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

Dear Joe,

In your earlier consultation of 17th May 2012 on the subject of a variable usage charge and a freight specific charge it was stated that:

“track access charges are likely to make port locations more attractive relative to inland locations. However, increases in track access charges might impact on investment and location decisions for new power plant”.

In our response dated 11th August 2012 we stated that we did not believe that this is a reason not to introduce a freight specific charge for biomass. On the contrary, cost reflective freight charges provide the correct economic signal for power station location and investment in biomass capability.

On this basis we support the latest proposal to introduce a freight specific charge for biomass. The vast majority of biomass that will be moved by rail is likely to be for coal plant that has converted to biomass use. It is fair and reasonable that such stations face the full cost of their decision to convert to biomass including rail freight charges for what is effectively a substitute fuel.

Our responses to the individual questions raised in the consultation are set out overleaf

If you wish to discuss our response further, please do not hesitate to contact me.

Yours sincerely

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Answers to Consultation Questions

1	To what extent might higher access charges increase biomass road transport? We support the ORR analysis that a charge is unlikely to divert significant biomass to road transport. Smaller plants already generally use road transport. For larger plant the costs and logistical complications of substituting road transport for rail would far outweigh the proposed charge.
2	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 as this would reflect the transport cost of the fuel and be consistent with other fuels.
3	Should the charge be modified, for example to reflect calorific value or exempt small stations? No. We support the view that charges should be based on the cost of using the railway network. This is consistent with the charge faced by other fuels. This approach is consistent regardless of the size of the plant.
4	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. This reflects its cost to the rail network.
5	Is the resulting cap on the freight specific charge of £4.04 per kgtrn, for biomass reasonable? How would such a charge affect existing biomass flows and the development of future flows? Yes. In most cases biomass will directly substitute for coal and similar flows can be expected.
6	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? Yes. As biomass is likely to be a direct substitute for coal, charges should be phased in the same way.
7	Should biomass be subject to a freight only line charge, calculated on the same basis as for other market segments? Yes.