In our view, the freight specific charge is an important step in improving value for money.

2.3 A substantial proportion of the public financial support for the rail industry benefits rail freight. All train operators pay a variable usage charge for each vehicle they run on the network. But only franchised passenger train operators pay a fixed charge, which contributes to infrastructure costs beyond the costs generated simply by running additional vehicles. In 2011-12 passenger train operators paid £887m to Network Rail in fixed charge, 14% of the company's total revenue. Over time we are keen to see network grants fall and the level of charges that passenger train operators pay directly increase, with passenger operators more exposed to changes in Network Rail's costs to improve their incentives to work with Network Rail to delivery efficiencies. The comparable charge that freight operators pay (the freight-only line charge) amounted to around £6m in 2011-12. On the basis of the calculations in our January decision document, freight contributes currently only 21-28% to the infrastructure costs it generates by running trains on the network.

2.4 There are good reasons to subsidise rail freight. This is because there are wider economic and social benefits of moving freight by rail rather than road. Without rail freight, there would have been an additional 6.7 million road journeys in 2007-8. Switching from road to rail reduces CO_2 emissions by 70% per tonne moved and generates benefits in terms of reduced road congestion equivalent to 28 pence per HGV mile avoided. This is why the UK and Scottish governments have consistently supported rail freight, and have funded substantial investments to improve rail freight infrastructure - for example gauge enhancements on the Felixstowe to Nuneaton and Southampton to the West Midlands to allow large containers to be carried by intermodal traffic and the Grangemouth branch improvement.

2.5 But the wider economic and social benefits that underlie the subsidy to rail freight are generated principally when freight that would otherwise have travelled by road travels by rail. To date, rail freight has

[4] Control Period 4, 1 April 2009 to 31 March 2014.

benefitted from subsidy even where it cannot easily or economically switch to road. By introducing a freight specific charge for these commodities, we will increase the extent to which they contribute to the costs that freight imposes on the rail network. And in doing so, we will reduce the overall size of the subsidy that Network Rail receives (through grant directly from government) and the fixed charges paid by passenger train operators.

2.6 Network Rail provided estimates of the costs that freight imposes on the network ("freight avoidable costs") and these were reviewed by the independent reporters[5], Arup. We listened to the views of the industry and its customers during our earlier consultation and took a conservative view, setting caps for electricity supply industry (ESI) coal, spent nuclear fuel and iron ore on the basis of our estimate of the low end of the range of avoidable costs (£278m a year).

2.7 Moreover, in order to address concerns raised during our extensive stakeholder engagement, we decided it was appropriate that Network Rail phase these charges in gradually over the last three years of CP5 to allow businesses time to adapt. We set caps on the level of the full charge for each of the three commodities. The level of the charge will be zero in the first two years of CP5 (2014-15, 2015-16), rising gradually to the full level by the end of CP5 (2018-9). The January decision document showed a level of the cap for each commodity in each year of CP5, assuming a gradual introduction of 20% of the charge in year 3, 60% in year 4 and 100% in year 5 but these are example figures. Network Rail is currently consulting on this profile[6]. The introduction of the freight specific charge is intended to see rail freight pay a greater contribution to the costs that it imposes on the network. The proportion of Network Rail's costs that the freight sector will pay as a result of freight specific charges at these levels will clearly depend on our view in PR13 on Network Rail's costs, and on levels for variable charges, fixed charges and network grant. But if the freight sector were to pay the full level of the charges announced for the three commodities it would make a contribution of around 30-35% to the costs it generated in running trains on the network.

Biomass

2.8 In deciding which commodities should be subject to a charge and setting caps we have considered reports produced by our consultants, NERA and MDST, on the transport of commodities in general and, for coal, nuclear fuel and biomass, their use in the ESI in particular[7]. In our May 2012 consultation we summarised some of the points made about biomass and the possible impact of imposing a freight specific charge on its transport by rail. Since then there have been further developments in the market.

2.9 The biomass market is presently small, though fast growing, and there is greater uncertainty than there is for other commodities about its prospects and about the impact of increases in track access charges on demand for it.

2.10 The UK has a legally binding target under the EU Renewable Energy Directive to increase the share of renewables in final energy consumption[8]. To meet this target, certain types of power generator that use

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[5] The reporters are independent experts who provide us with assurance of the accuracy and reliability of Network Rail's information.

