

Head of Rail Strategy
Rail

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By email

Dear Joe

PERIODIC REVIEW 2013 – CONSULTATION ON A FREIGHT SPECIFIC CHARGE FOR BIOMASS

Thank you for the opportunity to respond to this consultation. We have set out some general observations below as well as specific responses to the questions identified in your consultation document. In doing so we have assumed that the consultation relates to biomass freight within the electricity supply industry (ESI) market, rather than being inclusive of non-ESI, or 'industrial', biomass.

By way of background, the Scottish Government policy supports the deployment of biomass in heat-only or combined heat and power schemes, off gas-grid, at a scale appropriate to make best use of both the available heat, and local supply. Biomass is a key fuel for the Scottish Government's heat target. In 2010 over 90% of renewable heat output in Scotland came from biomass largely through small-scale schemes. The Scottish Government wants to ensure that incentivisation of biomass takes into account existing users and does not disadvantage them for the early adoption of this technology. Scottish Government policy is centred upon domestically produced biomass within Scotland. However, we are keen to support the option of biomass and conversion at power stations, such as at Longannet.

Transport Scotland remains broadly supportive of a track access structure for Control Period 5 (CP5) that allows Network Rail to recover its efficient costs through a mechanism that can reflect the impact that freight operators have on the network but can also maintain the attractiveness of rail to freight customers and which is adaptable to prevent the outputs of businesses in Scotland becoming uncompetitive in their key markets. We are aware that the responsibility for determining the charging structure rests with the ORR. However, in discharging its responsibilities we would expect the ORR to ensure that they strike the right balance between users, providers and funders and establish a charging structure that does not serve to drive traffic from our railways.

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

It is our understanding that the biomass market differs from the (ESI) market, as the former is subsidised by the UK Government on the grounds of being less carbon intensive. Conversely, other elements of the ESI market are charged for being carbon intensive.

Consequently, on routes where rail offers a viable alternative, the use of road transport for biomass is likely to be discounted, as it would increase the carbon levels attributable to biomass.

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?

We are broadly supportive of the proposal to calculate a biomass freight specific charge on the basis of avoidable costs, in line with the other commodities. However, we expect that, in order to deliver the same calorific values as other commodities, biomass freight will require longer and more frequent trains. Consequently, the cost to the rail network should also be appropriately reflected in the calculation of any biomass freight specific charge in line with the principles set out above.

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

Transport Scotland agrees in principle that the charge levied should better reflect the costs incurred by the rail network. However, we believe that there is a need to exempt smaller power stations or freight flows due to the differing market conditions, such as the rail infrastructure costs in relation to volumes handled at 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?

We are broadly content that your methodology provides a sensible approach to the allocation of charges, particularly as calorific value is not relevant to track access charging.

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

We note the basis of the cap on the freight specific charge on the ESI coal, spent nuclear fuel and iron ore freight market segments was to reduce uncertainty amongst the existing rail freight markets. However, in the case of the biomass freight market, which you have noted is currently small (albeit fast growing), we see no reason why this could not be charged at the proper long term rate, albeit with appropriate protection (possibly the cap as suggested) applied for existing contracted traffic.

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?

Transport Scotland expects that the implementation of any new charging regime should allow existing businesses adequate time to adapt and allow them to remain competitive in their key markets. We are broadly supportive of a phased approach, but suggest that there may be a stronger rationale for limiting this to existing flows.

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

We are broadly supportive of your proposal to subject biomass to a freight-only line charge. However, we note Network Rail's consultation on the phasing in of the freight only line charge

for market segments not previously subjected to the charge. Referring to our response to Q6, we believe that phasing be considered in terms of existing flows.

I can confirm that Transport Scotland does not require any of this response to remain confidential.

Yours sincerely



Steven McMahon
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