

**Submission to the Policy and Innovation Unit  
on the  
Review of UK Energy Policy  
by the  
Confederation of UK Coal Producers  
and the  
National Association of UK Licensed Opencast Operators**

**1. Introduction**

- 1.1 The Confederation of UK Coal Producers (Coalpro) and the National Association of UK Licensed Opencast Operators (Naloo) together represent some 90% of coal production within the UK. The PIU Energy Policy Project Scoping Note outlines many of the issues about which the UK coal industry has been concerned and we welcome the opportunity to contribute to the formulation of a long term UK energy policy. This note contains the initial thoughts of both trade bodies and we look forward to working with you on more detailed issues over the coming months
- 1.2 Coalpro/Naloo supports the UK Government's central energy policy objective to "ensure secure, diverse and sustainable supplies of energy at competitive prices" and believes the only way to protect fuel security is to have a diverse fuel base. Coal fired generation has a major role to play in meeting this objective.

**2. Current UK Energy Market**

- 2.1 The UK coal mining industry over recent years has made great strides to improve its productivity and reduce its cost base. UK coal production is the lowest cost within Europe and with the recent increase in world coal prices is currently competitive with imported coal delivered into inland UK power stations.
- 2.2 Over the last 18 months, the UK has seen sustained high demand for coal in the power generation sector. 2000 saw coal consumption at UK power stations rise by almost 14% to 46 million tonnes, and the in first four months of 2001 there has been a further increase of 24% over the same period a year earlier.
- 2.3 This increase has been driven by high gas prices, interruptions to gas supply and the poor performance of nuclear units. Coal generators and UK producers have been able to respond to this increased demand by

the lifting of coal stocks as well as significantly increasing imports. UK suppliers and generators together can safely and easily hold several months fuel supply in stock. This option is not economically available to oil or gas generators.

- 2.4 Despite the rise in gas prices, consumers have reaped the benefit of increased coal burn with a continued fall in electricity prices. This has benefited industrial competitiveness and helped alleviate fuel poverty, both major objectives of the UK Government.

### **3. Energy Paper 68**

- 3.1 Coalpro/Naloo notes that attached to the scoping note are projections from the Dti's latest energy projection EP68. We totally disagree with some of the assumptions used within the model in particular the price of oil which is the main price determinant.
- 3.2 We believe it is essential that the assumptions and findings of EP68 as part of the Review should be revisited and we would urge the PIU Team to do so.

### **4. Security and Diversity**

- 4.1 The UK is rapidly moving away from a position of being self sufficient in energy to becoming more reliant on imports of oil and natural gas. The position of UK and world energy reserves is now well known and the Scoping Note highlights the risks of being reliant on a limited number of producers.

The EU is also concerned over rising energy imports and has published a Green Paper on Security of Energy Supply. One proposal contained within the document is to enter into long term energy contracts with Russia to supply gas. Coalpro/Naloo believes this will reduce diversity and security and is not the way to proceed.

Coalpro/Naloo believes that it is only coal that provides real diversity in the geographical spread of resources, although the recent consolidation in world coal producers could lead to a continued upward pressure on prices.

- 4.4 Indigenous coal reserves provide additional fuel security. Whilst individual members and the Coal Authority can provide information on their current reserve base, the 2001 BP World Energy Review indicates the UK has one billion tonnes of proven hard coal reserves.

