

A view of the Energy Review from UK COAL PLC

Gordon McPhie, Chief Executive

accepted by OXERA for publication in *The Utilities Journal*, March 2002

On 14th February, the Cabinet Office's Performance and Innovation Unit published its review of UK energy policy. Here, UK COAL presents its initial response. Later in the year, following a wider public consultation, Government will table an Energy White Paper.

Last year, the UK consumed 62 million tonnes of coal, of which 32 million tonnes came from indigenous sources: deep-mined and opencast. Over the last two years, use of coal for electricity generation has grown by over 20%, and today, coal imports stand at an all-time high. This renaissance was not predicted by the forecasters responsible for DTI Energy Paper 68 who predicted a steady decline, but is an entirely logical outcome of linking our gas transmission system to Europe through the Bacton-Zeebrugge Interconnector. Against this background of rising gas prices, the PIU has provided us with an Aunt Sally - a view of the future with deliberate inconsistencies that is designed surely to promote debate.

The review appears to present a rational assessment of the UK energy scene, and most will be able to find words of comfort within its many pages; UK COAL has, and is pleased to see energy security taking centre stage in recommendations that could so easily have focussed solely on the environmental dimension of sustainability. Dr Johnson observed that *"patriotism is the last refuge of the scoundrel"*, and this criticism has been levelled by some at the UK coal industry which, they claim, has only the security card left to play. The PIU vindicates our position by stating that one way to safeguard security is to create a *"greater ability to use coal than would otherwise be the case"*. Sadly, whilst the PIU carefully considers the role of taxes or permits to incorporate the environmental cost of fossil fuel use, in particular the cost of carbon dioxide emissions, it does not extend this to valuing energy supply security. The PIU review explores the risks associated with future gas supplies from distant countries, but distances itself, and to a large extent the UK Government, from the obvious risks of political unreliability, lack of infrastructure investment and market power of future cartels. There are recommendations for the Foreign and Commonwealth Office to integrate energy policy objectives into its work and for the DTI to take a more strategic role, but no attempt is made to quantify the cost of increasing the diversity and security of gas supplies through investment in pipelines, terminal facilities, storage and LNG

import capacity. Indeed, the long-term view of gas prices is at best optimistic and at worst misleading; it colours many of the review's findings.

The coal industry has a clear view of the way forward and this is largely mirrored by the PIU:

- Existing coal-fired generation is the cheapest source of electricity in the UK and it is vital that these power stations continue to be upgraded to improve their performance. Maintaining coal-fired plants in strategic reserve, as suggested by the PIU, is an interesting concept that would need examining carefully from a fuel efficiency and cost perspective.
- New, clean coal power stations need support and we have proposed a "clean coal obligation". Without this, the medium-term prospects for clean coal depend on gas prices. We predict a growing interest in retrofitting coal gasifiers to those CCGT power stations that are already uneconomic, or will become so as the low-cost gas supply contracts from the 1990s expire.
- In the longer-term, CO₂ capture and sequestration could herald a new era for coal: production of hydrogen with near-zero emissions and enhanced oil recovery from the North Sea. The cost per tonne of carbon saved is well below the renewables option, and the potential far greater.

Was it just a coincidence that the review came out on the same day that President Bush published his policy for global warming? The differences of opinion between the UK and the USA are stark, but the PIU does at least acknowledge that the UK should not go alone. This had certainly been a fear, and it remains one at the European level where the PIU suggests that ultimate responsibility for our energy supply lies. One cannot help feeling that the advice to policymakers is that we should keep in line with our European partners, secure in the knowledge that any future energy shocks would not damage our relative position within Europe. Our hope is that the Government will be bold enough to take an alternative course that provides real stability with the early deployment of clean coal technologies, meeting the sustainability challenge at an affordable cost.

UK COAL PLC

Harworth Park, Blyth Road
Harworth, Doncaster. DN11 8DB

tel: +44 (0)1302 751751 fax: +44 (0)1302 752420

www.ukcoal.com

