

CoalImp – Review of the Year

CoalImp
Association of
UK Coal Importers

www.coalimp.org.uk

Nigel Yaxley
Managing Director, CoalImp

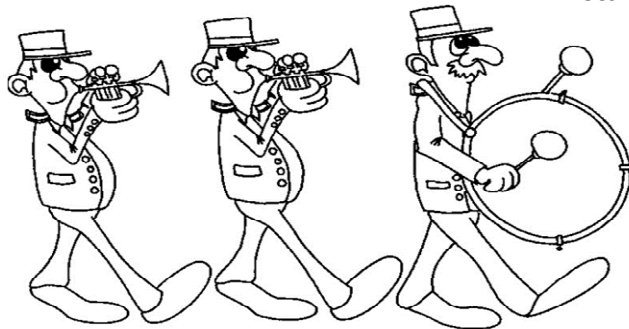
Remember March 2007?

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"the Government will launch a competition..."

*"The UK can be the birthplace of the world's
first full scale CCS demonstration plant"*

Alistair Darling



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April – CCS Competition and Roadmap announced...

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- £1bn capital funding plus support from CfDs

"Our vision is for a future with widespread deployment of cost-competitive CCS, with tens of GWs of installed capacity in the power sector and CCS on a variety of industrial applications."



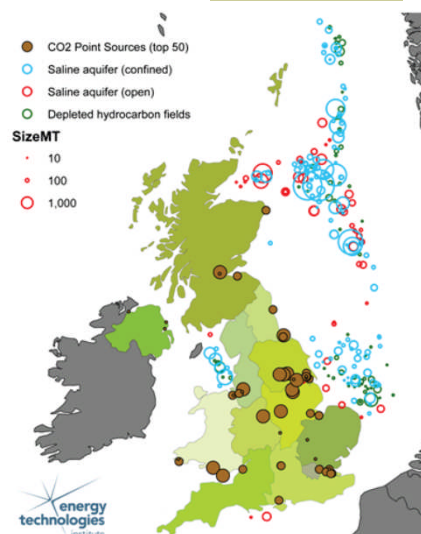
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...with wider eligibility criteria than the first

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- Full-chain or part-chain
- Power plant and capture facility in GB with storage site offshore
- Operational by 2016 – 2020 – earlier desirable
- Commercial-scale CO₂ abatement
- May be part of a cluster project



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May – ORR consults on freight specific charge

- Based on 'what the market can bear'
 - 10% traffic reduction deemed acceptable
- NERA central option:
 - £10 per thousand net tonne kilometres
 - Reduces ESI coal demand by around 5%
 - Only a modest impact on electricity bills
 - "...Scottish coal producers would adjust their prices as necessary so that they can continue to sell to power stations in England"

June – Draft Energy Bill is published...

- 307 pages – coal only mentioned in context of the emissions performance standard

"Energy policy is a dark underworld populated by fanatics and necromancers. Read through the literature and you will learn that nuclear means tsunamis, terrorists and Frankenstein monsters, or is as harmless as a local radiology clinic. Biomass is the new dawn, or threatens half the world's forests. Wind turbines are free energy, or they tear up peat and exhaust Mongolian minerals."

"We face a "peak oil" crisis, or we do not. We face a nuclear winter, or not. We can live for ever on shale gas, or it causes earthquakes. The world is doomed anyway (James Lovelock) or not doomed at all (Nigel Lawson). All Europe could be wired to the Saharan desert, or perhaps only in theory."

Simon Jenkins – Guardian

...as IEA lauds UK policy...

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- "UK has defined a strategy to move to a low-carbon economy and to tackle climate change with a remarkable sense of coherence and commitment"
- "As with any ambitious unilateral climate policy, it will only remain politically sustainable over time if other countries move, too."

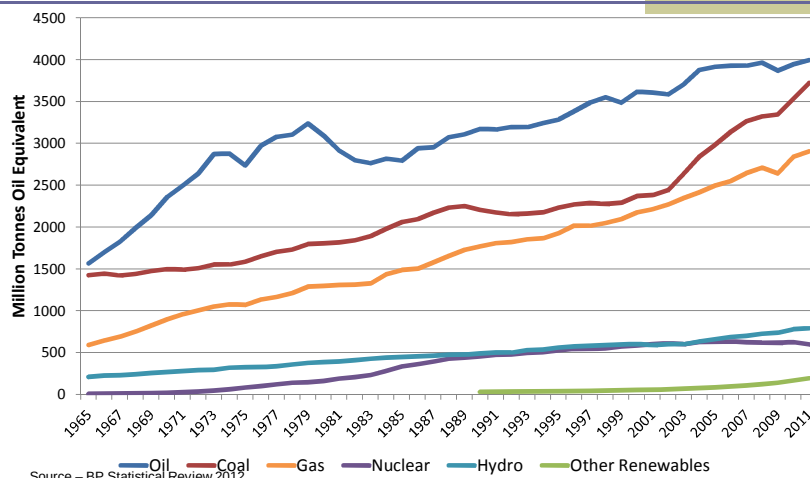


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...and BP confirms coal up 5.4% in 2011 to 30% share

