

COAL FORUM PRE-MEETING

DTI Understanding of Present State
and Future of the UK Coal Industry

BACKGROUND

(All data in million tonnes)

UK COAL PRODUCTION STILL IN DECLINE:

	1995			2005		
	<u>OUTPUT</u>	<u>SITES</u>	<u>NOS</u>	<u>OUTPUT</u>	<u>SITES</u>	<u>NOS</u>
DEEP MINES	32.0	60	15,000	9.5	13	4,212
OPENCAST	14.0	100	3,200	10.4	34	1,842

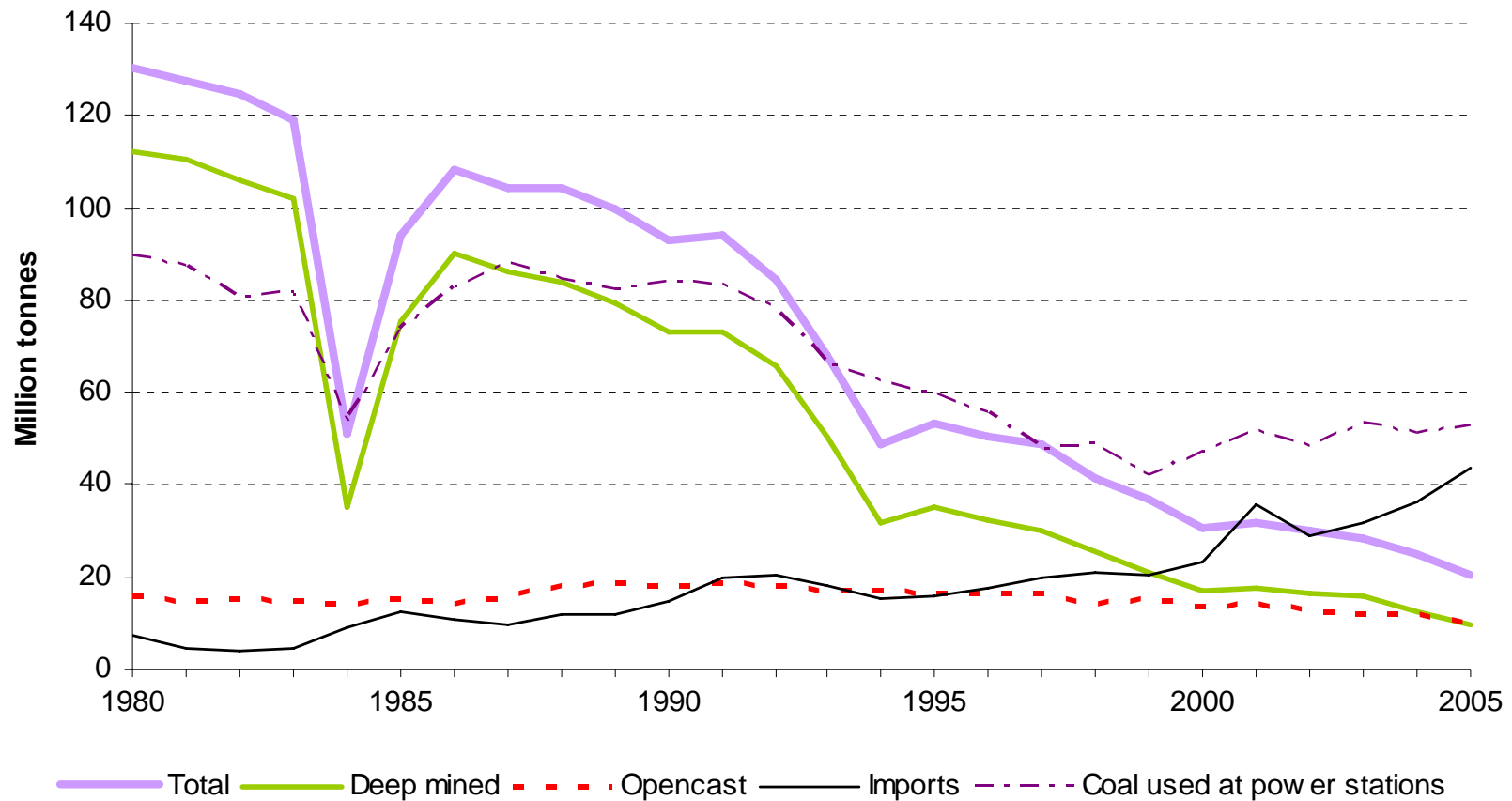
MARKETS FOR UK COAL:

