

### REGULATORY CHALLENGES FOR THE COAL MARKET IN THE UK

The UK was, in 2006, the world's fourth largest coal importer. By 2010 UK had fallen to eighth in world rankings, and in Europe was behind Germany and Turkey. Over this period imports ranged between 49.7 and 26.5 million tonnes. 2011 saw a significant recovery in import levels to 31.7 million tonnes, and 36% higher coal burn in the first half of 2012 has been accompanied by a further increase. But this resurgence will be short-lived. Opted out coal plant will begin to close under the EU's Large Combustion Plants Directive around March 2013, with a number of closure dates already announced. The focus will then turn to the remaining 12 power stations which opted in to the Directive and to prospects for new generation capacity with carbon capture and storage (CCS).

Many energy policy challenges are faced by the UK over the next decade and beyond. About a quarter of electricity generation capacity will close, either because of EU emissions regulations or age of plant. Alongside this challenge, the UK was the first country in the world to establish long-term, legally binding, unilateral carbon reduction targets: a reduction of at least 34% in greenhouse gas emissions by 2020, and at least 80% by 2050.

Against this background, the regulatory environment surrounding coal utilisation in the UK is complex and demanding, with emissions of SO<sub>x</sub>, NO<sub>x</sub>, particulates and CO<sub>2</sub> all subject to regulation. Some of this regulation emanates from Brussels, such as the Large Combustion Plants Directive (LCPD) and Industrial Emissions Directive (IED) but it is overlaid with UK-specific policies such as the Carbon Price Floor and Emissions Performance Standards for CO<sub>2</sub>. The subsidy regime for renewables – in particular for co-firing of biomass – will also have a major impact on the survival of coal-fired plant and how much coal they burn. Recent difficulties with the Government's nuclear ambitions, and generators' reluctance to invest in any new capacity against a background of regulatory and price uncertainty, may give existing coal plant a reprieve.

Government is introducing new levels of subsidy for biomass, clearly designed to incentivise very high levels of co-firing or full conversion at existing coal plants. Together with the consequences of the IED, decisions on biomass will have the most profound effect on the amount of generating capacity available to burn coal in the future.

Despite the apparently bleak outlook for existing coal plant, there is a good prospect for at least some new plant with carbon capture and storage (CCS) being built in the UK.

The UK also has an important indigenous coal sector, whose share has increased in recent years and represented 44% of total supply in 2010 before falling back to 36% in 2011. UK deep mines are however threatened by falling international prices, geological issues and dwindling reserves. The hostile planning environment makes development of new surface mines extremely challenging.

All of these factors create considerable uncertainty in the UK coal market in the future, and it is necessary for any serious player in this market to understand the implications of the various regulatory drivers and how they interact, as well as prospects for indigenous supply. Any upside in an otherwise declining trend is most likely to be the result of delays or failures in other policy-driven areas (e.g. nuclear or renewables), or from major price shocks or interruptions in supply for gas, coal's major competitor. The extent to which biomass will be burnt in existing coal-fired power stations adds further complexity to an already uncertain future.

Energy Edge is expert in all areas of regulation affecting coal in the UK, together with other market drivers, and has the capacity to model their impacts on the market. These areas are as follows:

- Emissions regulations for SO<sub>x</sub> and NO<sub>x</sub>, with consideration of the Large Combustion Plants Directive and the Industrial Emissions Directive and their implications;
- The UK Government's Electricity Market Reform (EMR) package, including the carbon floor price, emissions performance standards for CO<sub>2</sub>, future arrangements for subsidising low-carbon electricity, and the proposed market for generation capacity;
- The future of renewables subsidies, with particular reference to biomass;
- Prospects for new coal-fired power stations with carbon capture and storage
- Implications of regulation for coal qualities, and opportunities for low-spec coals
- Challenges and prospects for indigenous supply

Energy Edge has a team of experts covering all aspects of coal markets and supply, power station operation, and EU and UK regulation, to analyse these issues and advise on strategic solutions for companies in the sector. Please contact [Nigel Yaxley](#) for a preliminary chat or to set up a workshop discussion.