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July – CoalImp responds on Gas Strategy...

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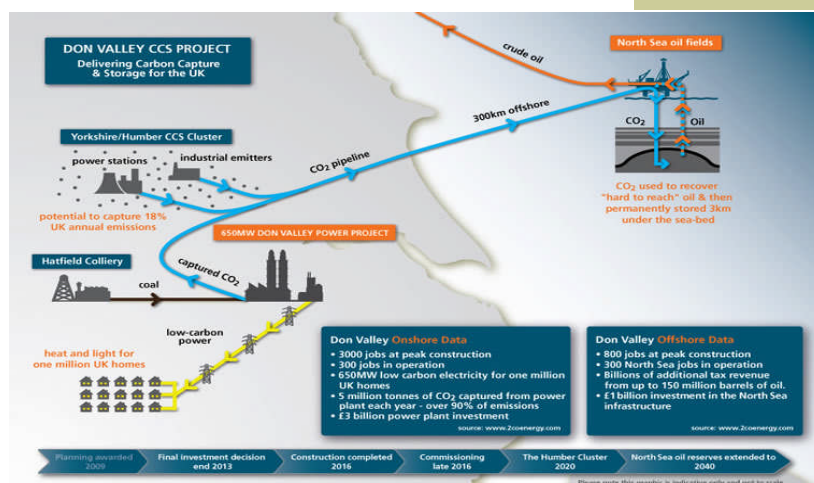
- Coalimp supports balance and diversity in the fuel mix
- Policies designed to drive coal out of the fuel mix
 - Will reduce diversity
 - But only go part way towards the decarbonisation targets which will require CCS on all fossil fuel capacity
- The Government should complement its gas strategy with a similar review of the role of coal in the energy mix
 - Need some certainty for existing stations through the mid-2020's
 - Prospects of a new fleet with CCS at the same time
 - Critical mass of coal demand needed to maintain coal infrastructure in the UK

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...Don Valley tops the list of EU NER 300 projects...

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...and ROC banding for biomass is announced

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- Conversion incentivised as preferred option – 1ROC – unit by unit basis



TRANSFORMING THE
DRAX BUSINESS



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August – CoalImp responds to ORR...

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- Reverses previous policy direction
- Reduces market
- Distorts market
- Risks investments
- Destroys jobs
- Based on flawed analysis of coal market and of rail costs

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...and IEA again reports growing coal production...

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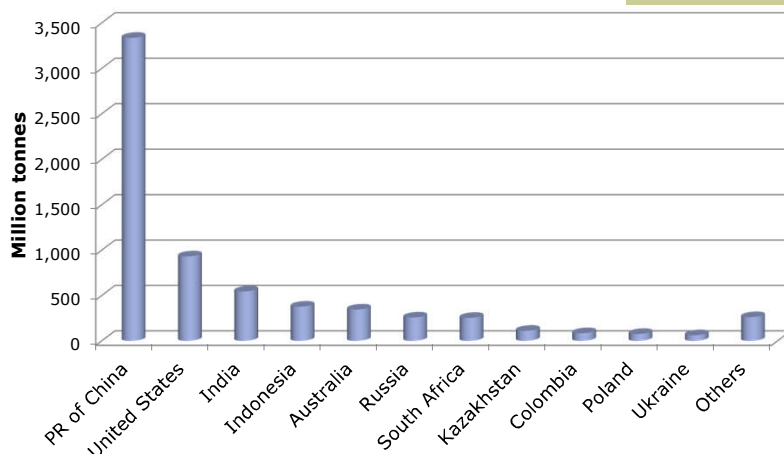
- 2011 – world coal production up by 6.6%
 - 4.4% average annual growth since 1999
 - Hard coal 6,637 Mt
 - Brown coal 1,041 Mt
- China 3,471 Mt
- Global coal trade up by 6.0% to 1,142 Mt

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...with China massively dominant

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Source: IEA Coal Information 2012

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September – New Energy Minister appointed...

