

Consultation on possible models for a Capacity Mechanism

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The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output. CoalPro is not opposed to the development of any form of energy. CoalPro is pro-coal. CoalPro is opposed to an excessive dependency on any one form of electricity generation, whether overall or for peak periods.

CoalPro does not have sufficient knowledge of the electricity generation industry to comment in detail on many of the questions posed by the consultation document. However, CoalPro understands the rationale behind the proposal for a capacity mechanism, particularly in the light of carbon price support and other elements of the Electricity Market Reform proposals, and has certain views on the characteristics that a capacity mechanism should possess if its objectives are to be fulfilled.

First, capacity payments should only be made available to plant that would not otherwise be available. Hence they should be restricted to existing plant that would otherwise be expected to close or to new plant that would not otherwise be expected to be constructed. It follows from this that capacity payments should not be made available to any plant that will benefit from Feed-in-Tariffs, at least in the short to medium term.

Second, the mechanism should be designed so that capacity payments are awarded to flexible plant capable of responding in the short term to peak demand requirements. It follows from this that they should not be available to relatively inflexible new or existing nuclear plant, whether or not new nuclear plant benefits from Feed-in-Tariffs. Nor should they be available to plant, the operation of which is intermittent and the availability of which cannot be guaranteed. In particular, the capacity mechanism needs to be capable of benefiting fossil fuel plant.

Third, CoalPro believes that care should be taken to avoid a situation where peak generation requirements are excessively dependent on a single generation technology or a single fuel. The introduction of carbon price support and the Emissions Performance Standard mean that there will be a major incentive for a renewed dash for gas. It is important that the capacity mechanism does not compound this by being designed in such a way that capacity payments will only be available to existing or new gas-fired plant such that electricity generation at peak periods, particularly peak periods when intermittent renewables are not available, is excessively dependent on gas at precisely those times when demand for gas for domestic, commercial and industrial purposes is also at its maximum. It follows from this that capacity payments should be available to coal-fired plant, particularly existing coal-fired plant that would otherwise close.

Fourth, and crucially, there needs to be adequate recognition of the long investment timescales of the electricity generation industry and the inter-relationship with investment requirements of other legislation, particularly those of the Industrial Emissions Directive. Decisions in relation to the IED may need to be taken in the relatively short term. It may be that the availability or otherwise of capacity payments will influence these decisions. If capacity payments are to be available to plant that would otherwise be closed as a result of the IED, it is essential that the mechanism be designed in such a way that their availability, or the probability that they will be available, to such plant is

signalled well in advance and in sufficient time that this can be taken into account in the investment decisions and/or closure or extended life decisions that will have to be taken in relation to the IED. It is essential that the relationship between a capacity mechanism and the decisions in relation to the IED is fully understood and recognised in the design of the mechanism.

Finally, the provision of electricity at peak periods, and/or periods when other plant is unavailable, from plant which may well be operating on very low load factors could be extremely expensive. To avoid excessive cost, and other things being equal, consideration should be given to ensuring that capacity payments will be available to existing plant that would otherwise close, with relatively low investment requirements, as opposed to new plant with high investment requirements.

In general terms, CoalPro feels that the consultation concentrates too much on the minutiae of the design of the alternative mechanisms rather than the much wider question of the sort of plant that should be available to meet peak requirements, and back-up requirements when other plant is unavailable, and still contribute to the overall requirements for security of supply and affordability.

In this context, continuation through the mid-2020s of a significant proportion of the existing fleet of coal-fired plant will meet both the design requirements for peak/back-up capacity (flexibility, security, affordability) and the wider objectives for the Energy White Paper (security and affordability). However, for such plant to benefit from capacity payments it is essential that the mechanism be designed in such a way that the (likely) availability of capacity payments is signalled sufficiently early to be taken into account in the decision-making process associated with meeting the requirements of the IED.

CoalPro recognises that in the longer term, i.e. from 2030 onwards, capacity payments should be restricted to low-carbon plant. It is recognised, therefore, that it may be necessary in the longer term to make capacity payments available to low-carbon flexible plant whose availability can be guaranteed. This is likely to be fossil fuel plant equipped with carbon capture and storage, both coal and gas even if they also benefit from FITs. The design of the mechanism should thus be sufficiently flexible to recognise these changing requirements over time.

Whilst CoalPro has difficulty in responding to the detailed questions in the consultation document, we have some comments on the alternative mechanisms proposed. The use of a Strategic Reserve only when prices reach a certain threshold, or only when needed as a last resort, carries the problem that, if and when called upon to operate, it will inevitably affect the price that all other players will receive and thus risks significant distortion to the market. On the other hand, it is difficult to see how a Reliability Market will work in detail. The possible complexities would seem to be significant.

CoalPro thus urges that consideration be given to a simpler alternative based on bilateral contracts, or contracts centrally determined, for capacity availability restricted to plant that would not otherwise be there, either because it will have closed or because it will not have been constructed.


Director General