



Office of Rail and Road
One Kemble Street
London
WC2B 4AN

9th August 2016

Dear Sirs,

Response to ORR's initial consultation on the 2018 periodic review of Network Rail (PR18)

I am pleased to respond to the initial consultation on the 2018 periodic review of Network Rail (PR18), on behalf of CoalImp – the Association of UK Coal Importers and Producers.

CoalImp represents major coal users (including most of the coal-fired generators in the UK) UK coal producers, rail companies, ports, and other infrastructure operators. The twelve members (listed on the CoalImp [website](#)) account for the handling, transportation and use of the majority of UK coal production and imports, in turn representing the vast majority of all coal transported by rail in the UK.

Individual CoalImp members, in particular freight operating companies and generators, will be responding in detail, covering all the topics in the consultation document. The submission below concentrates, in more general terms, on key issues of concern to our members as the PR18 process kicks off. We look forward to engaging in this process as it evolves, and indeed would welcome an early meeting to set out some of the broader issues impacting coal by rail, now and in coming years, in the context of Government's wider energy policy aspirations.

Introduction and Background

Following a period of high coal demand earlier this decade, and corresponding high levels of coal-by-rail traffic, the coal market has seen a catastrophic collapse over the last year or so, as a direct result of Government policies. The UK's unilateral carbon price floor has caused the premature closure of coal-fired power stations and very low levels of summer running at those that remain.

It would, however, be premature at this stage to 'write off' coal as an important part of the electricity mix; low levels of coal burn in summer are not unexpected in current circumstances, but in the winter months we may expect to see coal plant back on line. UK electricity capacity margins are at historically low levels,

coal plant has been successful in bidding for Capacity Market contracts, and in the meantime some are also covered by the National Grid's Contingency Balancing Reserve.

Notwithstanding Government proposals to close all unabated coal plant by 2025, in the interim, coal plant is capable of providing the most economical and secure transitional power capacity in the UK. But there has been an unprecedented sudden, rapid and continuing collapse in the market for coal-fired electricity following the hike in the Carbon Floor Price from April 2015. The market collapse is also seriously damaging rail and port infrastructure as well as the remaining indigenous coal production industry.

CoalImp's key concern, in responding to this consultation, is that rail network issues and charges do not create further obstacles to coal's participation in the UK energy market during the period when it is still able to do so.

Whilst this response is primarily related to coal, we acknowledge that some of our members are also active in the biomass market, and there are significant synergies between coal and biomass traffic. The comments below should therefore also be understood in this context.

CoalImp Comments on the Consultation Document

Chapter 2: Context for the review

The proposal for a Freight Route in the Shaw Report is under active consideration by Network Rail (NR) and yet is not mentioned further in the consultation document. For freight customers this is a major uncertainty when taken with the proposal to regulate NR at Route level. Members' traffic typically covers several Routes and it is unclear how revenue and performance would be regulated across these Routes and a 'virtual' Freight Route. Presumably the virtual Freight Route would receive all revenue and pay some sort of transfer price to the 'real' Routes. In this case would such transfer prices and arrangements be regulated?

Chapter 3: Focusing the review where it can have most impact for passengers and freight customers

CoalImp believes that letting freight run in faster, more efficient paths, can support ORR's priority of a Better Used network. The result would be for freight to occupy less space and time, and avoid the potential performance issues which arise from recessing freight in loops and sidings in order to save a few minutes on lightly used passenger services. This would require a re-evaluation of the worth of a minute of journey time to passengers and to freight. For example, there are cases where such a review may show that delaying a passenger service by 3 minutes, allows the creation of a new freight path, or saves 45 minutes waiting time of an existing freight path.

The System Operation function is key to much of this; the train planning rules and principles should be included in a Better Used review. Efforts are needed to build the optimum timetable for best use of the network rather than the traditional approach of planning the passenger service first and fitting freight

around it. A further refinement needed is to give preference to freight paths which run most, rather than those which appeared on the graph first. Members are concerned that NR does not have the technological and human resources to optimise the train plan and therefore deliver the 'better used' objective.

