Response of UK COAL MINING Limited to the
Consultation on possible models for a Capacity Mechanism

UK COAL Mining (UKC) welcomes the opportunity to respond to consultation on possible models for a capacity mechanism contained within the EMR White Paper. UKC is Britain's largest producer of coal, supplying around 4% of the country's energy needs for electricity generation. The Group operates three deep mines and six surface mines located in Central and Northern England with substantial reserves and employs 3,000 people. Around 95% of the Group's 7.5Mt/year production supplies the electricity generation market and as such we are heavily influenced by policy objectives affecting the electricity sector.

DECC in their consultation document have put forward alternative approaches to a providing a capacity mechanism within their proposed reform of the electricity market. The models proposed are complex and beyond our expertise, so therefore as a result this response concentrates on the general principles of how the mechanism should work.

UKC agrees with the principle that for coal to be involved long term in a low carbon economy it must be associated with carbon capture and storage (CCS). However it is important this is managed in an orderly transitional manner. We believe it is essential in order to maintain the current size of the indigenous coal industry and associated transport infrastructure, that CCS is deployed in a timely manner to replace existing stations. This would maintain a coal demand profile and allow the coal industry to make the necessary on-going investment.

The Energy Minister, Charles Hendry, outlined the benefits of coal fired generation in a speech in the House of Parliament on the 29th June 2011:

"There should be no doubt that we recognise that coal has been and will continue to be an integral part of our energy infrastructure. As my hon. Friend the Member for Sherwood reminded us, coal makes up 35% of our electricity generation, but on a cold winter's day that figure could readily be 50%. It is therefore vital to our energy security" Hansard (Column 321WH)

Therefore the capacity mechanism should be designed so that existing coal plants are eligible to participate. UKC believes that existing coal stations can provide a low cost transition to a low carbon economy, this is because the plants are already up and running with sunk capital costs and as a result will provide a cheaper alternative to new build CCGTs or OCGTs with a low and uncertain load factor.

Coal plants currently provide a flexible back up service, ensuring that the lights stay on during peak demand. During the cold spell last winter, at one stage, 24GW out of 28GW of coal plant was called upon to generate. This flexible and responsive capacity is currently essential to the security and affordability of UK electricity supply.

Within the electricity market framework clear timely signals are needed on how the mechanism will work so that operators can make the necessary investment decisions. Coal fired generators are currently deliberating on whether they will make significant investments to comply with tightening NOx and SOx emissions limits under the Industrial Emissions Directive. The early signalling that the capacity mechanism would be applicable to these plants would be beneficial in this deliberation process.

For the Secretary of State to be confident that the lights will stay on during the winter peak demand periods he must have a detail assessment of what capacity levels are needed and when. This is the area that the consultation document is vague.

Within the Energy Bill 2010-11 there is an obligation on the Gas and Electricity Markets Authority (GEMA) to forecast the level of electricity demand annually over a rolling four year period. This period is far too short as it does not allow sufficient time for new capacity other than OCGT or possibly gas CCGTs (if consent has already been given). It automatically precludes new coal or nuclear being built in response to demand signals. It is essential that GEMA provide a rolling forecast for at least 10 years, albeit with reducing levels of certainty further out, to allow generators to assess what actions may be required.

As the UK moves forward with decarbonising the power sector there will increasingly be a need for low carbon, reliable and flexible plant that can provide additional capacity at times of stress and coal power plants fitted with CCS could be the technology most suited to meeting this need. It is therefore important that the EMR provides suitable incentives to reward such generation either through the capacity mechanism or the FIT mechanism as outlined in the White Paper.