[6] *Consultation on the phasing in of the freight-specific charge and other issues*, Network Rail, 8 February 2013, http://www.networkrail.co.uk/publications/delivery-plans/control-period-5/periodic-review-2013/

[7] These reports can be viewed on the ORR website page Consultationonthevariableusagechargeandafreightspecificcharge

[8] The target is legally binding on the UK Government, though the Scottish Government has its own policy objectives in this area. This includes a target of at least 30% overall energy demand from renewables by 2020 compared to the EU's agreed UK target of 15%.

biomass are eligible for support under the Renewables Obligation legislation. The costs of this scheme are funded by a levy on customers' electricity bills. For each unit of electricity produced, power generators are awarded Renewables Obligation Certificates (ROCs). Generators can sell these ROCs to electricity suppliers, who will use them to demonstrate compliance with their obligation to present a certain number of credits to the energy regulator, Ofgem.

2.11 In July 2012 the Department of Energy and Climate Change published its response to a consultation on proposals for the levels of banded support under the Renewables Obligation and, in October 2012, a fact sheet on "Grandfathering and cost control for biomass co-firing and conversions". These clarified the likely level of support for biomass in England and Wales. The Scottish Government consulted in this area in 2011 and 2012 before publishing its response and decisions on February 7th 2013[9].

2.12 Most existing dedicated biomass power stations have been developed on a small scale, and so are likely to purchase biomass from their local areas and make little use of the rail network. Rail transport is used for biomass that is a feedstock for coal-fired power stations through "co-firing", whereby wood pellets or other forms of biomass is blended with coal in the combustion process. Biomass usually only makes up a small proportion of fuel burned but some power generators have announced plans for increasing its use considerably. Drax, the UK's largest power station, has said that it "has full confidence that it has the ability to transform itself into a predominantly biomass-fuelled generator. Initially, Drax plans to convert three of its six generating units to burn biomass; the first in the second quarter of 2013 and the second a year thereafter."[10]

2.13 The potential for expansion of biomass demand from the ESI is considerable. A report on "Biomass conversion of coal plant" by Mott MacDonald for the Committee on Climate Change in October 2011 estimated that a full conversion programme running at high load would require more fuel (80mt/year) than is estimated to be available, which could be about 45mt/year. For comparison, in 2010-11 1.5mt was burnt in co-firing plants and 2.9 mt in dedicated biomass plants[11].

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[9] *Renewables Obligation Banding Review 2011-12; see* http://scotland.gov.uk/Topics/Business-Industry/Energy/Obligation-12-13/ROReview11-12Response and http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Obligation-12-13/SupplementaryB-D

[10] http://www.draxpower.com/biomass/cofiring_plans/

[11] MDST stage 2 report July 2012 tables 13 & 14.

3. A freight specific charge for biomass

Basis for the charge

3.1 We have concluded that the freight specific charge would be set to recover freight avoidable costs, net of other freight charges, for the market segments concerned. We have set a cap on each charge on the basis of our low estimate of Network Rail's freight avoidable costs, net of other charge revenues and excluding the cost of freight-only lines. The charge will be phased in from April 2016. This resulted in a cap of £4.04 per thousand gross tonne miles (kgtm) for ESI coal.

3.2 The legal and other considerations involved in setting a freight specific charge were discussed at length in chapter 4 of the January document. Discussion here concentrates on two particular aspects relevant to considering whether this method of setting a charge should also be applied to biomass:

(a) The impact on competition with road transport; and

(b) The effect on the electricity generation market.

Competition with road transport

3.3 Under our legal framework, we need to assess the potential of the charge to result in a material transfer of the market segment to road haulage.

3.4 Our understanding, on the basis of advice from our consultants, responses to our consultation and our own research, is that we can consider the transport of biomass, both currently and as the market develops, to be in three main categories:

(a) Biomass that is imported and transported by rail to a biomass or co-firing power station;

(b) Biomass produced in the UK, typically transported to smaller biomass plants, often for industrial use. Such biomass is transported by road, with little competition from rail; and

(c) Biomass that is imported to a power station located in proximity to the port, making little use of either road or rail.

3.5 Our consultants MDST considered the impact of an additional charge of £5 per thousand net tonne kilometres for a number of existing and potential biomass flows by rail from port to large existing power station. The results[12] were that road transport remains more expensive, and would still be so with much higher charges, and that transfer to road would be unlikely.

