

Mr P McMahon
Deputy Director – Competition and Regulatory Economics
Office of Rail Regulation
1 Kemble Street
London
WC2B 4AN

14th December 2007

Dear Mr McMahon

Network Rail's Strategic Business Plan – Control Period 4

Thank you for the opportunity to respond to Network Rail's Strategic Business Plan document for Control Period 4.

Efficiencies

Firstly, International Power (IP) would like to support the proposal to reduce track access charges to freight traffic after the 2001 review established too greater efficiencies. The reduction from £100m/pa to £93m/pa for freight traffic is most welcome. This is especially interesting after the measuring of tangential forces indicated that freight traffic caused equivalent / less damage to the tracks as passenger traffic. Maybe, this will enable freight to lose its second class citizen tag.

However, IP would like to challenge the efficiency target of a 12.5% (table 6.32). The reduction of the freight charge down from £93m/pa to £81m/pa is not challenging enough. IP would like to enquire how Network Rail arrived at the efficiency figure of 12.5% (and look forward to a reply as a matter of urgency) as it appears to IP to be on the low side. IP feel that the ORR has a duty to set more realistic and demanding challenges to Network Rail who, it should not be forgotten, is the monopoly supplier and for a non profit making organisation has done remarkably well over the last couple of years to make profits of £850m for 2006/7.

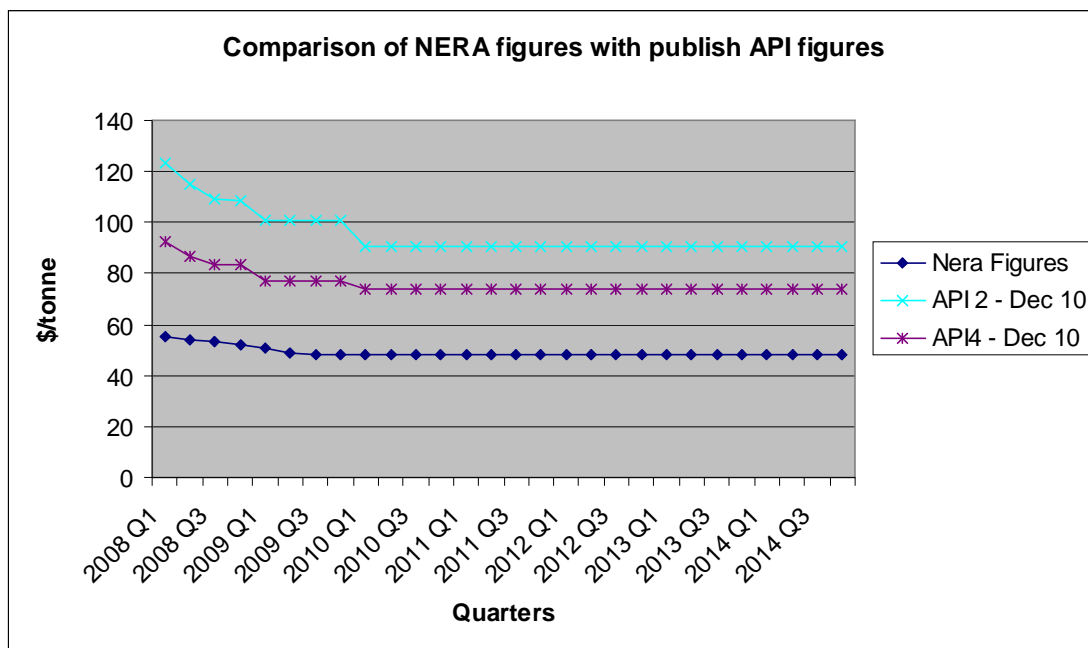
It should also be considered that the ORR has introduced the completely unfair and unacceptable "Freight-only line" levy upon any coal freight movements. This levy gives back to Network Rail potentially £20.9m/pa (table 6.33) which when added to the reduced TAC gives them back circa £102m which is more than they start off with. So where's the incentive to make efficiency savings?

Freight Only Line Charges

IP, as mentioned in our previous correspondence and subsequent meeting, continue to reject the ORR's assumptions / findings that the coal fired electricity industry can stand to meet the additional cost of Freight Only Lines. IP proved to the ORR that data used by their consultants was wrong in defining the UK Electricity Market but the

ORR has persisted in its campaign against captive markets that are easy targets as they have no other way of bring coal to the Power Stations.

IP has yet to receive the courtesy of a reply to our a letter suggesting that the ORR has misused EU legislation when trying to justify the introduction of this levy and IP would like to reiterate that these additional charges will only distort the electricity market place in favour of gas fired and coastal located power stations. The industry standard pricing indices API2 and API4 have increased considerably to records levels over the last 6 months, a factor totally ignored / dismissed by the ORR.



The above graph shows API 2 prices based on CIF from Russia and API 4 are FOB prices from RSA both into ARA

The ORR should also consider that freight rates from RSA have also hit record highs of over \$50 / tonne and increase of \$25 / tonne since the start of 2007.

Coal Spillage

IP believe that a spillage factor in the present form is a totally inappropriate response to the alleged problem. The alleged adverse effects are merely accepted as a fact of life and the alleged costs are passed through the FOC's to the generators who are the one party in the chain that has little or no control on a day to day basis over how wagons are loaded or allowed to leave the loading site. Where is the incentive in that? Loading is the responsibility of the loading point/FOCs. It is the responsibility of Network Rail, the FOCs, ports, collieries and disposal points to make sure that wagons are not over loaded and don't have any residual coal on their sides. International Power considers that rather than Network Rail spending money clearing up, the FOCs are incentivised to avoid the problem in the first place.

IP is a responsible company and takes coal spillage seriously. Although we have no direct control, we have discussed the subject with our haulier and with the ports at Bristol, Hull and Immingham to discuss ways forward and intend to make it a contractual issue in future contracts.

IP has done everything it reasonably can to eradicate the problem of coal spillage from its logistics chain. The present coal spillage charge is a blunt instrument, unfairly penalising the customer and providing no incentive to those in a position to do something about the problem. Any continuation of a spillage charge must be targeted on those operators or locations where the problem persists, and to justify that Network Rail must provide far more evidence than it has to date.

Yours sincerely

Robert I Kendrick
Director