Regulatory Policy Committee

The Future of Coal Generation in Great Britain

Department of Energy and Climate Change

RPC rating: fit for purpose

The IA is now fit for purpose as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

Description of proposal

The proposal is to ensure that there is an orderly transition in the UK from coal-fired power stations to lower-carbon alternatives. The Department is considering five options. Under all options, it will mandate the closure of coal-fired plants by 2025. The other options vary the timescales and rate of reduction in coal-fired electricity generation in the years 2020-2025. The options are as follows:

1. Mandated closure in 2025.
2. Mandated closure in 2025 plus 40% load[1] constraint in 2023-2025.
3. Mandated closure in 2025 plus 17% load constraint in 2023-2025.
4. Mandated closure in 2025 plus 40% load constraint in 2020-2025.
5. Mandated closure in 2025 plus load factor that declines gradually from 60% in 2021 to 25% in 2025.

Impacts of proposal

The policy will potentially affect 12 UK coal-fired power stations. These plants are already subject to requirements from a number of EU and UK policy interventions such as the Industrial Emissions Directive and Transitional National Plan. The proposal would act as a back stop for existing regulation, should the economics for coal become more favourable than expected. As such, under the central scenario, none of the options presented currently affect the profile of retirements of coal-fired plants, and only options four and five affect the level of coal generation. The Department has also set out a high scenario, where the economics for coal plants is more favourable. This results in higher output for coal plants in the counterfactual and the policy bites to a greater extent.

Options four and five place a constraint on coal generation and have a negative net present value, as the cost of increased gas capacity is not fully offset by reductions in emissions. However, the Department believes intervention is still justified as there

[1] The permitted output as a percentage of the maximum possible

is insufficient carbon pricing in the market and the emission of other harmful pollutants is not priced into coal-fired generation. The policy will also deliver substantial non-monetised benefits including providing a "*signal to international climate change actors*" and increasing the certainty for investors in new build gas plants.

The Department believes that in the central scenario only options four and five affect the operation of coal power stations, increasing coal generation slightly. However, in EANDCB terms the impact is negligible.

At this stage, the Department has estimated the equivalent annual net cost to business (EANCB) to be within a range of -£0.1 million to £108.9 million. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

Issues addressed following RPC's initial review

As initially submitted, the IA included one issue that meant that the RPC did not consider it fit for purpose. Following the RPC's initial review, the Department submitted a revised IA that responds to the point below.

The original IA did not provide sufficient evidence to support the Department's view that none of the policy options are likely to affect the operation of coal power stations and that the net cost to business is zero. The RPC asked the Department either provide further an explanation why it is implementing a policy that has no impact or revise the central scenario to take account of the probability of the policy having an impact on business.

The revised IA now provides a range for the EANDCB figure of -£0.1 million to £108.9 million. In the central scenario, in all options the EANCB is zero with the exception of option four, where there is a small increase in coal generation, resulting in an EANCB of £-0.1 million. The Department explains that the probability of the policy having a significant negative impact on business is very low. The IA states that for the impact to be at the top of the range, this "*would require sustained coal-favouring fossil fuel prices at a level that has not been seen in recent years, coinciding with a number of other coal-favouring factors*". Nonetheless, the revised EANDCB figure provides an insight into possible impact on business. At final stage, the Department should explore further the probabilities associated with different fuel price scenarios and calculate an EANDCB figure in accordance with the better regulation framework.

The Department has provided sufficient rationale for the policy in terms of the need to introduce a back-stop to ensure the UK reduces emissions from the power sector in order to meet legally binding targets. The Department has also provided a rationale in terms of decreasing the uncertainty to avoid underinvestment in new build plant and sending a signal to "*international climate change actors*". These further arguments appear weaker and would benefit from strengthening via consultation.

The Department has also considered alternatives to regulation but explains that such alternatives would not provide sufficient certainty around the timing of the closure of coal fired power plants.

The IA notes that there are likely to be administrative costs as a result of implementing the regulation. The Department needs to attempt to quantify these at final/secondary legislation stage. As part of this, the Department should also consider whether businesses will face any familiarisation costs. The final and secondary legislation stage IAs should also consider the potential impact on the UK coal mining industry in more detail. The impact of the proposals and implications for both employment and health and safety should be highlighted within the IA to assist the consultation,

The proposal is of domestic origin. A small and micro business assessment (SaMBA) is, therefore, required. The Department provides evidence that none of the affected firms are small businesses. The SaMBA is sufficient.

Departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net cost to business (EANCB)	-£0.1 million to £108.9 million
Business net present value	£0 to £1 million
Societal net present value	£0 to £340 million

RPC assessment

Classification	Qualifying regulatory provision
Small and micro business assessment	Sufficient
RPC rating (of initial submission)	Not fit for purpose

Michael Gibbons CBE, Chairman