3.6 MDST stated that "in the case of smaller (less than 50MW) biomass power stations that may be associated with industrial plants and therefore not necessarily located near a port or an existing coal fired

[12] Shown in table 17 of the MDST stage 2 report July 2012. http://www.rail-reg.gov.uk/pr13/PDF/mdst-freight-tac-changes-jul2012.pdf

power station, the imposition of a high [charge] could easily discourage the use of rail." Our understanding is that such commodities would tend to be transported by road, with little competition from rail, but we would be interested in consultees' views and evidence on this.

3.7 There is uncertainty about the extent to which new plants will rely on rail and further uncertainty about the impacts of increases in track access charges on demand for biomass. Some plants may be inland but many plants may locate close to existing ports because a high proportion of biomass is likely to be imported. Higher track access charges are likely to make port locations more attractive relative to inland locations.

3.8 It may be the case that a freight specific charge could affect the siting of new biomass power stations so that they are nearer ports or even conversions of coal-fired power stations, with a resulting lower demand for rail transport. However, there is reason to think[13] that there may be serious constraints on the expansion of biomass imposed by the ability to import through the UK's ports and transport it by rail to power stations. The costs of addressing these constraints, some of which are likely to involve incurring further freight avoidable costs, may be large compared with the charge being considered.

3.9 In general, it seems to us that a charge is unlikely to divert significant biomass traffic to roads. This is because small biomass plants using local feedstock tend to be served by road while for larger plants the cost difference between rail and road is large compared with the levels of the charge we propose. We are interested in consultees' views.

3.10 **To what extent might higher access charges increase biomass road transport?**

Electricity generation market

3.11 A number of consultees argued strongly that biomass, as a close substitute for ESI coal, should be charged on the same basis as ESI coal, and that to do otherwise would distort competition. We consider the impact of the charge on competition between these two fuels in this section.

3.12 In many instances biomass competes with coal in electricity generation, through both co-firing and conversion. Biomass is subject to a ROC subsidy, whereas ESI coal is subject to an additional charge necessary to purchase a carbon permit.

3.13 Our consultants, NERA, provided a sense of the magnitude of rail freight costs in Figure 2.8 of their May 2012 report[14]. On the basis of a number of assumptions they estimated the dispatch cost of generation for Rugeley, a coal fired power station where transport costs are relatively high. The forecast coal dispatch cost for 2016 was around £60/MWh with no additional freight charge and it was increased by £1-1.5/MWh with an illustrative charge of £10 per thousand net tonne km (equivalent to £8 per kgtm, approximately twice the level of the cap we have set for ESI coal).

3.14 NERA argued that the potential variable cost of biomass generation may be less than zero when subsidy is taken into account. This means that there are very substantial differences in the variable costs (net of ROC subsidy) of coal and biomass, in the absence of a freight specific charge.

3.15 With a freight specific charge levied, the associated increase in dispatch cost per MWh may be higher than that for coal, because biomass has a lower calorific value than coal; biomass is also less dense than

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[13] For example in the Mott MacDonald report previously cited.

[14] http://www.rail-reg.gov.uk/pr13/PDF/nera-coal-report-may-2012.pdf

coal. NERA estimated that a significant component of this increased cost would be offset by an increase in electricity prices associated with the introduction of a freight specific charge for coal.

3.16 The impacts of the charge are very small compared to the differences in dispatch costs between the two fuels. Imposing a freight charge on both commodities has less impact on their relative cost in generation than imposing a charge on coal alone.

3.17 Biomass also competes with other fuels in electricity generation, including other renewables, and a freight specific charge would raise its cost of generation slightly compared to them, better reflecting the transport costs of each fuel.

3.18 Our consultants, MDST, suggested the possibility of calculating charges on biomass in such a way as either to equalise the generation cost impact relative to coal or to reduce the risk of switching for small biomass generators. They say that an "option that might be worth considering would be to develop a [charge] based upon the calorific content of different materials entering power stations. However, it might be more practical to classify cargo for [these] purposes by the scale of the power station being served, linking a specifically high [charge] that corresponds to that levied on coal flows to large power stations engaged in co-firing".

