



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

28 March 2013

Dear Joe

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

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy owns two coal-fired power stations, West Burton and Cottam in Nottinghamshire, with a total registered capacity of 4GW. We also own and operate 15 nuclear reactors at eight sites with a combined capacity of almost 9GW.

We would like to express our disappointment at the Office of Rail Regulation's decision in January 2013 to introduce a new freight specific charge for spent nuclear fuel and the haulage of coal for the electricity supply industry (ESI). As we stated in our response to the Office of Rail Regulation's "consultation on the variable usage charge and on a freight-specific charge" in August 2012, we are seriously concerned that the new track access charges could lead to unintended consequences in the electricity sector. We believe that the changes are not consistent with the Government's wider energy policy objectives, and have the potential to artificially distort incentives and the efficient operation of the electricity market.

However, on the basis that the Office of Rail Regulation has made its final decision with respect to the introduction of such charges, we welcome the decision to consult on a freight specific charge for biomass now as part of the 2013 Periodic Review, rather than to defer this until a later date. We believe that to prevent the market for ESI fuels from being distorted, biomass should be treated in a consistent manner with ESI coal, including the methodology employed to assess the charges.

As we highlighted in our previous consultation response, we do not believe that it is appropriate for the Office of Rail Regulation to assess the perceived maturity of different market segments and to determine subsidies for specific fuel inputs. We strongly believe that any subsidies for biomass should come from a single source (e.g. the Renewables

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Obligation or the planned Feed-in tariffs with Contracts for Difference), where they can be effectively monitored and reviewed by the Government as required.

It is our understanding that the intention of the proposals is to implement new track access charges to recover freight avoidable costs to ensure that the charges are more cost-reflective, and that freight operators make a greater contribution to the costs that their operations impose on the network. If this is the case, then particular rail freight market segments should not be exempt if they also contribute to the costs incurred. If exemptions are granted then this simply means that such market segments are, in effect, cross-subsidised by other fuel inputs. This will have the effect of distorting the operation of the electricity market.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Ravi Baga on 020 7752 2143, or myself.

I confirm that this letter and its attachment may be published on the Office of Rail Regulation's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Angela Pearce".

Angela Pearce
Corporate Policy and Regulation Director

Attachment

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

EDF Energy's response to your questions

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

EDF Energy believes that the rail freight of biomass is likely to be largely inelastic with respect to higher access charges, and will not lead to increased biomass road transport. This is because the cost differential between rail and road is unlikely to be high enough to instigate a switch, and that it would be difficult to sustain such high volumes of biomass transport by road.

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?

Yes.

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

No – additional modifications will simply introduce greater administrative complexity. The charge should reflect the actual costs imposed on the rail network. We are concerned that using the calorific value of the biomass will not accurately capture such costs, and believe that the charge is best measured on a net or gross tonne km basis. In addition, we would highlight that using the calorific value would require taking into account the wide diversity of biomass sources available. It should be left to generators to take a commercial decision as to how much biomass they use as a result of this of this charge.

EDF Energy believes that as far as possible, and as a matter of principle, a level playing field should be encouraged between generators (and technologies). We therefore do not support the exemption of small stations from the charge, and it is difficult to see how this would benefit electricity consumers.

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?

Yes.

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?

EDF Energy does not believe that such a charge would adversely affect current or future biomass flows by rail, as the freight cost will form a small proportion of overall costs.

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?

EDF Energy supports the logic of applying 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? Does the drafting reflect our policy decisions?

No comment.

**EDF Energy
March 2013**