## **5. Environmental Factors**

- 5.1 When compared to gas, coal combustion for power generation releases more NO<sub>x</sub>, SO<sub>2</sub> and CO<sub>2</sub> per kWh produced. The retrofitting of low NO<sub>x</sub> burners and FGD equipment to existing coal stations can provide vastly improved environmental performance to meet tightening legislation, such as the amended Large Combustion Plant Directive.
- 5.2 Because of coal's high carbon content, any form of carbon taxation or emissions trading would encourage fuel switching to gas further reducing diversity and security of supply by further reinforcing the present market position.
- 5.3 However, coal can contribute to reducing greenhouse gas emissions with the introduction of clean coal technology. The potential to generate electricity at much higher efficiencies would reduce CO<sub>2</sub> emissions by up to 25% as well as eliminating virtually all emissions of particulates and SO<sub>2</sub> and greatly reducing NO<sub>x</sub> levels.
- 5.4 Currently available clean coal technologies could also be used as a stepping stone towards the capture and sequestration of CO<sub>2</sub>, providing the ultimate zero emissions coal plant. Used for enhanced oil recovery, CO<sub>2</sub> has a natural market in the UK where it could be usefully used to extend the life of North Sea oil reserves.
- 5.5 Renewable technologies will help in reducing greenhouse gases to meet our international commitments, but the current progress of the existing NFFO projects leads us to believe that the UK target of 10% by 2010 will be a severe challenge. With the inevitable closure of existing nuclear stations, Coalpro / Naloo believes the development of clean coal technologies, ultimately leading to carbon sequestration, is necessary in order to keep greenhouse gas emissions levels from rising long-term.
- 5.6 Coalpro/Naloo welcomes the parallel Government review into clean coal technologies and believes that the outcome will show the need for a structured support programme for clean coal commercial demonstration plant.

## **6. Way Forward**

- 6.1 Coalpro / Naloo believes the current policy of market liberalisation will never on its own deliver fuel security and diversity. At present any new generating capacity would be gas CCGT because of its relatively low capital costs and low technical risk. The present alternatives are nuclear and coal. Whilst the marginal cost of nuclear power is very low, it is offset by a high capital cost, unquantified decommissioning

liabilities and unresolved issues surrounding the disposal of waste.

- 6.2 The market in general tends to focus on the short term and therefore does not place a value on long-term fuel security. There would only be a reaction when prices reached the appropriate level for new generation and by that time the consumer would be paying high prices for their energy whilst new technologies were built and commercially proven. Waiting for price shocks, or supply problems such as those seen in California is clearly not a satisfactory way to progress energy policy.
- 6.3 Integrated gasification combined cycle (IGCC) power stations using indigenous reserves offer an environmentally acceptable way to guarantee long term security of energy supplies within the EU. The flexibility of gasification means that coal gasifiers can provide an alternative to conventional gas supplies. The ability to utilise coal gas in clean coal stations or conventional gas power plant could place a cap on gas prices providing a predictable cost to the UK economy.
- 6.4 As with all new technologies, initial investment is difficult to arrange given the associated risks. Private finance is available but is unlikely to be attracted without the guarantee of long term contracts. Therefore, to pump-prime the initial building of commercial units, Coalpro/Naloo propose the introduction of a 'Clean Coal' Obligation where electricity suppliers would purchase specified quantities of electricity generated from clean coal sources. This method has already been successfully adopted within the UK, to support both the renewable and nuclear industries.
- 6.5 Coalpro/Naloo would also like to draw to the attention of the PIU the provision held within Directive 96/92/EC on the internal electricity market (article 8.4) which could provide the opportunity for the UK Government to support electricity generated from UK coal in order to protect energy security.

"A Member State may, for reasons of security of supply, direct that priority be given to the dispatch of generating installations using indigenous primary energy fuel sources, to an extent not exceeding in any calendar year 15% of the overall primary energy necessary to produce the electricity consumed in the Member State concerned."

- 6.6 The UK has at present a diverse energy mix with nuclear, coal and gas holding major shares. Coalpro/Naloo believe that the benefits of this diversity should not be lost. It has been suggested that one of the outcomes of this review could be a programme of nuclear build which would probably need some form of support. In our vision for the longer term, the potential for new mines, coupled with clean coal technologies and carbon capture and storage, should be no less credible and will be

an important contributor to achieving a diverse energy mix for the future.

- 6.7 There is, however, a grave danger that decisions made now may preclude coal from the long-term energy mix. Coalpro/Naloo believes that the Government needs to develop an energy policy framework which is flexible and does not foreclose options for future years. Coal and in particular indigenous coal can provide a competitively priced long-term secure and flexible energy source which can only be of benefit to the UK consumer.

**Brian J Rostron  
Director General  
CONFEDERATION OF  
UK COAL PRODUCERS**

**Harry J Banks, O.B.E.  
Chairman  
NATIONAL ASSOCIATION OF  
UK LICENSED OPENCAST OPERATORS**