Developing the Coal Spillage Charge & Coal Spillage Reduction Investment Charge for CP5

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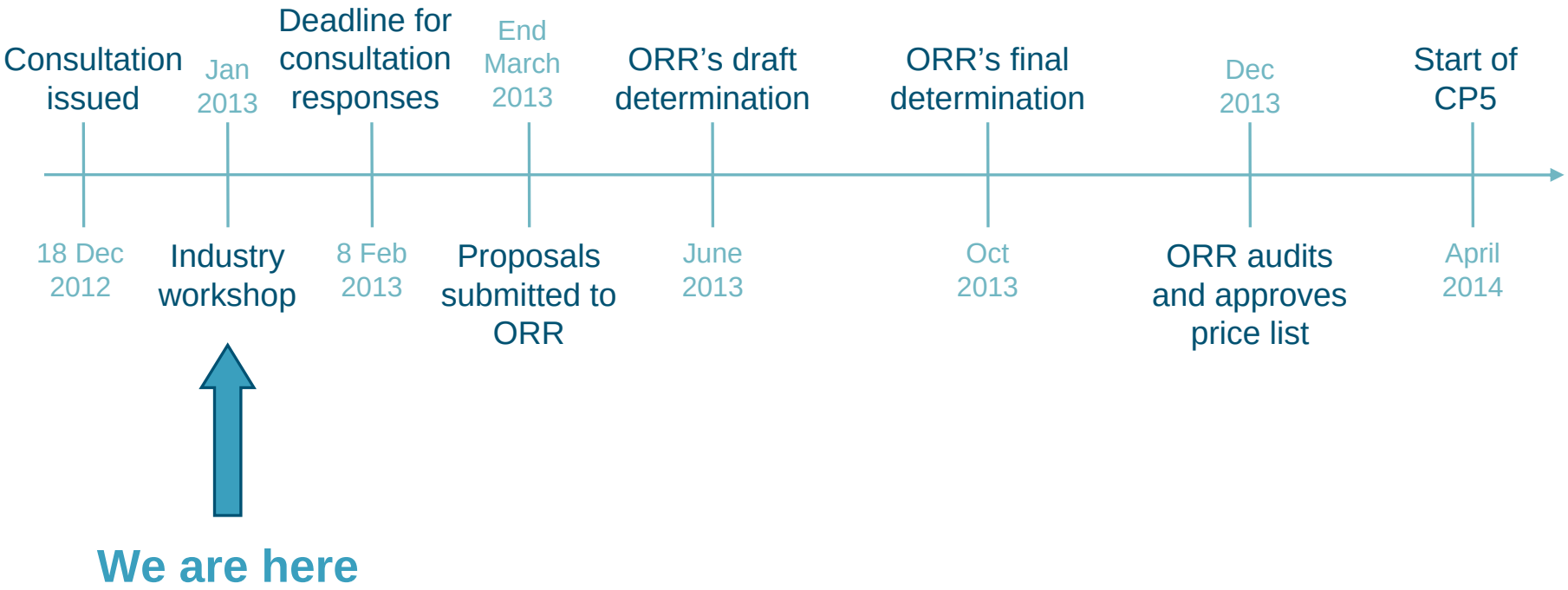
Issues in the consultation document

1. CP5 initial cost estimate – Coal Spillage Charge (CSC)
2. Variance in coal spillages costs in CP5 versus CP4
3. Estimating the CP5 CSC rate
4. CP5 initial cost estimates – Coal Spillage Reduction Investment Charge (CSRIC)
5. Annual review of charges in CP5
6. Combining the CSC with the proposed freight-specific charge
7. Next steps

The process – where are we?



Background

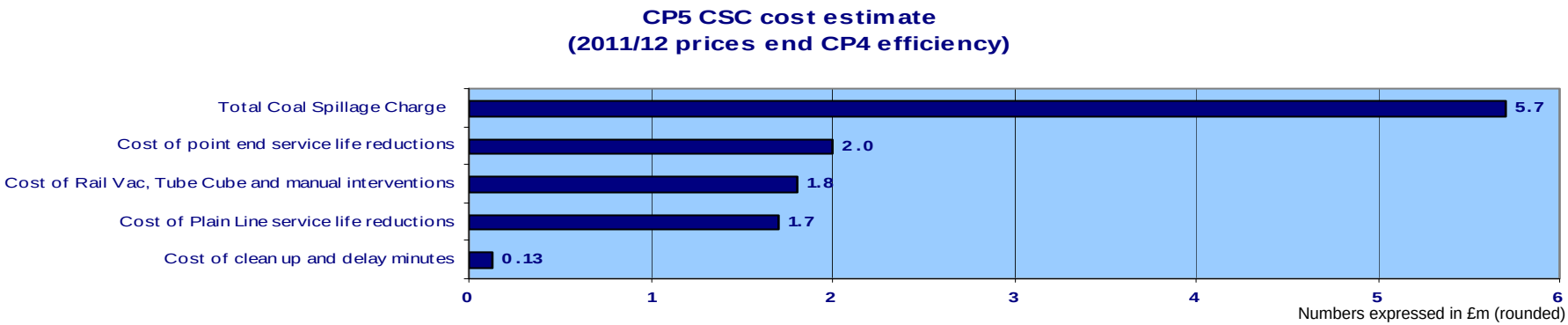
Coal Spillage Charge (CSC)

- Aims to recover the cost impact of coal spillage on the network. For example, the cost of clean-up, delay minutes & reduced asset lives.
- In 2011/12 we recovered approximately £5m through the CSC, approximately 10% of the total income from freight operators.