3.19 We are not minded to calibrate a charge to calorific content as this would not be reflective of costs to the railway. Exempting small power stations would introduce complexity in the billing process, which may not be offset by any benefits if small stations are in any case unlikely to use rail. We are interested to hear views on both points.

3.20 **Should a biomass freight specific charge be calculated on the basis of avoidable costs as was done for the commodities on which caps have already been set?**

3.21 **Should the charge be modified, for example to reflect calorific value or to exempt small stations?**

Freight avoidable costs and their allocation to biomass

3.22 Chapter 3 of our January document set out the methods we used to estimate freight avoidable costs and allocate them to individual commodities. The estimates were based on ground breaking and impressive work done for Network Rail by its consultants L.E.K.[15]

3.23 Track variable costs made up an important component of the estimated freight avoidable costs, and were estimated by Network Rail using the Vehicle Track Interaction Strategic Model (VTISM). We asked independent reporters Arup to establish whether these results provided a robust basis for estimating FACs associated with track usage. On the basis of Arup's findings, we adjusted L.E.K's estimates, and then by reviewing the work made some further adjustments on the basis of which we set caps.

3.24 The categories L.E.K devised to estimate freight avoidable costs and the allocation metrics used by L.E.K (which we also adopted) are shown in Table 3.1.

[15] *Estimating freight avoidable costs*, L.E.K, October 2012, http://www.networkrail.co.uk/WorkArea/DownloadAsset.aspx?id=30064784085

Table 3.1: Network Rail /LEK commodity allocation metrics

	Category	Primary allocation metric
1	Freight-only lines (FOL)	FOL gross tonne km & manual input
2	Redundant fixed costs	Gross tonne km
3	Variable usage costs	Gross tonne km (track), train km (signalling), electrified train km (electrification)
4	Redundant enhancements costs	Individual schemes allocated to specific commodities, costs apportioned based on gross tonne km
5	Consequential cost reductions	Train km (Schedule 4 & capacity charge), delay minutes (Schedule 8), Coal gtkm (coal spillage costs)
6	Consequential cost increases	Gross tonne km
7	Network Rail staff costs	Gross tonne km

3.25 We propose to use the same method to calculate a biomass freight specific charge as that for other commodities, in particular to:

(a) set a cap, which we propose to do as part of our draft determination in June 2013, on biomass using the same costs estimates as were used to set caps on the other commodities; and

(b) calculate biomass charge on the same basis as that for other charges.

3.26 We have asked Network Rail, in advance of our draft determination in June 2013, to refine its estimates of freight avoidable costs, for example by updating with costs consistent with its strategic business plan (SBP) and updating its estimates of other charges. This will include considering, in conjunction with its consultants L.E.K., the modifications made by us to their earlier estimates. Network Rail's work will not result in charges being set above the caps (that is the purpose of a cap). Network Rail's work will only result in freight specific charges being set below the cap, if the revised estimates based on best available evidence - which in practice may mean the average of the low and high estimate - are below the cap.

Biomass freight specific charge

3.27 On the basis of the application of our legal framework, which we discussed in detail in our January document, and our assessment of evidence specific to biomass, which we present here, we are minded to introduce a freight specific charge for biomass. We propose that the charge be calculated on an equivalent

basis to that for the other market segments to which the charge applies. The charge is levied per thousand gross tonne miles (kgtm).

3.28 Biomass is an emerging market for which relatively little data are available. It is not yet clear, for example, what the average length of train will be or the associated net tonnes of biomass transported. On the basis of data our consultants MDST derived as part of their work for us, we find that the ratio of train km to gross tonne km for biomass to be very similar to that for ESI coal. If we also assume that enhancements be allocated to biomass in the same proportion to that for ESI coal (on the basis that the routes used are similar), the resulting cap for biomass is the same as that for coal, namely £4.04 per kgtm in 2011-12
prices. We propose to levy a cap for biomass at this level.

3.29 Network Rail is proposing to phase any such charge using the same profile as that applied for other market segments. It is consulting on a gradual introduction of 20% of the charge in year 3 (April 2016 to March 2017), 60% in year 4 and 100% in year 5. We support this approach, and in any case consider that the profile for biomass should be consistent with that of the other market segments to which the freight specific charge will apply.

