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5 December 2012

Dear Colleagues

Network Rail's proposals for changes to the EC4T Metering Rules – OTM incentive charges

We are formally writing to make a Proposed Metering Rules Change, under Section 11 of the EC4T Metering Rules¹, to amend the way in which metered operators are charged for significant levels of missing metered data.

Background

The EC4T Metering Rules set out the legal provisions for the arrangements for metered traction electricity charges. It was first published in June 2011, and later updated in May 2012 to reflect the addition of provisions for freight metered charges.

Metered operators are charged for their use of electricity on the basis of metered consumption (kWh) multiplied by price (£/kWh). Metered data is submitted at regular intervals to us for billing purposes. If there are gaps in the data, i.e. metered data are missing, we 'infill' the data based on the previous period's consumption.

Under the current EC4T Metering Rules, metered operators are charged an additional fee (the OTM incentive charge) of an additional 10%, of its infilled consumption², when the level of infill in its metered EC4T data exceeds 10% of its total metered consumption³. The additional charges collected are distributed to all electric operators (modelled and metered) at the end of the year in proportion to their post-wash up consumption.

Our proposals

Proposal 1

On 15 October 2012, at the Traction Electricity Steering Group meeting, it was agreed that distributing money from metered operators to modelled operators did not help to encourage modelled operators to move to metered billing. Thus, our first proposal is to distribute the

¹ Network Rail, (May 2012), 'EC4T Metering Rules'. Accessible here:
<http://www.networkrail.co.uk/WorkArea/DownloadAsset.aspx?id=30064781316>

² In the first trigger period the additional fee is 5%, and then rises to 10% thereafter.

³ During the first three months of metered billing the OTM incentive charge is levied only if the infill exceeds 30% of metered consumption



proceeds of the OTM incentive charge to metered operators only, this aims to ensure that the charge does not disincentivise modelled operators from converting to metered billing.

Our proposal under paragraph 11, of the EC4T Metering Rules, is to replace Clause 7.3 with the following text:

*“Network Rail shall pay to each **metered** train operator which consumes traction electricity a portion of the total amount of all OTM Incentive Charges received by Network Rail from Metered Train Operators pursuant to paragraph 7.1 in each Relevant Year for such train operator for that Relevant Year, calculated in accordance with the following formula:*

$$P_{Tot} = A_t \times TIC_t$$

B_t

Where:

“P_{Tot}” means the proportional amount of OTM Incentive Charges payable to the train operator for Relevant Year t;

*“A_t” means the amount of the train operator’s **metered** Traction Electricity Charge where relevant, following the Cost Reconciliation) in Relevant Year t;*

*“B_t” means the total amount of **metered** Traction Electricity Charges (where relevant, following the Cost Reconciliation) for all train operators in Relevant Year t;*

“TIC_t” means the total OTM Incentive Charges received by Network Rail from all Metered Train Operators pursuant to paragraph 7.1 in Relevant Year t.”

We are keen to hear your views on this proposal.

Proposal 2

Currently, operators are able to opt-in for metered billing once a year on 1 April. However, recent experience has shown that there may be unscheduled delays which mean that an operator is not ready to submit metered data by this date.

Proposal 2 amends the rules so that metered billing commences once there is agreement that meters have been successfully fitted, data is being submitted and testing is complete. This will prevent the operator from receiving high levels of OTM incentive charges because their meters were not yet able to submit data.

We are proposing to replace Clause 2.7 of the EC4T Metering Rules with the following text:

The Train Operator acknowledges that for the purposes of calculating the Traction Electricity Charge, it shall only be charged based on Metered Data in respect of those categories of metered trains specified in Appendix 7D of Part 2 of Schedule 7 (in the case of passenger operators) or Appendix 2 of Schedule 7 (in the case of freight operators) of the Relevant Track Access Contract, in accordance with the provisions of



the Relevant Track Access Contract once Network Rail confirms that data-flow and billing system tests have been completed successfully.

We are keen to hear your views on this proposal.

Proposal 3

In light of recent experience, we feel that it is appropriate to review the infill arrangements so that metered operators continue to be fairly incentivised to provide good quality data. Metered operators have expressed their concerns about ‘teething problems’ when first moving to metered billing, and that it has taken longer, than we originally thought to resolve these issues. For this reason, we propose to adjust the infill thresholds such that operators are given more flexibility to address start-up issues before the OTM incentive charges start to apply.

We are also proposing to clarify the drafting so that it is clear that the OTM Incentive Charge is calculated as a separate charge and does not increase the amount of kWh infilled.

We propose to replace the definition of “OTM Incentive Charge” in Clause 1.2 of the EC4T Metering Rules with the following text:

“OTM Incentive Charge” means the additional amount payable by a Metered Train Operator to Network Rail as a consequence of paragraph 7.1 of these EC4T Metering Rules;

We also propose to delete Clause 7.2 of the EC4T Metering Rules, and replace Clause 7.1 of the EC4T Metering Rules with the following text and table:

“If, in any Period following the On-Train Metering Commencement Date, the Net Infilled Electricity Data Value expressed as a percentage of the Total Net Electricity Data Value is greater than the percentage shown in Table 7.1: Threshold Percentage table, the OTM Incentive Charge for such Period (the “Trigger Period”) shall be as follows:

(1) in the first Trigger Period in any OTM Incentive Year, the OTM Incentive Charge shall be 5% of the Metered Charges for Infilled Values

(2) in the second or any further Trigger Period in any OTM Incentive Year, the OTM Incentive Charge shall be 10% of the Metered Charges for Infilled Values”

Table 7.1: Threshold percentage table

Period Since On-Train Metering Commencement Date				
Periods 1-3	Periods 4-6	Periods 7-9	Periods 10-13	All later Periods
30%	25%	20%	15%	10%

We are keen to hear your views on this proposal.

Responding to this consultation



We welcome responses to this proposal. The closing date for this consultation is **16 January 2013**. This provides 6 weeks for consultation.

We intend to make responses public, including sharing them with ORR and publishing them on our website. Please indicate if you wish all or part of your response to remain confidential.

Please address any responses and / or queries to:

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Email: Jashim.Uddin@Networkrail.co.uk

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This consultation will also be available to download from our website here:

<http://www.networkrail.co.uk/asp/12873.aspx>.

Next steps

We will consider all written representations received in response to this consultation, and if we consider it appropriate we will modify the proposal accordingly. If no modification is necessary the proposal will be put to a vote in accordance with paragraph 11.9 of the EC4T Metering Rules.

In accordance with Section 11.2, Part (C) of the EC4T Metering Rules, we are content with the requested amendments to the EC4T Metering Rules to come in to effect within 14 days of an approval notification by ORR.

If you like to discuss any part of this letter, please feel free to contact me.

Yours sincerely,



Ekta Sareen

Senior Regulatory Economist