	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>
GENERATING PLANT ¹	84.01	59.59	46.91	52.21
INDUSTRIAL USERS ²	6.28	4.49	0.70	1.41
SMALL SCALE/DOMESTIC	5.45	3.21	1.98	1.19

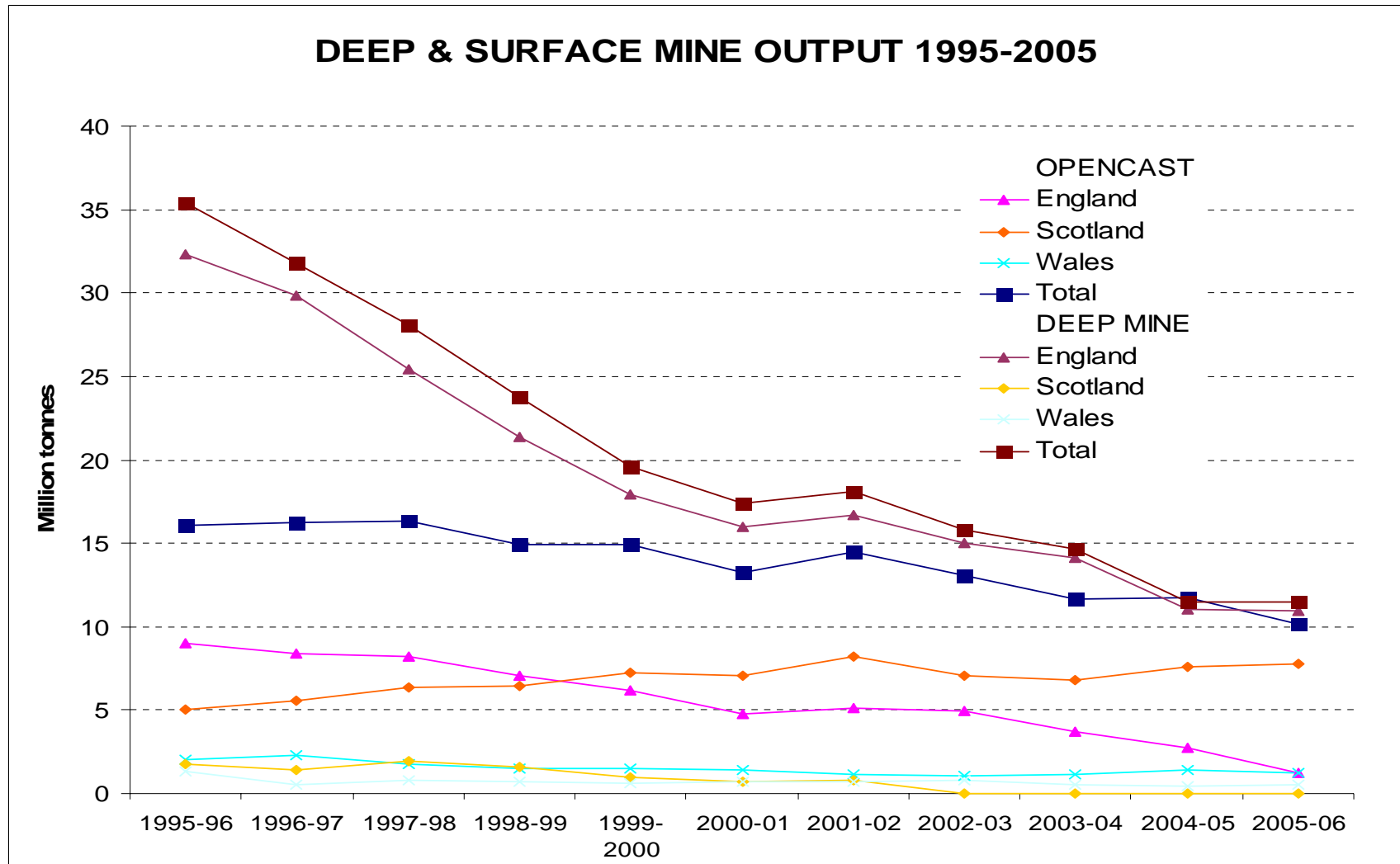
¹ Includes power station and other generators' consumption. From 1990 includes Coal consumption for heat sold to third parties.

