# A SUBMISSION TO THE PIU ENERGY REVIEW FROM THE BRITISH ASSOCIATION OF COLLIERY MANAGEMENT - TECHNICAL, ENERGY, & ADMINISTRATIVE MANAGEMENT (BACM-TEAM)

## INTRODUCTION

BACM-TEAM represents the management staffs in the coal producer and coal distribution sectors in the UK with a membership of 4,500. Clearly the Association is keen that the Government does not foreclose the option of indigenously produced coal within the context of the energy review. Our comments in this initial submission concentrate on issues surrounding power generation.

We welcome the publication of the energy review to be conducted by the PIU and would make the following observations. The review is scoped to review energy policy objectives over a 50 year period through to 2050. This is against a background over the past decade of progressive privatisation and market regulation of the main sources of energy for power generation. In the preceding 50 years we have moved from a command economy in UK energy which was heavily dependent upon solid fuels to the current reasonably diversified system.

The difficulties in projecting forward 50 year are obvious but clearly the review needs to be undertaken.

It needs to be recognised that whilst the market regulated system currently in place will continue, energy remains one area where the normal rules of a free market economy simply do not apply, for a variety of geopolitical reasons. It stems from this that the Government must have a proactive approach in drawing up energy policy objectives and managing the energy sector in the process of delivering those objectives. Given the move to market regulation the principal policy option for Government must be incentive based. There are obvious examples of this to date, including the non fossil fuel levy and more specifically changes such as the stricter consents policy on new build gas stations, which applied up until 2000.

### ENVIRONMENT

The scoping note for the review highlights the problems presented to Government of reconciling energy policy objectives with environmental objectives. It needs to recognise that current environmental objectives are influenced by the Kyoto Protocol as well as domestic commitments. Progress of these objectives to date have largely stemmed from the closure of most of the UK coal industry in the 1990s. With continuing growth, particularly in the transport sector, it is unlikely that the UK will be able to maintain the progress towards its Kyoto targets let alone the domestic commitment of 20% reduction in $CO_2$.

The value of any energy review will be lessened by unrealistic assumptions about what will be achieved.

Following the recent agreement on Kyoto at the Bonn summit and bearing in mind the amendments to the agreement, particularly in relation carbon sinks, there remain serious questions about both the value of Kyoto as it stands and whether sufficient countries will ratify it particularly when the issue of sanctions is eventually (if ever) agreed. Complete fulfilment of the 'Kyoto targets' agreed on 23 June 2001 in Bonn would only delay anticipated climate change by at most 6 years: this is an insignificant gain, and the UK's contribution to it is very insignificant. The US is the world's largest single $CO_2$ emitter, China the second highest and India the third largest. The US is not party to the Kyoto Protocol and China and India are not constrained by it because they are not listed as industrialised countries. Anticipated future increases in $CO_2$ emissions are expected to come from China and India and consequently it is hard to see how constraining the UK $CO_2$ emissions can be justified on the grounds of cost effectiveness.

The credibility of these targets must also be called into question in the absence of the USA from the process and the concerns voiced here suggest that ongoing review (say five yearly) would be advisable.

## DIVERSITY OF ENERGY SUPPLIES

Currently there is a satisfactory level of diversity in power generation whilst oil is predominant in transport. However current diversity in power generation is relatively a recent phenomenon as it was heavily coal dependent until the early part of the 1990s. There is no doubt that the decision by the EU in the 1980s to allow gas fired electricity generation has contributed to the current position, but in many ways that decision has simply accelerated the issues of gas scarcity which have contributed to the current review.

In power generation in the regulated market there is no prospect of any commercial operator deciding to build either new coal or nuclear capacity with the consequence being the prospect of dependence on one fuel, namely gas.

As UK gas supplies diminish and UK import dependence extends to places like Russia and Algeria inevitably gas prices will increase and may at some point in the future result in an economic assessment in the market that oil or coal are economic propositions. However, this is sometime off and the Government would be unwise to allow such dependence upon one fuel.

It is therefore essential that the PIU pay particular attention to the outcome of the review being held in parallel on clean coal technology. Incentives need to be put in place to ensure the generating mix is not gas dependent. The PIU energy review needs to take a positive view towards the case of a UK CCT demonstration plant which is the subject of a separate consultation process overseen by the DTI.

Whilst the Association would clearly wish to maximise indigenous coal within the overall UK coal market, producers will still be required to compete against gas and imported coal. Despite difficulties it has done so throughout the 1990s and long term prospects however remain good. Attention is drawn to the suggestion in the EU Green Paper on the sustainability of the European energy supply that Europe should retain indigenous coal production and the Commission have confirmed they wish to extend assistance to UK coal until 2010. As we are Europe's most efficient producer the PIU should take account of these considerations. The dilemma this poses is highlighted by the proposed closure of Hatfield Colliery near Doncaster.

Along with the access provided at Thorne, these two collieries represent the best access to substantial reserves which in the medium term should be economic. (However in the absence of any policy change we could see the expulsion of these reserves being foreclosed to the long term detriment of the nation.)

Account should also be made of the ability to develop CCT technology, which would be able to be sold on to developing countries thereby enhancing their programmes to reduce carbon emissions. Such export opportunities would help the UK's balance of trade.

Internationally coal will remain a very significant contributor to global energy needs. It is less likely, as compared to oil and gas, to be subject to price movements dictated by geopolitical considerations and it has environmental advantages over, for example, oil. Sea borne coal trade is likely to continue to increase, supplied from a wide variety of producers operating in many different parts of the globe.

Considerations that apply to coal capacity apply equally to nuclear and whilst the Association can see a requirement for ongoing nuclear capacity there are very substantial problems with the nuclear option which do not apply to coal. The obstacles for nuclear include the planning process to be gone through (lengthy); the public acceptability of re-establishing a nuclear option (questionable) and economics.

Despite the best protestations of British Energy it is not at all clear that the full cycle costs including decommissioning of nuclear would be economic and it is difficult to see a commercial undertaking being able to obtain the necessary underwriting for new nuclear capacity. If the Government determined that a substantial build in new nuclear capacity was necessary it would likely have to provide the underwriting itself.

This would represent a fundamental shift in the market regulatory system that exists currently and quite understandably other sources of power generation would expect equivalent assistance for their sectors.

The most important area to establish diversity in will remain transport where developments such as fuel cell technology need to be fully supported, together with an integrated public transport system.

## ENERGY PRICES

Energy pricing is the most problematical area to speculate about in the future. The current regime for energy pricing is not consistent between fuel types and is the result of historical developments in this area. It can be said that throughout the 1990s we have been fortunate to live in times of relative energy glut and consequently low prices. The long term trend therefore must be that real prices in the market before tax will increase. Introducing taxes on solid fuels would however decrease the market for coal and therefore decrease diversity. Additional taxation of energy products would also tend to be regressive and would not meet the Government's objectives of fuel poverty. As a consequence there is only limited opportunity to alter the current tax position.

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**GENERAL SECRETARY** **31 AUGUST 2001**