- John Hayes " *determined to be the Minister that put coal into the coalition* "
- " *I appreciate that not everyone starts with the advantage of a working class background and so I try to be benevolent towards those that don't.* "



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...as wind power sets a new record

- 10.00 a.m. on Friday 14th September wind generated 4.131GW, accounting for 10.8% of UK electricity supply

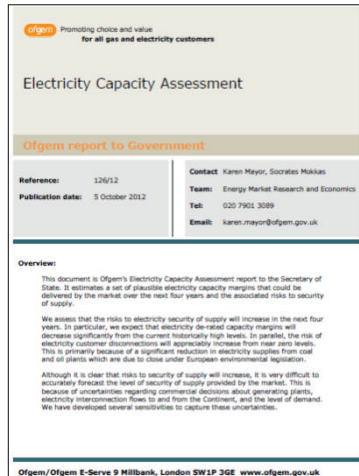


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October – Ofgem warns of power shortages...

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- Spare capacity "could fall from 14% today to 4% per cent in 2015/16"
- "Coal fired-generation is likely to close earlier than expected"
- "the risk of a shortfall in electricity is highest in 2015/16."

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...as party conference speeches show tensions...

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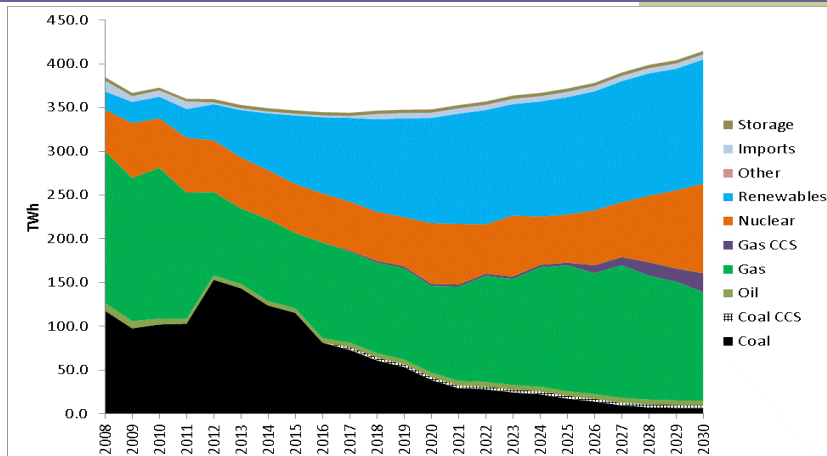
- Caroline Flint: "Ed Miliband delivered the Climate Change Act, a world first, placing Britain at the forefront of global action on carbon..."
- George Osborne: "An enterprise strategy means investing in renewable energy, and opening up the newly discovered shale gas reserves beneath our land"
- Ed Davey: "Bet the economy on nuclear. Gamble UK plc only on renewables. Play Russian roulette with shale gas. Well, these safe hands won't take those kind of risks with jobs and Britain's growth"

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...and DECC Projections still play down coal

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November – CCS shortlist announced...

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- Four schemes shortlisted
 - Peterhead (gas)
 - Grangemouth
 - Teesside
 - Drax
- NER300 funding from EU lost
 - Treasury pressure to select smaller schemes and defer main expenditure to next spending round?
- Any illusion of UK lead finally shattered

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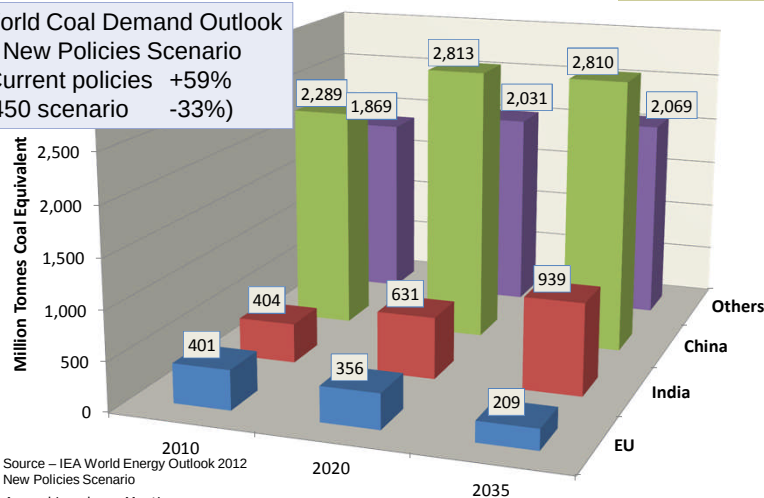
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...IEA recognises shale revolution in WEO 2012...