3.30 Biomass volume forecasts are uncertain but the derivation of the proposed charge would not be affected by using a different forecast. As is the case for estimates of freight avoidable costs for other small market segments, the estimate of the charge per unit is almost invariant to the assumed volume forecast provided that the ratios between the different metrics is assumed to be constant. The allocation metrics in Table 3.1 are, in the main, proportional to kgtm, reflecting its role as a key driver of infrastructure costs. If kgtm vary, the allocated total varies proportionally and so allocated costs per kgtm are unchanged.

3.31 **Should freight avoidable costs be allocated to biomass using the same methodology as that used for the other market segments to which a freight specific charge applies?**

3.32 **Is the resulting cap on the freight specific charge, of £4.04 per kgtm, for biomass reasonable? How would such a charge affect existing biomass flows and development of future flows?**

3.33 **Should a freight specific charge for biomass be phased in? Would it be appropriate to apply the same phasing to a biomass freight specific charge as to the ESI coal freight specific charge?**

Freight-only lines

3.34 The freight-only line charge was introduced in periodic review 2008 (PR08) for CP4. In CP4 it is levied on ESI coal and spent nuclear fuel traffic only. It recovers costs associated with freight-only lines for those commodities. Freight-only lines are lines that do not have passenger services.

3.35 In our January document we concluded that ESI coal, spent nuclear fuel and iron ore traffic freight market segments should pay a mark-up on freight avoidable costs and that the charges paid by these market segments should cover their respective freight avoidable costs, including freight-only line costs.

3.36 For the reasons set out above in connection with the freight specific charge we consider that biomass is also able to bear the freight-only line charge. We would expect this to be calculated on the same basis as it is for other market segments.

3.37 In Network Rail's consultation, it proposes to phase in the freight-only line charge for market segments not previously subjected to the charge (iron ore and potentially biomass) using the same profile that is used for the freight specific charge. This would mean that the freight-only line charge for these commodities would be introduced in April 2016, and phased in over CP5. We are content that it consults on this basis. Network Rail estimates that the freight-only line charge for CP5 for ESI coal to be £0.68 per kgtm (2012-13 prices and end CP5 efficiency), though the rate for biomass may be different from this.

3.38 Should biomass be subject to a freight-only line charge, calculated on the same basis as for other market segments?

Annex A: Consultation questions

Introduction

This annex includes all the consultation questions from the rest of the document.

Questions

Q1. To what extent might higher access charges increase biomass road transport?

Q2. Should a biomass freight specific charge be calculated on the basis of avoidable costs as was done for the commodities on which caps have already been set?

Q3. Should the charge be modified, for example to reflect calorific value or exempt small stations?

Q4. Should freight avoidable costs be allocated to biomass using the same methodology as that used for the other market segments to which a freight specific charge applies?

Q5. Is the resulting cap on the freight specific charge, of £4.04 per kgtm, for biomass reasonable? How would such a charge affect existing biomass flows and development of future flows?

Q6. Should a freight specific charge for biomass be phased in? Would it be appropriate to apply the same phasing to a biomass freight specific charge as to the ESI coal freight specific charge?

Q7. Should biomass be subject to a freight-only line charge, calculated on the same basis as for other market segments?

Annex B: Responses to our May 2012 consultation relating to biomass

The responses to our May 2012 consultation on the variable usage charge and freight specific charge are published on our website[16]. This section summarises consultees' views as set out in comments that relate to biomass, and our responses to them.

Some respondents to our May 2012 consultation pointed out the degree of uncertainty in the market and in our analysis of it. They said that the references in our consultation to biomass and the future investment decisions of generators appear to be highly subjective, with little demonstrative evidence to support the statements. Freightliner considered that this cannot be used as a basis for decisions. FGL considered the analysis had not captured the potential impact of biomass on the whole coal demand, supply and logistics equation. Furthermore, the use of 2011 biomass data does not adequately inform decisions for the post April 2014 period, for which long term contracts have already been struck.

We accept that the future of the biomass sector is uncertain. We believe that our proposals, which treat biomass in much the same way as coal, reduce uncertainty and are robust to the remaining uncertainty.