² Includes coke ovens, blast furnaces and other manufactured solid fuels.

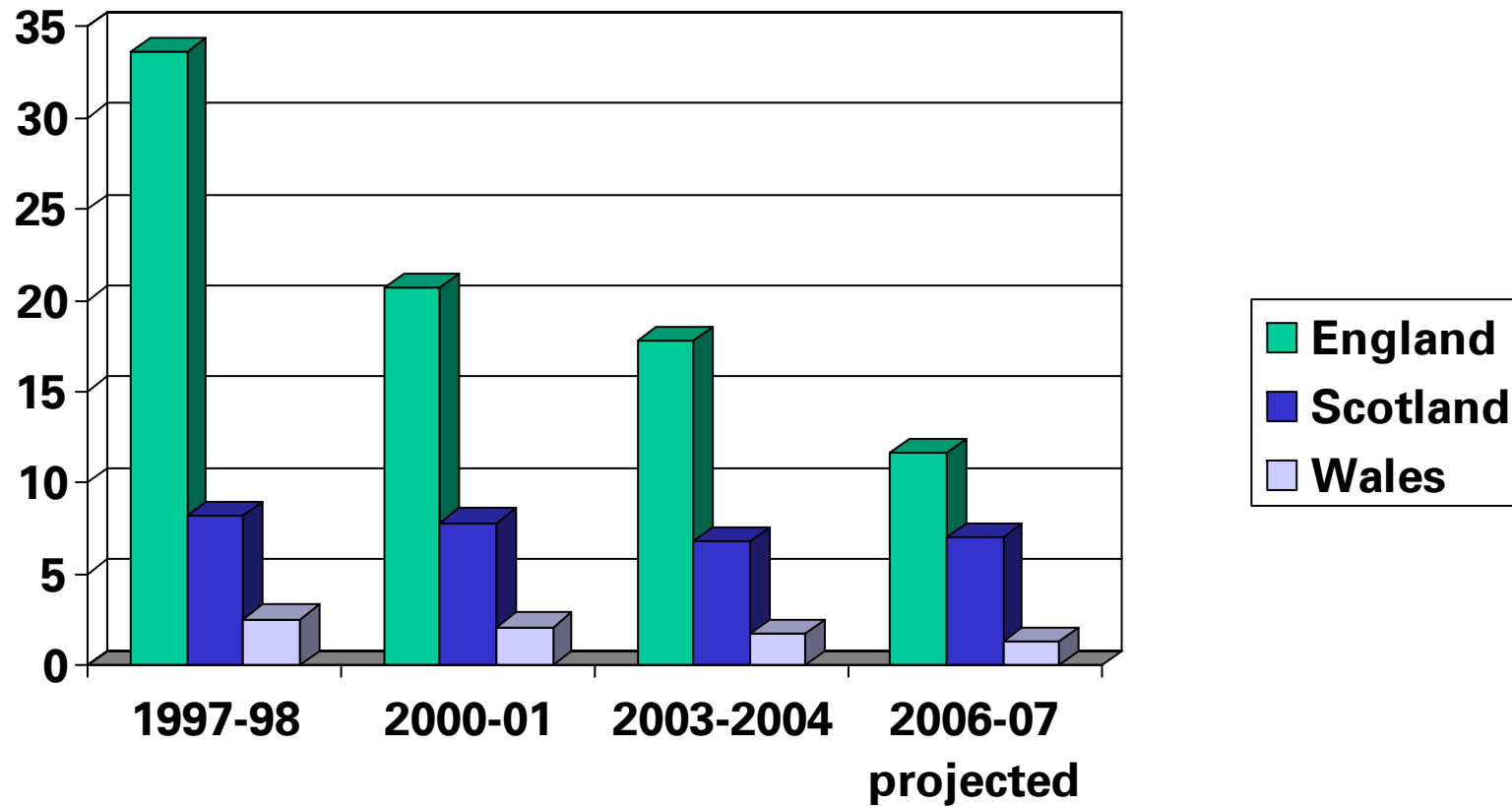
COAL PRODUCTION, IMPORTS AND USE AT POWER STATIONS 1980 TO 2005



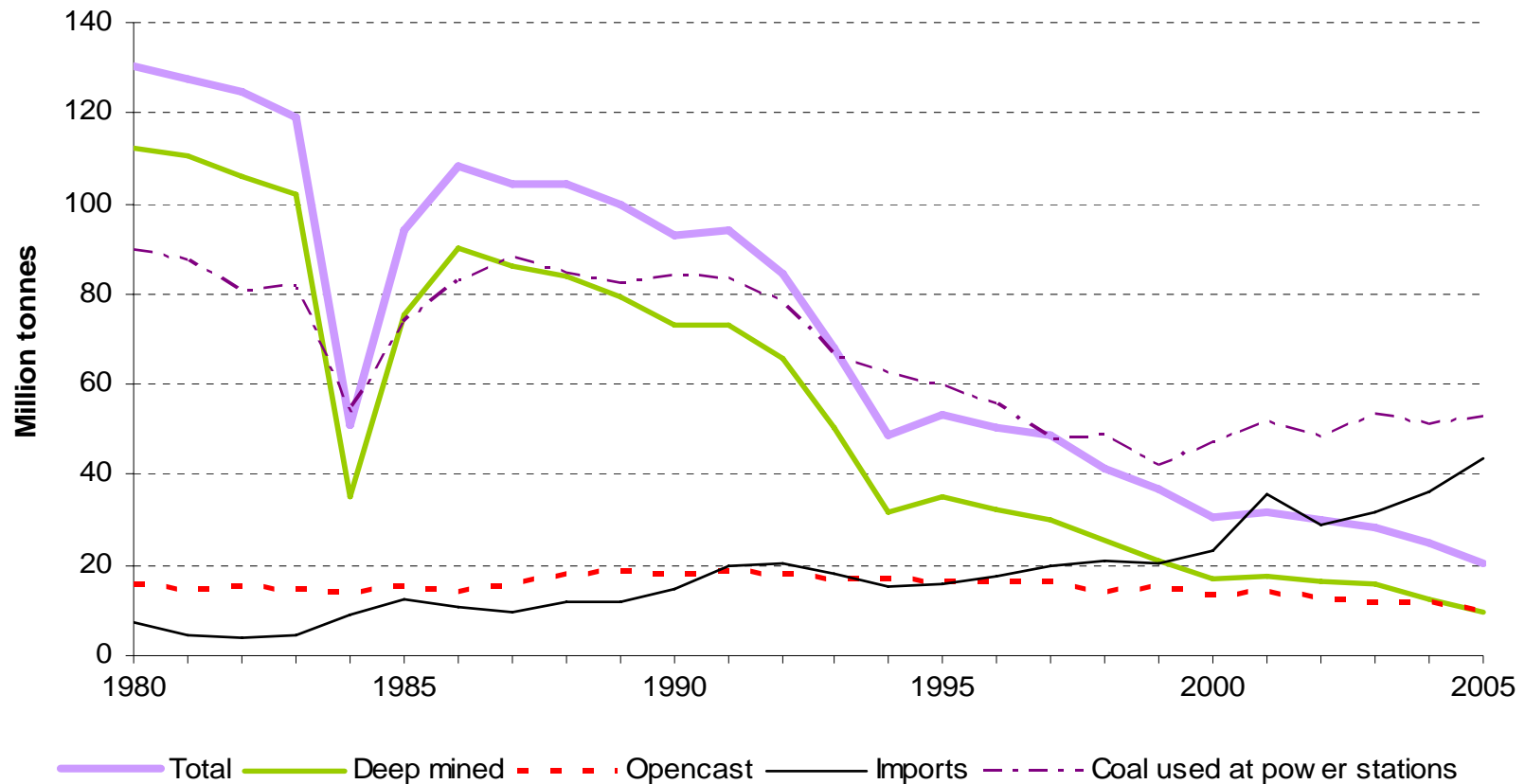
DEEP & SURFACE MINE OUTPUT 1995-2005



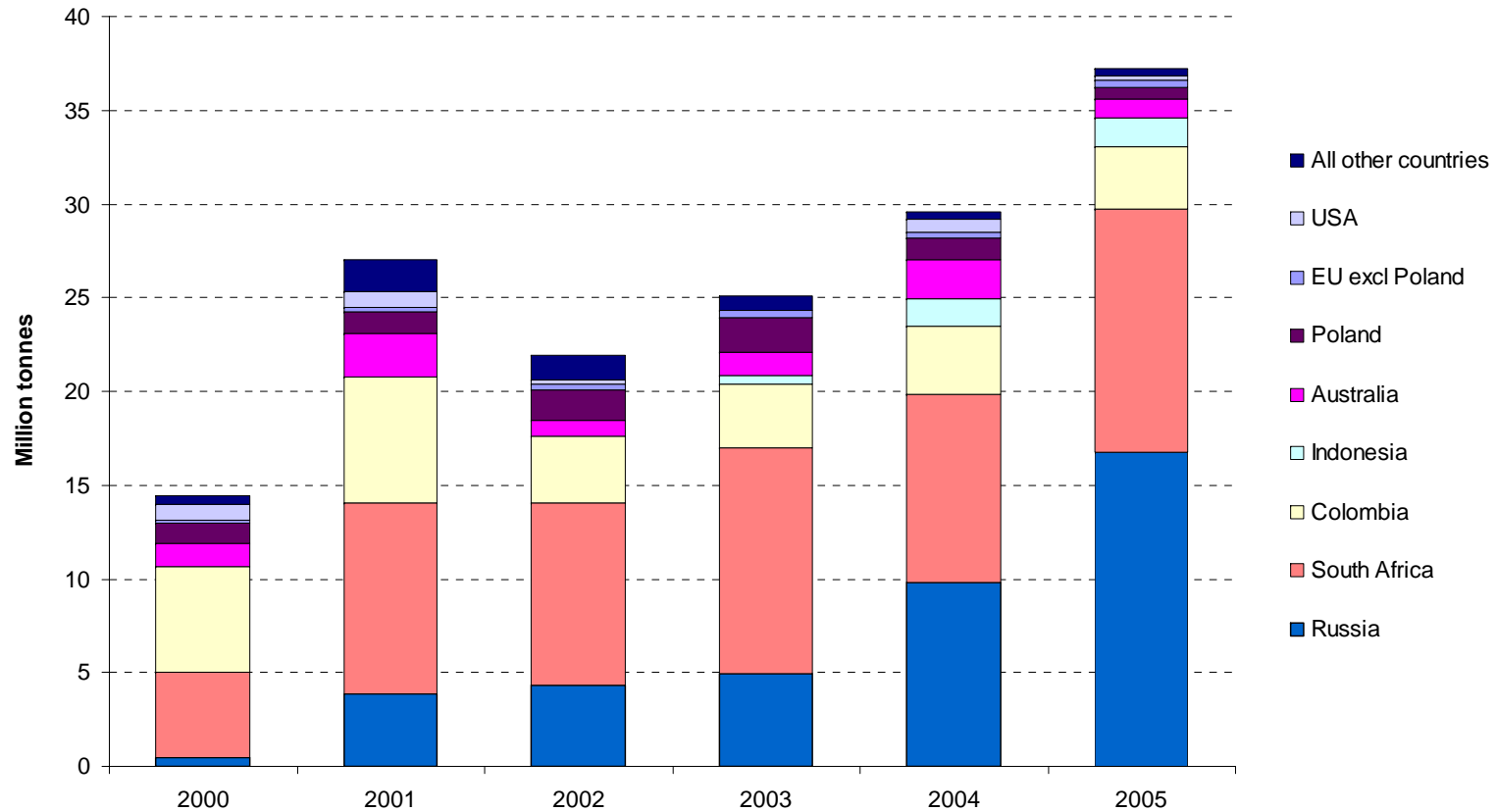
COAL PRODUCTION: 1997-2005



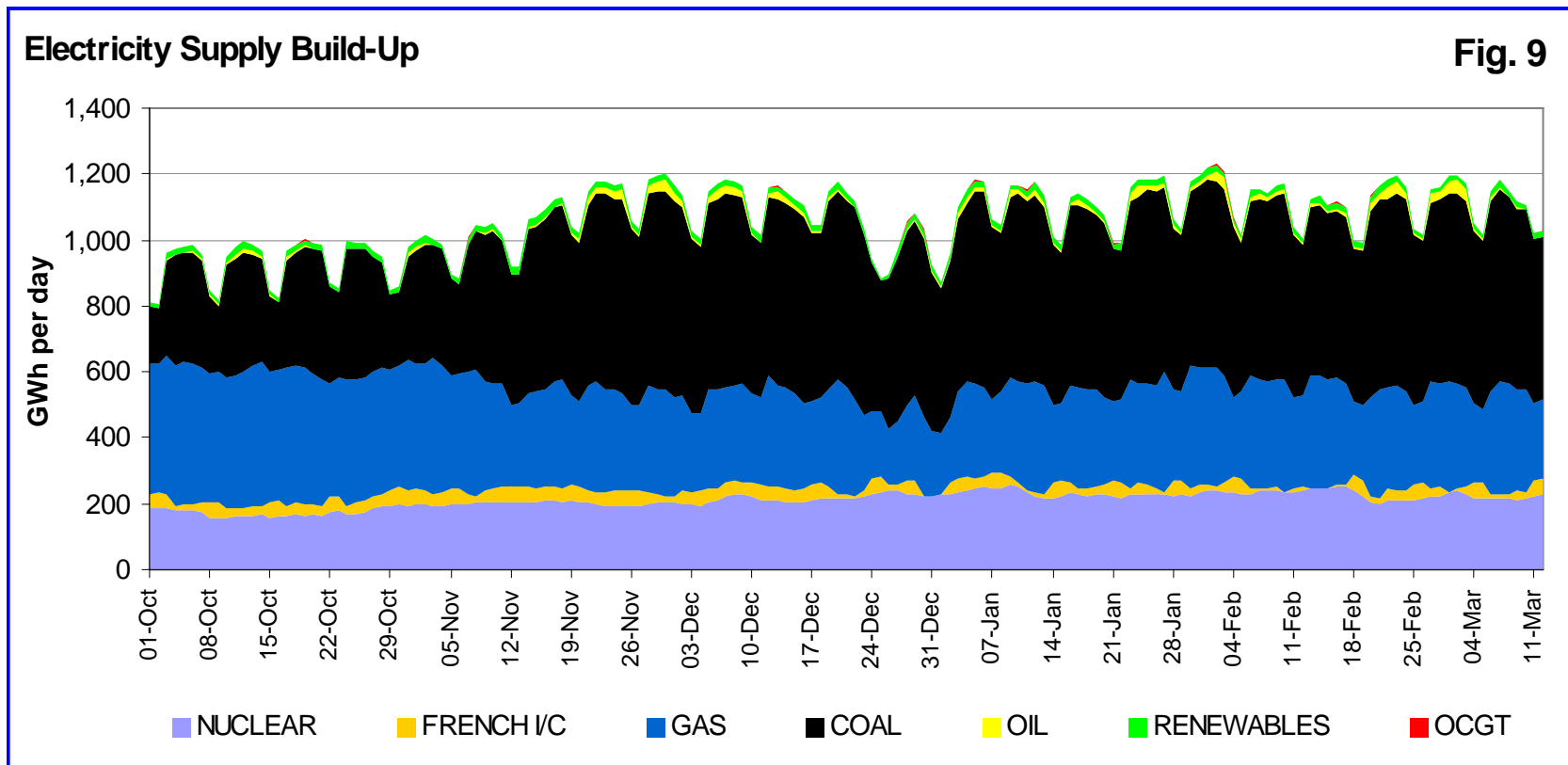
COAL PRODUCTION, IMPORTS AND USE AT POWER STATIONS 1980 TO 2005



