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confederation of UK coal producers

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Stern Review Team
2/35
HM Treasury
1 Horse Guards Road
LONDON SW1A 2HQ

Stern Review on the Economics of Climate Change

Dear Sir

The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output. CoalPro is not opposed to the development of any form of energy and believes in a balanced energy policy. CoalPro is pro-coal.

CoalPro is not competent to comment on the science and likely impacts of climate change nor on adaptation issues. This response concentrates on how deep cuts in emissions can be achieved in the electricity generating sector without excessive economic costs.

It is clear that the global large-scale use of fossil fuels will continue for many decades and that CO2 emissions are likely to continue to rise as a result in the absence of mitigation measures. Furthermore, the relative abundance of global coal reserves compared with those of oil and gas means that the price differential in favour of coal is likely to grow ever wider over the longer term. Whilst the development of renewables and a greater emphasis on nuclear power may have some impact, it is clear that deep cuts in CO2 emissions cannot be achieved without addressing the question of emissions at large point sources from fossil fuel consumption in general and coal in particular. The only technology that offers a way to deep cuts in emissions is carbon capture and storage (CCS).

The application of CCS to coal-fired power stations requires, first, a move to higher efficiency coal-fired generation. The energy penalty associated with CCS is otherwise too great. There are two routes to higher efficiency coal-fired generation, the application of supercritical boiler technology operating at higher temperatures, or the development of IGCC technology where coal is gasified prior to consumption.

To invest in higher efficiency plant, and thereafter in CCS, electricity generators require regulatory certainty. Providing this certainty is perhaps the single most important action that policy makers can take to stimulate the necessary investment. In the UK and Europe, the short-time scales associated with the EUETS are serious impediments. Carbon allocations are known only up to the end of 2008. Phase 2, under which the allocations will not be known for some months, will only extend to 2012. This represents a serious mismatch with the timescales over which investment decisions will impact.

In Germany, long-term carbon allowances for up to 18 years have been made available to generators investing in new or upgraded plant. This has brought forward the necessary investment. It has been argued that the award of such long-term allowances is not possible because of the phases of the EUETS but it has been done in Germany. It is also known that

The Commission is sympathetic to the need for longer term allowances and it should therefore be possible to introduce a similar regime in the UK

Long term carbon allowances are an essential pre-requisite, but may not be sufficient for investment in CCS. CoalPro understands that the joint BP/Scottish and Southern proposal for Peterhead/Miller requires further policy measures for implementation to go ahead. Government should therefore consider assistance for a small number of CCS demonstration plants to prove the technology. The £35m available from the CAT Strategy will not be sufficient

CoalPro therefore suggests to the Stern Review that certain key measures are essential in the short term if deep cuts in CO_2 emissions are to be achieved. These are:-

- Long-term carbon allowances
- Assistance for a small number of CCS demonstration plants

David Brewer

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