



FREIGHT TRANSPORT ASSOCIATION

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

26th March 2013

Dear Joe,

FTA response to ORR Consultation on a freight specific charge for biomass

Thank you for asking FTA to respond on ORR's consultation on levying a freight specific charge on biomass. The Freight Transport Association (FTA) represents over 14,000 companies spread across the UK relying on or providing the transport of freight both domestically and internationally, to or from the UK. Our members involved in rail freight include shippers of bulk, deep sea and domestic intermodal and retail goods, and also freight operating companies and logistics service providers, accounting for approximately 90 per cent of goods moved by rail.

FTA's primary rail freight focus is to represent the shippers – the ultimate end users – of rail freight who make the decisions about modal choice. We are though also interested in the regulatory and operational policy architecture of the industry to the extent that it affects competition and shipper choice. Indeed we have the main rail freight operating companies in membership, together with logistics service providers and rail freight shippers. Due to our primary representational focus being upon the end users of rail freight services, we will not have detailed answers to give to all of the individual aspects of this further consultation as some will be necessarily more freight train operator focussed, but we will be commenting on the general principles.

This ORR consultation follows on from the ORR's consultation results published on 11 January 2013 on a "*conclusion on the average variable usage charge and a freight specific charge*", in which the ORR implemented new charges for ESI (Electricity Supply Industry) coal, spent nuclear fuel and iron ore transported by rail. FTA objected to the proposals that ORR now intends to press ahead with in these markets on the basis that they discriminate against sectors deemed captive to rail, are incorrect regarding coal as it can and will shift to road, and threaten the Scottish coal production industry and jobs so discriminate against Scotland as a current part of the UK. We therefore feel that to do the same with biomass, increasing freight track access charges for it because it is deemed a "captive" market is wrong.

Like almost everyone else connected with biomass power generation and associated its supply chain, FTA is concerned that the proposed additional freight access charge for biomass runs counter to overall UK Government energy policy in relation to biomass and comes at a time when significant money and time has already been invested in the biomass supply chain and crucial decisions about investment in renewable energy are being taken. We would ask that ORR considers the following points:

The UK Government has openly encouraged the conversion of existing coal-fired power stations to run on biomass in order to help fulfil its renewable energy and carbon reduction ambitions while maintaining security of electricity supply. The ORR's proposals run directly counter to government energy policies.

The ORR proposals could add between £0.50 and £1.50 per tonne to the price of biomass. This increase is a material change to the May 2012 consultation proposal and may have the effect of

halting a number of biomass projects, endangering thousands of existing and potential jobs at power stations, rail companies, construction businesses and ports.

In order to encourage multi-million pound investments in low carbon technologies, the UK Government has established financial support arrangements through the Renewables Obligation (RO) and is finalising details of the new Feed-in Tariff with Contracts for Difference (CfDs). This new rail charge for biomass has been proposed so late in the day that it has not been factored into the recent RO Banding Review nor into the strike price setting for the CfDs and undermines the lengthy consultation process that the Government has already concluded with the power industry on financial support for biomass. There needs to be a single coherent approach in relation to biomass.

Coal and biomass are not linked and so it is not appropriate to apply the charge to both commodities in the same way. Unlike coal, biomass power requires significant investment and support from the Government and the private sector to allow the UK achieve its mandatory green targets and owing to the differing calorific value of the products, more biomass will need to be transported to produce the same amount of electricity as coal. This serves to penalise biomass compared to coal, benefiting coal-fired power stations and increasing the differential between the two fuels that other Government departments are working hard to remove. Overall Government strategy must be taken into account when considering whether and how this charge is implemented.

Those ports and power stations who intend to invest in biomass and the future of the energy industry have already spent significant time and money in choosing their logistics partners and in some cases have made early investments in plant and equipment. Any introduction of either the freight specific charge or the freight only line charge could fundamentally alter long-term investment plans and arrangements, as customers will need to reassess their chosen partners. There are similar impacts on rail freight operators, and equipment suppliers.

It is not clear from the consultation document how the ORR will calculate the proposed charges. Without this transparency, the industry cannot be clear that the charge is fair and reasonable. The ORR must make its methodology clear in advance of any decision being made. This includes the calculation of the proposed freight only line charge, which would be in addition to any freight specific charge.

The ORR can only levy an increased charge if the 'market can bear it' (as per the EU Directive on Access Charging). As the market for biomass generation already required support through the Renewables Obligation, it is unclear that this criterion can be met.

Such is the size of investment required in renewable energy that those in the biomass power generation and supply chain industry propose that charges should be removed from the biomass rail agenda for at least the next 2 five year review periods ("Control Periods"). This would allow for investors to come forward to fulfil the Government's renewable energy plans. The introduction of this charge would only delay and jeopardise the fulfilment of these projects.

To answer the seven specific questions in the consultation:

Q1. Experience with our coal sector members has shown that traffic deemed "captive" to rail can and will move to road, and FTA can and will have to help members do this if it is economically necessary.

Q2. Avoidable costs are to an extent subjective given the maintenance "holidays" and other issues affecting the network. More work would be required here.

Q3. This question is probably more one for power generators than FTA.

Q4. FTA does not accept the principle here of targeting specific sectors.

Q5. Please see our comments above on the "reasonableness" of the charge and its effects.

Q6. Phasing in, if this charge has to be applied, would be better than not phasing it in.

Q7. FTA does not support the manner in which freight only line charges are currently applied as they discriminate against specific sectors deemed "captive".

I do trust that you find these comments useful. Please contact us if required to discuss any matters further.

Yours sincerely



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