STEAM COAL IMPORTS BY COUNTRY OF ORIGIN 2000 TO 2005

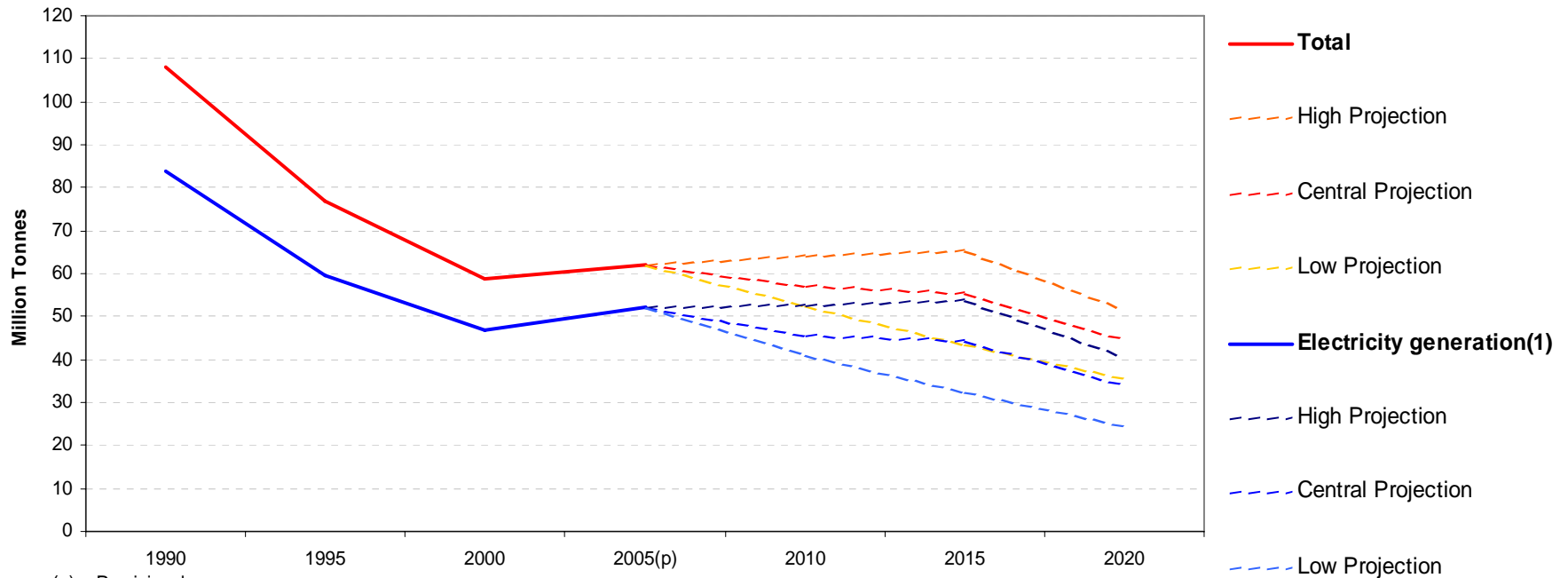


ELECTRICITY GENERATION BY FUEL SOURCE – WINTER 2005/06



TOTAL UK COAL DEMAND 1995-2005 & PROJECTED GENERATION DEMAND TO 2020

Coal use and projected coal use to 2020



(p) = Provisional

(1) Coal consumption at power stations also includes other generators' consumption, which is therefore excluded from coal consumption by industry. From 1999 includes coal consumption for heat sold to third parties.