ORR's comments are noted, that most stakeholders think that the possessions and performance regimes are fit for purpose. Network availability is however very important to freight, as a large proportion of possessions are planned for night time. This is the very time when freight has an opportunity to run in faster paths and is needed to support 24 hour operations. There should be a regime to check that regular possessions (such as 1 in 6 weeks on nights) are needed, are not excessively long, and are used efficiently.

Chapter 4: Our proposed approach to the review

Route-level regulation

Members have some reservations about the approach of regulating at Route level, best expressed as a series of questions which are not felt to be clear from the consultation document:

- How will freight stakeholders engage in the review if it is conducted at Route level?
- Will the virtual Freight Route be regulated?
- Could charges vary by Route?
- Does this approach, relying on comparisons between Routes, limit efficiency improvements to the best of the UK rather than bringing standards up to world class. What if all UK routes are significantly worse than world best?
- Will significant new costs be generated by each Route setting up or bolstering its own regulatory department? Will the Route focus be more on ORR than on its customers?
- Will Routes see freight as a nuisance and a potential obstructor to achieving its principal regulatory targets, especially if revenue goes to the 'virtual' Freight Route?

System operation

CoalImp supports scrutiny of the system operation function, as Better Use of the network begins with the Train Plan and allocation of capacity. The average schedule velocity for freight should become a key performance metric for the system operator. This will support ORR's objectives of Efficiency and Better Use.

Outputs & monitoring

CoalImp's generator members note the intention to include 'local stakeholders' in setting outputs and would welcome the opportunity to be included in this.

Charges & incentives

This is an area of key concern to freight customers. Track Access Charges are a large proportion of the rail costs and therefore of the logistics cost of coal generation. Any prolonged period of uncertainty over future charging levels can be damaging to decisions impacting the future of coal-related assets, particularly if large changes are proposed or rumoured.

Industry needs stability, particularly given the general level of uncertainty in the economy and in coal fired generation. Freight customers should not have to go through another protracted, highly uncertain, bottom up exercise. CoalImp would suggest that track access charges should be capped at present CP5 levels to avoid further detriment to freight operators and customers.

Perverse incentives in the allocation of passenger revenue can incentivise operators to run services to destinations purely to secure a share of revenue rather than to meet customer demand. Such services add to track congestion and block freight capacity. Similarly, trains turning back in 'unnatural' locations occupy track time and block freight. These practices need to be reviewed if the industry is to deliver a better use and more efficient network.

A major concern is that the Route level approach will lead to differential charging; i.e. different charges in each Route, based on different asset bases, output settings, and income assumptions.

Approaches for enhancements

Members are concerned that freight enhancements will not receive the appropriate level of priority following the devolution of responsibility to the Routes and their inevitable focus on the dominant passenger franchise.

Conclusions

Following a period of high coal demand earlier this decade, and corresponding high levels of coal-by-rail traffic, the coal market has seen a catastrophic collapse over the last year or so, as a direct result of Government policies. CoalImp's key concern, in responding to this consultation, is that rail network issues and charges do not create further obstacles to coal's participation in the UK energy market during the period when it is still able to do so.

CoalImp believes that letting freight run in faster, more efficient paths, can support ORR's priority of a Better Used network. The average schedule velocity for freight should become a key performance metric for the system operator.

CoalImp is keen to understand how the separate settlement with each Route will work for freight which crosses several Routes, particularly if there is a virtual Freight Route. In particular will there be different charges for each Route, reflecting its asset base, congestion or capacity or performance levels?

Track Access Charges are a large proportion of the rail costs and therefore of the logistics cost of coal generation. CoalImp urges ORR to try to simplify the

charging structure and issue an early assurance to freight customers that CP6 charges will be capped at present levels.

We look forward to being involved in future consultations.

Yours faithfully

Nigel Yaxley
Managing Director