Comments were also made on our description of the impact of environmental regulation. Some respondents said that the reference to the Industrial Emissions Directive appears over-simplified and imperfectly understood, noting that the Transitional National Plan option is not mentioned. CoalImp, Clydeport and SCCL considered that the ROC banding review and the potential major increase in co-firing or full conversion had major implications for port and rail capacities and future investment decisions. IPR questioned whether biomass conversions stated in the recent ROC banding announcement had been included in the analysis. GBRf said that NERA appear to be of the view that the process for the setting of ROCs credits would take into account any new level of track access charge, and that this appears to be incorrect. CoalPro believed that any implication that greater subsidies may be available to compensate biomass for higher track access charges is unwarranted by the evidence.

Our proposals do not rest on particular forecasts for ESI use of fuels or on the Transitional National Plan. However, we accept that the ROC banding review and the potential major increase in co-firing may have major implications for investment. We think that it is reasonable for NERA to say that, if government support is geared to achieving a particular renewables target, the support may change in response to changes in costs but agree that this does not mean that ROCs credits will rise to accommodate any additional rail freight charge. Moreover, as GBRf pointed out, any revisions will apply only to new investments and not existing ones.

[16] Consultation on the variable usage charge and the freight specific charge, http://www.rail-reg.gov.uk/server/show/ConWebDoc.11083

Several respondents thought that biomass should be subject to a charge in the same way and in the same time frame as coal.

Bristol Port Company thought that additional segmentation of the rail freight market would become necessary as the market develops, including an immediate need to consider biomass. Network Rail also considered that it would be sensible to include biomass as a discrete market segment given the likely growth in this area. However, CoalImp, Clydeport and SCCL said that biomass is intrinsically linked to ESI coal, when used for co-firing for electricity generation. CoalPro considered that no distinction should be made between coal and biomass for the ESI market to avoid discrimination and distortion of competition.

CoalPro, EDF Energy and Unite noted the inter-relationship between coal and biomass. CoalPro considered the two should be considered together, with the same outcome applied to both to avoid market distortion, and a decision should not be delayed. Unite said that favouring biomass may lead to far less efficient and more expensive generation.

EDF Energy said that the decision should be independent of the level of support available to biomass as part of the Renewables Obligation and the perceived maturity of the market. It did not agree with the ORR's proposal to defer the decision on biomass freight in this periodic review and did not believe it appropriate for the ORR to determine further cross-subsidies for biomass.

CoalImp, Clydeport and SCCL said that regulatory uncertainty on track access charges for biomass would undermine Government energy and climate change objectives. Many respondents considered that simply deferring the decision on biomass charging adds further uncertainty to the investment case at ports and on the railways as well as at power stations. It could risk deferring biomass related investment decisions and/or result in the premature closure of existing coal plants that have the potential for enhanced biomass co-firing. SSE considered that there seems to be a lack of realisation that these investment decisions are being made now.

On the other hand, some respondents agreed with our then proposal that, at present, there is considerable merit in not levying any freight-specific charge on the biomass market segment. They considered that the biomass market is still in the early stages of development and that stable conditions are required to support the growing market. DRAX considered that any projects supported under the Renewables Obligation should be excluded from any new rail freight charges now and in the future, as the Government Response to the Renewables Obligation banding has now been published and there will be no further opportunity to increase the level of support to cover increased rail charges.

Network Rail said that ORR should revisit this policy in the 2018 Periodic Review to coincide with the recalculation of the DECC credit regime. RFG considered that deferring the decision until 2017 may not be sufficient, and suggested delaying until at least the start of CP6, when the market for biomass is much clearer. Freightliner and Eggborough said it would be more appropriate not to change charges for at least the next two control periods to enable private sector investment. Freightliner also suggested that additional analysis should be undertaken before any decisions to increase charges are made. The British Ports Authority said it would be more sensible to suspend it completely or at the very least move it in line with the Government's 2020 ROC targets.

Centrica said that the definition of biomass will need careful consideration since biomass is not exclusive to the power industry and there is a heightened risk of unintended consequences for a variety of industries if biomass is subjected to an asset specific charge.

As *we said in our January decision document we are persuaded that it* is *appropriate to decide on a* biomass *charge in PR13. Other elements relevant to investment decisions, notably the level of subsidy and the arrangements for its continuation, are known and there would be benefit from this charge being known too. We appreciate that there* is *not now an opportunity for the level of subsidy to be altered in response to a new charge but note that that* is a*lso the* case *in respect of the coal specific freight charge that we have decided to introduce and which marginally improves the competitive position of* biomass.