- US to be world's largest oil producer by around 2020 and net exporter around 2030
- Unconventional gas provides half the increase in global gas production to 2035
 - Mainly China, US, Australia
- India overtakes US coal demand in 2025
- New Policies Scenario causes 3.6° temperature rise
- Could be mitigated by energy efficiency measures
 - Blueprint for an Energy Efficient World

...but still foresees 21% coal growth to 2035

World Coal Demand Outlook
in New Policies Scenario
(Current policies +59%
450 scenario -33%)



December – Government finally launches Energy Bill...

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- Energy Bill follows hard-fought 'Government Agreement on Energy Policy'...
 - CfDs – Government-owned counterparty
 - Capacity Mechanism
 - 2014 auction for 2018/19 capacity
 - Levy control framework
 - From £2.35bn in 2012/13 to £7.6bn in 2020/21
 - Powers to set a decarbonisation target range for 2030 in secondary legislation
 - Decision to be taken once the Climate Change Committee has provided advice in 2016 on the 5th Carbon Budget

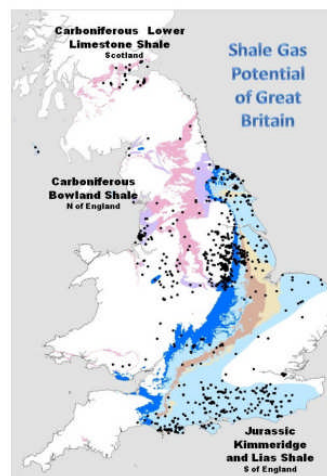
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...and publishes its Gas Generation Strategy

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- Up to 26 GW new gas by 2030
- More at lower load factors,
 - or higher load factors if 4th Carbon Budget relaxed
- Little new policy
 - Clarity on EMR
 - Powers to improve liquidity if required
 - Improvements to planning regime
 - Support for CCS
- Office for unconventional gas and oil



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...and CoalImp calls for a Coal Strategy

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"By providing low cost, reliable electricity, coal can already address several of the most pressing issues facing the UK energy sector. Carbon capture and storage would mean it can also be low carbon. A clear bridge is needed from today, when coal is still generating 40 per cent of our electricity from the reliable workhorses we take for granted, to the CCS-equipped plants of the future."

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Press Release

5th December 2012

INDUSTRY BODY CALLS FOR NEW COAL STRATEGY

CoalImp, the Association of UK Coal Importers, has called for a new coal strategy to complement the Government's gas strategy, announced today.

Nigel Vindley, managing director of CoalImp said: "This year approximately 40 per cent of the UK's electricity has been generated from coal, and at times it has been supplying over 50% of demand.

"UK consumers have been protected from the full impact of high prices of gas-fired electricity by the diversity of our power generation system, which can still benefit from the reliability, flexibility and relatively low cost of coal, the world's most abundant fuel.

"Last week's Energy Bill was rightly concerned mainly with future investment, but by failing to acknowledge the importance of coal today the Government risks a less competitive UK economy tomorrow."

Nigel Vindley added that Government plans for long-term decarbonisation of the electricity system must not rely too heavily on any one fuel or technology.

"CoalImp fully welcomes the Government's commitment to Carbon Capture and Storage (CCS), but there is a risk that it is too little too late," he said. "CCS is crucial in a world context where coal remains the fastest growing fossil fuel, and a recent report has confirmed that CCS has the potential to compete with other low carbon forms of energy by the 2020s."

The managing director of CoalImp has also noted Energy and Climate Change Secretary Ed Davey's warning that development of UK shale gas resources will not lead to an era of cheap gas.

"This is one of the main reasons we have called for the development of a new strategy for coal," he explained. "It's vital we ensure that the UK can continue to benefit from the world's most abundant and low cost fuel at the same time as leading the way to a future where coal is utilised in a clean and fully sustainable manner."

"Failure to do this will mean the UK's extensive coal infrastructure and associated jobs will be lost, the electricity system will lose valuable diversity, and prices will rise."

"By providing low cost, reliable electricity, coal can already address several of the most pressing issues facing the UK energy sector. Carbon capture and storage would mean it can also be low carbon. A clear bridge is needed from today, when coal is still generating 40 per cent of our electricity from the reliable workhorses we take for granted, to the CCS-equipped plants of the future."

Ends.

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January – ORR publishes its decision...