Coal Spillage Reduction Investment Charge (CSRIC)

- Finances a fund that has been used to invest in equipment at coal terminals with the aim of reducing coal spillage on the network.
- CSRIC was levied in the first 2 years of CP4, generating £295,000, at which point, following consultation with freight operators, it was agreed that it should be discontinued. At present, there is circa £85,000 remaining in the investment fund, following the installation of cleaning equipment at 9 locations.

CP5 initial cost estimate



We developed this cost estimate using broadly the same methodology as in PR08. However, updated it to take in to account the following:

1. Updating assumptions in relation to Rail Vac deployment: propose increase in deployment costs (£25,000 to £30,000) and the refining number of points a Rail Vac can treat during a weekend possessions (from two to one);
2. Updating the point end unit cost (£435,000 to £485,000);
4. Including the cost of Tube Cube – in CP4 this equipment was not available;
5. Including the cost of manual interventions to clear coal spillages, not explicitly included in CP4;
6. Including refurbishment costs which extend the average life of a point ends and plain line track by 50% (net impact is a reduction in coal spillage costs); and
7. Updating the clean-up and delay minutes assumptions.

Variance in coal spillages costs in CP5 versus CP4 (2011/12 prices end CP4 efficiency)

The table, below, compares our initial estimate of annual coal spillage costs in CP5 with the respective estimates in CP4 (after adjusting for price basis and efficiency)

	CP5 (£)	CP4 (£)	Variance (£)
Cost of Points Failures (clean up and delay minutes)	0.13	2.5	(0.12)
Cost of Rail Vac, Tube Cube and Manual Interventions	1.8	0.66	1.1
Cost of point end service life reductions	2.0	1.2	0.84
Cost of Plain Line service life reductions	1.7	1.3	0.41
Total	**5.7**	**3.4**	**2.3**

Numbers expressed in £m & have been rounded

- Our initial cost estimates indicate a material increase in coal spillage costs in CP5 relative to CP4.

Drivers of CP5 cost increases

- The increase in costs in CP5 reflects the inclusion of the cost of Tube Cube (which was not available in CP4), the cost of manual intervention (also not explicitly included in CP4) and updated assumptions in relation to the use of Rail Vac.
- An increased number of identified coal loading and unloading points and thus track miles and points ends estimated to be impacted by coal spillage, relative to CP4.

Estimating the CP5 CSC rate

- We have initially estimated a CSC rate for CP5
- To do this we divided our estimate of the cost impact of coal spillage by forecast 2014/15 (year 1 of CP5) coal traffic (both ESI coal and coal other) .

Coal spillage charge rate – pence per KGTM (2011/12 prices end CP4 efficiency)	CP5	CP4	Variance
Coal ESI	74.21	33.47	40.74
Coal Other	74.21	33.47	40.74

- The, above, CP5 CSC rate is materially higher than the CP4 one because our estimate of coal spillage costs is materially higher. The cost to be recovered has been calibrated based on year one of CP5 but annual charge income will vary depending on coal traffic volumes.
- Please note that the final charge rate will incorporate ORR's long-run efficiency overlay, which will serve to reduce it.

Initial cost estimates – CSRIC

- In PR08 the level of the CSRIC, and thus the investment fund, was set on a heuristic basis with the aim of generating £250,000 per annum.
- In the first 2 years of CP4 the CSRIC generated an investment fund of approximately £295,000, of which approximately £85,000 remains available to be allocated to schemes which aim to reduce coal spillage on the network.

Network Rail's view

- Due to the installation of cleaning equipment at the busiest coal loading locations (e.g. Port of Immingham) and the surplus funds currently available, we propose discontinuing the CSRIC in CP5.
- Subject to the surplus funds available at the end of CP4 being in excess of £1,000 (the minimum cost of installing cleaning equipment in CP4), we also propose rolling-forward the remaining investment fund into CP5 .

We believed this proposed approach will:

✓simplify the current charging structure; and

✓eliminate the disproportionate transaction costs associated with reviewing the CSRIC annually.

Annual review of charges in CP5

CP4 approach

- **CSC**: we are required to review the charge an annual basis and propose a change to the charge rate based on the number of coal related points failures each year.
- **CSRIC**: we are required to consult annually with freight operators in relation to the allocation of the investment fund and whether the charge should continue in the following year.

Proposed CP5 approach

- Consistent with other track access charges, we propose that these charges (if they were to be retained in CP5) should not be reviewed on an annual basis (i.e. should be set for the duration on the control period).
- We believe that this would remove what we consider to be a disproportionate administrative burden and uncertainty for the industry.

Combining the CSC with the proposed freight - specific charge

- In its consultation on the variable usage charge and a freight specific charge, ORR stated that it was minded-to levy any new freight-specific charge on electricity supply industry coal (ESI coal) and was also considering levying the charge on coal transported for other purposes (coal other).
- If this charge were to be introduced, and if ORR were to determine that both of these market segments are capable of paying the proposed freight-specific charge, then we believe that there could be merit in recovering coal spillage charge costs through a freight-specific charge, instead of a separate CSC.
- We believe this would:
  - ✓ Maintain transparency,
  - ✓ facilitate the continued recovery of coal spillage costs, and
  - ✓ simplifying the charging structure.
- If, however, ORR were to determine that only one of the coal market segments can bear any new freight-specific charge, we consider that it would continue to be appropriate to recover the cost impact of coal spillage from both market segments through a separate CSC.

Next Steps

- We would welcome responses to this consultation by close of business **8 February 2013**
- Responses, and any queries, should be submitted to: **Ben.Worley@networkrail.co.uk**

Future milestones

Principal milestones	
8 February 2013	This consultation closes
By 31 March 2013	Conclude on consultation and publish draft price list
12 June 2013	ORR Draft Determination
31 October 2013	ORR Final Determination
By 31 December 2013	Final pricelists made available
1 April 2014	Implement new variable usage charge