

## **BEIS UNABATED COAL CLOSURE CONSULTATION**

### **RESPONSE FROM THE SCOTTISH OPENCAST COMMUNITIES ALLIANCE (SOCA)**

**February 2017**

The two options set out in the consultation are based on two scenarios – a central scenario in which “poor profitability in the wholesale electricity market means that all coal plants retire by the end of 2021”, while “in the high coal scenario, coal-fired generation continues until 2031.”

Clearly, if the central scenario is correct, there will be no need for any of the measures proposed in this consultation since they are designed to ensure unabated coal closure only by 2025. On BEIS’s own central assumptions, under a ‘do nothing’ scenario there will be no coal plants left after 2021 to regulate.

It is worth comparing the BEIS Central Scenario (Impact Assessment, Fig 1) with other recent predictions of trends in coal capacity and/or electricity generation.

Table 1 below shows a comparison between the out-turn figures for electricity production from coal in 2015 and 2016 with DECC’s November 2015 Energy Projections and the National Grid’s four Future Energy Scenarios from July 2016.

It can be seen that the DECC projections massively overestimated the amount of electricity generated from coal in 2015 and 2016 (by 67% and 194% respectively).

It can also be seen that all four National Grid Future Energy Scenarios (NG FES), which were based on the 2015 out-turn figures, predicted higher levels of coal output in 2016 than was actually achieved.

Two of the four NG FES scenarios would see all coal generation cease by the end of 2021. A third places the end of coal generation by the end of 2022. These are not dissimilar to the BEIS Central Scenario, as shown in Figure 1 of the Impact Assessment, which predicts some 6.6GW of capacity closing in 2020 and the last 3.2GW closing in 2021.

To obtain a greater understanding of the background to the BEIS Central Scenario, Table 2 below is an updated version of the table in Annex 1 of the consultation document, with the results of the Capacity Market Auctions for 2017-18 and 2020-21 (concluded in February 2017 and December 2016 respectively) added.

If it is assumed that the economics of coal-generated electricity would preclude a plant’s operation unless it has a Capacity Market contract, the table would suggest that closures will occur as follows:

Spring/summer 2018: Eggborough and Uskmouth

Spring/summer 2019: Cottam, Fiddler’s Ferry (+ West Burton if 2019-20 CM contract not achieved)

2021: Aberthaw, Drax (+ West Burton if 2019-20 CM contract achieved)

<b>TABLE 1: COMPARISON OF FORECASTS OF ELECTRICITY GENERATION FROM COAL</b>												
[figures are TWh of electricity generated from coal per annum]												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Out-turn for calendar year 2015 (DECC figures)	71.7											
Out-turn for fiscal year 2015-16 (DECC figures)	57.6											
Out-turn for calendar year 2016 (EnAppSys figures)		27.9										
DECC Updated Energy & Emissions Projections Nov 2015	119.5	81.9	58.5	59.0	55.6	44.7	29.2	22.7	9.6	7.6	5.1	1.5
National Grid 2016 Future Energy Scenario 'Gone Green'	57.7	31.1	35.1	33.2	19.8	11.0	5.5	0.0	0.0	0.0	0.0	0.0
National Grid 2016 Future Energy Scenario 'Slow Progression'	57.7	37.0	46.8	38.8	33.6	31.5	13.3	0.0	0.0	0.0	0.0	0.0
National Grid 2016 Future Energy Scenario 'No Progression'	57.7	36.9	42.6	44.8	43.8	36.0	24.8	24.8	24.9	19.0	0.0	0.0
National Grid 2016 Future Energy Scenario 'Consumer Power'	57.7	31.4	31.5	18.8	10.1	7.4	4.9	4.9	0.0	0.0	0.0	0.0
BEIS 'Central Scenario' as shown in Impact Assessment Fig 1 (based on 2016 load factor of 2TWh per GW of capacity)			25.2	23.6	19.6	19.6	6.4	0	0	0	0	0

**Table 2: Updated status of GB coal-fired power stations**

Company	Station	IED Status <sup>19</sup>	2016/17 SBR	2017/18 CM	2018/19 CM	2019/20 CM	2020/21 CM
RWE Npower Plc	Aberthaw B	TNP	No	Yes	Yes	Yes	Yes
EDF Energy	Cottam	TNP	No	Yes	Yes	No	No
Drax Power Ltd	Drax 1, 4, 5, 6	TNP	No	Yes – Units 5 & 6 only	Yes - for 2 units	Yes - for 2 units	Yes - for 2 units
Eggborough Power Ltd	Eggborough	Limited Life Derogation	Yes – for 2 units	Yes – whole plant	No	No	No
Scottish and Southern Energy	Fiddler's Ferry	TNP	Yes – for 1 unit	Yes – for 3 out of 4 units	Yes – for 3 out of 4 units	No	No
Uniper	Ratcliffe-on-Soar	Meets requirements	No	Yes – for 2 out of 4 units	Yes	Yes	Yes
Simec	Uskmouth	TNP	No	No	No	No	No
EDF Energy	West Burton	TNP	No	Yes – all 4 units	Yes – for 3 out of 4 units	No	Yes – for 3 out of 4 units
CM contract capacity (GW)				10.08	9.15	4.40	5.70

Since the BEIS Central Scenario and NG FES are in broad agreement that coal is likely to be phased out by 2021, the question has to be asked: why is BEIS consulting on a proposal to ensure that the coal phase-out happens four years later than that?

