

Energy Security Team
Department of Energy & Climate Change
4th Floor, 3 Whitehall Place
London SW1A 2AW

31st March 2016

Dear Sirs,

Consultation on further reforms to the Capacity Market

I am pleased to respond to the *Consultation on further reforms to the Capacity Market*, on behalf of CoalImp – the Association of UK Coal Importers and Producers.

CoalImp represents major coal users (including most of the coal-fired generators in the UK) UK coal producers, rail companies, ports, other infrastructure operators, and providers of ancillary services in the coal supply chain. The twenty two members (listed on the CoalImp [website](#)) account for the handling, transportation and use of the majority of UK coal production and imports, in turn representing the vast majority of all coal supplied to the electricity industry.

Those individual CoalImp members with the potential to participate in the Capacity Market (CM), and with associated high levels of expertise, will be responding in detail, answering the complete list of questions posed. The submission below concentrates in more general terms on how coal plant can continue to play its part in keeping the lights on, at least cost to electricity consumers.

Threat to security of supply from closure of existing coal plant

The UK's unilateral carbon price floor, combined with the need to invest in coal plants to meet obligations under the Industrial Emissions Directive (IED), is causing the premature closure of coal-fired power stations, exacerbating security of electricity supply issues, foreseen by National Grid as early as Winter 2016/17.

Notwithstanding Government proposals to close all unabated coal plant by 2025, in the interim this existing plant is capable of providing the most economical and secure transitional power capacity in the UK. But there has been an unprecedented sudden, rapid and continuing collapse in the market for coal-fired electricity following the hike in the carbon floor price from April 2015. The rapid and premature power station closures are also damaging rail and port infrastructure as well as the remaining indigenous coal production industry.

Whatever the outcome may be in the 2020s, it must be uncontroversial to say that closing coal plant much earlier than this – clearly a commercial decision for some operators now – is over-achieving on carbon reduction and risks security of supply and affordability.

Carbon Price Support (CPS) is a tax which increases electricity bills to UK consumers, undermines industrial competitiveness, exports jobs and encourages imports of fossil-fuelled power from the continent. Whilst UK power stations pay over five times as much to emit CO₂ as power stations in Europe, the unilateral UK tax does nothing to reduce overall CO₂ emissions; these are subject to a pan-EU cap, so our European competitors can simply increase emissions and enjoy lower bills at our expense.

It is apparent, however, from the 2016 Budget that no reduction in the level of CPS is currently anticipated this decade, and so other measures are needed to ensure security of electricity supply. It is in this context that CoalImP strongly supports the proposal to run an early capacity auction for delivery from October 2017 to September 2018.

Existing coal preferable to diesel generation

CoalImP believes that existing coal plant is ideally placed to provide an economic source of capacity in the medium term, helps to deliver security standards at lowest cost to the electricity customer, and is strongly preferable to the construction of new diesel engines.

CoalImP does not see the logic in subsidising the building of new diesel plant, with CO₂ emissions typically as high as coal plant, as well as their impacts on local air quality, at the same time as knocking coal plants down. CoalImP therefore supports Government plans outlined on page 12 of the Consultation:

"Government is not complacent, and plans to take swift and appropriate action to avoid any disproportionate impact on air quality from diesel engines via new environmental legislation introducing appropriate emission limit values for air pollutants for new generators, where these could significantly contribute to harmful levels of air pollutants and the exceeding of existing air quality limit values."

CoalImP also supports the review by Ofgem as to whether "embedded benefits" may over-reward distribution-connected generators such as diesel reciprocating engines, and agrees that charging arrangements could be having an increasing impact on the system, including distorting investment decisions and leading to inefficient outcomes in the CM.

Question 23 – Do you agree with the proposal to run an early capacity auction for delivery from October 2017 to September 2018?

Yes.

DECC acknowledges in its Executive Summary (para 4) that UK energy market conditions have changed considerably since 2014 (when the original capacity market was designed).

CoalImP has consistently argued that the introduction of the mechanism in 2018/19 was too late to support the continuation of some coal plant, and this has been proved right. In the Introduction to the consultation DECC states:

"...coal plant, in particular, are facing large losses. In consequence, we have seen several closures announced and other plant may be at risk. We therefore need decisive action now to ensure energy security."

Whilst it is not now possible to turn the clock back, CoalImP agrees that running an early capacity auction should mitigate any increased risk to security of supply in 2017/18 (para 3.1.3).

In its response to the earlier consultation in December 2013 (*Electricity Market Reform: Proposals for Implementation*) CoalImP noted that a capacity gap was expected to develop earlier than 2018/19, and argued that it would be far better to *"accelerate the implementation of the CM rather than adopting temporary solutions with sub-optimal consequences"*. In paragraph 3.1.3, regarding the Contingency Balancing Reserve (CBR), DECC states that:

"An early capacity auction is expected to have a less distortive impact and provide greater transparency to market participants than using CBR in 2017/18. Ofgem have said that they expect the need for the CBR to disappear once the capacity market is in place."

CoalImP agrees, and welcomes this approach.

Conclusion

The UK's unilateral carbon price floor is causing the premature closure of coal-fired power stations, exacerbating security of electricity supply issues, foreseen by National Grid as early as Winter 2016/17.

Whilst it is not now possible to turn the clock back, CoalImP agrees that running an early capacity auction should mitigate any increased risk to security of supply in 2017/18

CoalImP believes that existing coal plant is ideally placed to provide an economic source of capacity in the medium term, helps to deliver security standards at lowest cost to the electricity customer, and is strongly preferable to the construction of new diesel engines.

CoalImP therefore strongly supports the proposal to run an early capacity auction for delivery from October 2017 to September 2018.

Yours faithfully

Nigel Yaxley
Managing Director