

COAL FORUM

Response to the consultation by the Department of Energy and Climate Change on Electricity Market Reform 16 December 2010

Coal-fired electricity production

1. The Coal Forum was convened by government in 2006 to facilitate dialogue with and within the energy industry and since that time it has sought to fulfil its remit 'to work to ensure that we have the right framework, consistent with (the government's) energy policy goals, to secure the long term contribution of coal fired power generation and optimise the use of economical coal reserves in the UK'.

2. The UK electricity generating industry wants to retain coal-fired production in the generating mix, for the diversity that it offers, the flexibility that it provides and the need to retain continuity in the supply chain, in the hope and expectation that it will serve Carbon Capture and Storage (CCS) in the longer term. The Coal Forum is pleased to note, in the consultation on Electricity Market Reform, that the government recognises the important role that coal-fired generation can play.

3. On the contribution of our coal reserves to energy security and affordability, Malcolm Wicks¹ argued that, "Given the abundance of proven coal reserves and its relative low costs and flexibility to meet fluctuations in demand for power, I believe that there is a long-term future for coal in the UK's energy mix. Indeed, given the importance of supply diversity to our security, it would be foolish to abandon coal ... it must be part of the solution, not as now part of the problem" (para. 6.24).

4. The UK should develop its own economically viable coal resources where it is environmentally acceptable to do so, including through the use of innovative technologies. Indigenous coal should be recognised as having the potential to meet a significant amount of the demand for coal in the UK. UK coal production has stopped falling at 18-19mtpa; the industry believes the reserve base is capable of maintaining an output of 20mtpa at internationally competitive costs; employment has risen to some 6,000 employees. There is, however, major uncertainty facing the coal industry as far as necessary new investment is concerned.

5. We welcome the government's intention to provide a stable and long-lasting framework for investment in the electricity industry. The challenges facing the coal industry – indigenous and imported – are directly related to those facing the electricity generating industry. Credible and stable market arrangements are essential to give companies the confidence to invest in the UK. We therefore encourage policy makers to strive to achieve across political parties a consensus on the electricity market reforms to reduce the risk of further changes to the arrangements in the medium term.

¹ Energy security: a national challenge in a changing world. Malcolm Wicks MP. 5 August 2009.

6. There is clear need for massive investment in the period ahead to replace generating plant which will be decommissioned and to meet future demand. But, opportunities for investment in new coal-fired power stations are restricted by

- uncertainty about the future of EU ETS as the main policy instrument for CO₂ emissions reduction, exacerbated by proposals for a carbon price floor and an EPS;
- the requirement to fit partial CCS (which does not apply to gas-fired plant);
- the need for CCS to be demonstrated successfully on a large scale;
- and
- the slow progress with CCS, which is likely to lead to more new capacity being (unabated) gas-fired unless policies are changed.

The Coal Forum has asked the Energy Minister to consider these practical issues and take them into account in policy formulation.

The importance of Carbon Capture and Storage

7. The Electricity Market Reform (EMR) will be critical in establishing the route forward for coal-fired power generation, Carbon Capture and Storage and the coal industry. EMR needs to allow for a situation where as old coal power plant closes, new coal-fired plant, meeting current requirements for CCS is built. This will also help to ensure that the indigenous coal industry and coal infrastructure are maintained. If coal infrastructure is not maintained, then it is more difficult, if not impossible, to envisage a future for coal-fired electricity with CCS. With this in mind coal-fired generation and CCS need the earliest possible execution of the demonstration projects and a clear framework of support under the EMR for follow-on projects, so that work on the development of these will commence as soon as possible in parallel with the building of the demonstration plants.

8. UK industry, has matched the commitment of government in CCS, developing the capture technology for coal and gas and building teams of people in anticipation of successful CCS demonstrations and an implementation programme consistent with global climate targets.

9. The deployment of clean coal with CCS within the UK is important to ensure security and diversity of clean energy supplies, to maximise the use of economically advantageous indigenous resources and to reduce the risks of over-dependence on imported gas. These objectives will be achieved only if

- i) CCS is successfully demonstrated as early as possible and then deployed in the UK and abroad and
- ii) the UK infrastructure and skills for coal production and coal-fired generation are preserved at adequate scale.

The EMR proposals

10. The Electricity Market Reform proposals need to allow for new coal-fired plant to be built, but, they do not seem suited to deliver CCS first-of-a-kind costs so a supplementary mechanism funded by the CCS Levy or the CPS is needed. Policy should be designed to

enable sufficient CCS to be developed to allow the technology to play its important part in meeting the 2030 decarbonisation target.

11. The proposal for a **Carbon Price Floor** could have a very negative impact on generation from coal and major consequences for the coal industry and will not provide certainty for investment in CCS unless greater clarity is given on the exemption of CCS from the Climate Change Levy. The Department is asked to take account of the response of the Coal Forum to HM Treasury's recent consultation on the proposed Carbon Price Floor. Our views are attached in the form of an appendix to this response.

12. We are supportive of a **Feed-in tariff** for all low carbon electricity generation based on a contract for difference with the wholesale electricity price. How that price should be determined, however, is clearly an issue but it should take account of fossil fuel price volatility. Additional support will be appropriate for specific technologies (e.g. new, more expensive higher risk technologies such as offshore wind, wave, tide and CCS).

13. An **Emissions Performance Standard** is not required. It will add risk to future investments through uncertainty as to how it will be developed.

14. Within the Forum there are strongly differing views on the need for **Capacity Payments** and what form they should take if they were introduced.

Coal Forum Future Generation Sub Group
on behalf of the Coal Forum
10 March 2011

Appendix 1

Response by the Coal Forum to the consultation by HM Treasury 'Carbon price floor: support and certainty for low-carbon investment'