It is clear that BEIS's principal concern is to ensure that alternative, lower-carbon generating capacity is brought on line to replace the retiring coal plants so that security of supply is assured. The consultation specifically refers to the high coal scenario where measures to restrict coal in 2025 could result in 6GW of capacity closing at once, placing pressure on the market's ability to generate sufficient alternative capacity. However, nowhere in the consultation documents is there any reference to the implications of 6.6GW of capacity closing at once in 2021 under the Central Scenario. Since the replacement CCGT or other capacity is less likely to be operational in 2021 than in 2025, the implication of the 2021 closure 'cliff' is likely to be more significant. But there seem to be no proposals in the consultation document that would smooth out those 2021 closures – other than the two options aimed at phasing out coal by 2025.

We can only conclude that this consultation is not aimed at ensuring the phase-out of coal; it is designed to ensure that coal power stations keep generating for several years longer than expected, in order to give time for CCGT or other capacity to come online.

The consultation highlights that its aim is “to provide greater market certainty for investors in the generation capacity that is to replace coal stations as they close, such as new gas generators.” However the backdrop to this consultation is an energy market where the UK Government has slashed subsidies for wind, solar and hydro, creating not just investor uncertainty in those markets, but active investor withdrawal from those markets and the collapse of many promising zero-carbon projects. The reduction and withdrawal of renewable subsidies can only have a negative impact on the growth of non-fossil fuel generating capacity. Therefore the proposal in this consultation, to extend the lives of coal-fired power stations by four years, is a direct result of the Government's previous decisions to reduce support for renewables.

We submit that this is a perverse approach to meeting the UK's obligations on carbon emission reduction through the decarbonisation of the energy sector. The central outcome of the options proposed by the government – the extension of the operating lives of the remaining coal-fired power stations by four years – will have the following consequences:

- weaken the incentives for energy operators to switch from coal to gas or low-carbon technologies
- extend the period of exposure of the UK population to the SO<sub>2</sub>, NO<sub>x</sub> and particulates emissions from coal-fired power stations, resulting in several thousand additional premature deaths
- extend the environmental blight around existing opencast coal mines in the UK, and introduce the threat of new sites opening, or existing sites being extended, to meet the additional demand for coal beyond 2021.

We suggest that an alternative approach be pursued, based on the current predicted trajectory of coal closures, which maximises the public health and climate change benefits of switching from coal to gas or non-fossil fuel alternatives by 2021, rather than delaying it until 2025.

We propose two additional policy measures to back up this approach:

1. Commit to further rises in Carbon Price Support (CPS) in 2021 and beyond. The current Carbon Price Support rate was frozen at £18 per tonne of CO<sub>2</sub> from 2015, instead of the original plan for it to increase to a rate of approximately £35 per tonne of CO<sub>2</sub> in 2019-20.<sup>1</sup> In the 2016 Autumn Statement Chancellor Philip Hammond confirmed the continuation of the CPS freeze until 2020-21 but stated that “The government will continue to consider the appropriate mechanism for determining the carbon price in the 2020s.”<sup>2</sup> A resumption of annual increases in CPS from 2021 would ensure that there were additional economic incentives to coal-fired power station operators to adhere to the closure timetable set out in the BEIS Central Scenario.

2. Ensure that existing coal-fired units are excluded from any and all future Capacity Market auctions. This could be achieved by applying an emissions performance standard to any coal plant bidding in future auctions.

We conclude that, since Option 1 and Option 2 in this consultation are designed to phase out coal only in 2025, whereas current expectations are that all coal generation will cease in 2021, the consultation as set out will not assist in the decarbonisation of the power sector. To the contrary, it will ensure that the energy sector has higher carbon intensity for longer.

We propose, instead, that the Government reinstates effective levels of subsidy of renewables and works with the operators of the few remaining coal-fired power stations to determine the factors affecting their closure dates, to enable more effective planning of the coal phase-out by 2021 or earlier.

Scottish Opencast Communities Alliance  
Reservoir House  
Gladhouse  
Midlothian EH23 4TA

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<sup>1</sup> HM Treasury, *Budget 2014: policy costings*, March 2014.

<sup>2</sup> HM Treasury, *Autumn Statement 2016*, November 2016, section 4.8.