(2) Includes coke ovens, blast furnaces and other manufactured solid fuels

FACTORS AFFECTING FUTURE COAL DEMAND AND SUPPLY

CONTINUING DEMAND FOR COAL-FIRED GENERATION

- Need coal-fired stations able to burn high Sulphur UK coal

INTERNATIONAL AVAILABILITY

- Price Risks
- Available tonnages
- Import & port-to-plant logistics

UK AVAILABILITY

- Decline in number of mines
 - Deep mines exhausted or need significant investment
 - Falling surface mine output – industry blames planning guidance
- Limited access to investment
 - Difficult to negotiate ‘bankable’ longer term contracts at prices which would justify the investment needed to maintain access to reserves

COAL/UK COAL IN GENERATION

ARGUMENTS FOR CONTINUING USE OF COAL

- Mixed portfolio spreads price/supply risks
- Incremental cleaner burn technologies available

ARGUMENTS FOR CONTINUING USE OF UK COAL

- Optimal use of UK resources
- Greater security of supply

SUPPORT TO UK INDUSTRY

2000-2002 – COAL OPERATING AID

- TOTAL VALUE: £165.58 million

2003-2008 – COAL INVESTMENT AID

- TOTAL VALUE: £58.31 awarded;
£55.03 likely to be drawn down

EU COAL STATE AIDS STATUS:

- Only aid notified by 31 Dec 2002 currently allowable
- Current review of Decision 1407/2002 could lead to opening for further notification