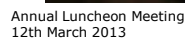
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- Freight specific charge for ESI coal to be introduced from 2016
 - Third year of the five year control period
 - Phased in gradually (i.e. 20%; 60%; 100%)
- Full charge £4.04 per 1000 gross tonne miles
 - "lower end of the estimate of freight avoidable costs"
 - "lowest of the three options tested"
- ORR estimates this disadvantages journeys from Scotland to power stations in England by around £1.50/tonne, relative to coal imported using English ports
- Industry lobbying continues

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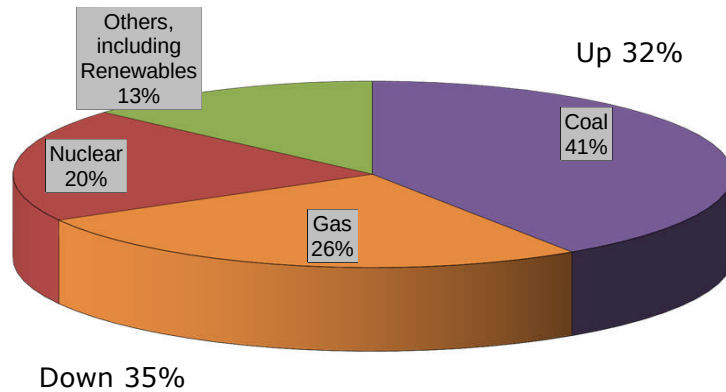


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March – Stats confirm 2012 was a bumper year for coal

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Electricity Generation by Fuel

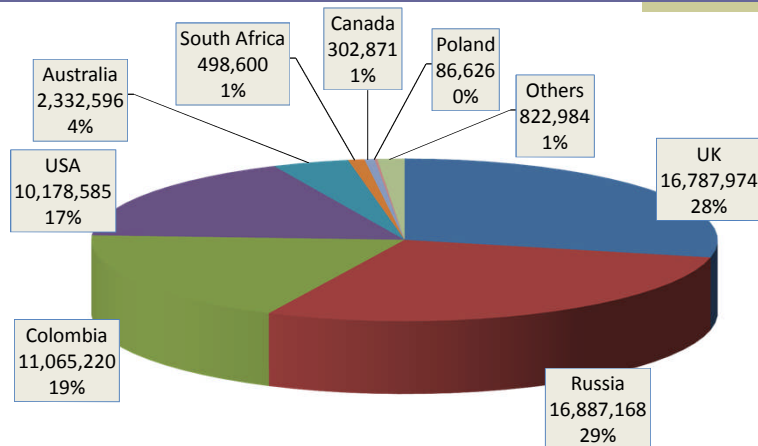


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Imports grew by 33% to 72% of total UK supply...

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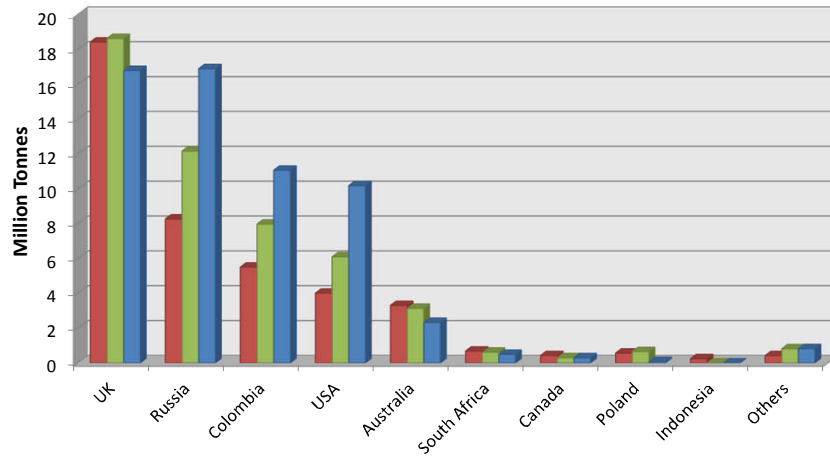
Source – DECC/HMRC

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...with the most rapid
growth from USA – up 67%

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■ 2010 ■ 2011 ■ 2012

Source – HMRC

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ABP	Clydeport	DB Schenker	Drax Power	EDF Energy
Eggborough Power	E.ON Energy Trading	Fergusson Group	Freightliner	GB Railfreight
GDF Suez	Hargreaves	Lynemouth Power	Network Rail	Oxbow Coal
Port of Tyne	Rudrums	Scottish Coal	Scottish Power	SSE Energy Supply

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