

**Second Annual Coal Industry Meeting**  
**14.00 – 16.00, 1 December 2011**  
**Room LG.05, 55 Whitehall, London**

**Attendees**

**Chair:** John Harris

**Government**

Charles Hendry MP, Minister of State for Energy  
Ian McKenzie, Head of Coal Liabilities Unit, DECC  
Jim Campbell, Director of Energy Development Unit, DECC  
Adam Dawson, Chief Executive of the Office of Carbon Capture Storage, DECC  
Jeremy Cousins, Coal Liabilities Unit, DECC  
Clare Harding, Coal Liabilities Unit, DECC

**Industry**

Alistair Black - ATH Resources plc  
Brian Seabourne - EoN  
Chris Kitchen - NUM  
Chris McGlenn - UK Coal PLC  
David Brewer - CoalPro  
David Love - Drax  
David Porter - Association of Electricity Producers  
Deborah Adams - IEA  
Guy Buckenham - EDF Energy  
Ian Parkin - Hargreaves  
Jane Butterfield - Doosan Babcock  
Jeff Chapman, CCSA  
Mark Hayward - SSE  
Neil Brown - Banks Group  
Nigel Yaxley - Coallmp  
Pat Caragher - TeamBACM  
Peter Little - Peel Ports Ltd  
Philip Cave - Kier Construction  
Simon Brett - Associated British Ports  
Simon Reed - Coal Authority  
William Wishart - Scottish Resource Group

**Agenda**

1. Welcome and introductions
2. Introductory remarks by Minister Of State, Charles Hendry MP
3. Carbon Capture Transport and Storage including a report by the Chief Executive of the Office of carbon Capture Storage
4. Presentation on Coal Forum paper including comments from the Minister
5. Next Steps

## **1. Welcome and Introductions**

1. John Harris welcomed the Minister and Members and drew their attention to the Coal Forum's 2011 paper to the Minister which had been circulated previously.

## **2. Introductory Remarks by Charles Hendry MP**

2. The Minister thanked the Chair and Members for their welcome and said it was useful for representatives from the industry to gather annually with the Department to discuss the issues currently affecting them.
3. The Minister acknowledged that it had been an emotive and challenging period for the industry in light of the fatalities at Gleision and Kellingly but he knew how important the issue of safety was for all producers and that the outcomes of the investigations by the HM Mines Inspectorate would be considered by Government and the mine owners and their recommendations implemented.
4. In relation to production, the Minister said it was good to see that overall coal output for quarter two 2011 in the UK was up by 1.2% on the same period last year at 4.8 million tonnes. Much of the increased production had been consumed by electricity generators with consumption up on last year by 4.4% and in Q2 nearly one quarter of electricity in the UK was produced by burning coal, the same as this period last year. This demonstrated that coal remains an important contributor to the UK energy mix.
5. On CCS, the Minister noted that the Department was obviously disappointed about the decision on the CCS Longannet project but he wanted to assure Members that despite comments earlier in the week the Coalition Government was still fully committed to CCS technology and the £1 billion committed to CCS remained available although timing suggested an element would now be spent in the next Spending Review period.
6. With regard to the electricity market reform, the Minister said that the proposed measures in the Electricity Market Reform White Paper were designed to strengthen the incentives for the market to deliver sufficient investment in new low carbon capacity, to ensure we deliver a secure, affordable and low carbon electricity system. The Minister added that a key element of this approach is 'Contracts for Difference' which will be tailored for both base-load and intermittent forms of low carbon electricity generation. The Minister said this included CCS and it would be very important for the future of the coal industry to ensure that we have cost competitive CCS fossil fuel fired capacity to cover those periods where we will not have enough capacity from renewables, due to the intermittent nature of wind generation in particular.

## **3. CCS Update by Adam Dawson**

7. Adam Dawson, Chief Executive of the OCCS, took members through an update presentation on the current position with regard to CCS post Longannet and responses to the Forum's recommendations related to CCS. A copy of the presentation has been circulated to members.

8. In discussion Members raised a number of issues.
  - i. In relation to the differences in the CCS targets for 2030 and 2050 quoted in the new DECC Carbon Plan published on 1 December 2011 Adam Dawson acknowledged the changes but said rather than being fixated on targets it was more important to recognise the vital role that low carbon fossil fuel generation will play in the future UK energy mix.
  - ii. On the proposed CCS grid Adam Dawson commented this was a sensible approach and an aspirational vision for the future which would give people access to a disposal point for CO<sub>2</sub>. That said this is still a challenging goal which needs to be considered as part of the phasing of the future CCS programme.
  - iii. With regard to future proposals following the initial four demonstrators the Minister said he preferred to look at this more broadly as a continuing industry approach rather than about demonstrators. In reality we should see more phased evolution with different levels of support as the technology matures.
  - iv. On the matter of the inclusion of gas CCS in the scope of the Government's future CCS programme, and the challenge this represents to coal CCS, the Minister said it was important to recognise, from a security of supply point of view, that all low carbon fossil fuels can play a vital role in our medium and long term future energy mix. In the short term, there would be a need for some new unabated fossil fuel generation capacity to come forward in the period before CCS was proven and cost competitive, in order to balance the imminent shutdowns of coal and ageing nuclear plant. Currently the majority of planning applications in the system are for unabated gas.

#### **4. Presentation on Coal Forum paper Including comment from DECC**

9. In a wide ranging discussion Members of the Forum addressed some of the specific issues raised in the Coal Forum's Paper beyond CCS.
- 4. (a) Investments in existing electricity generating coal plant are facing uncertainty (paragraph 8 of the Forum's Paper)**
10. Members noted that the introduction of Carbon Price Floor was a major disincentive to investment in existing plant. Regulatory uncertainty was a key concern This was in relation not only to the general Government policy and the impact of European Commission regulations but also to the cost of coal for both suppliers and producers; the percentage role for coal in the energy mix; and the amount of space required for refitted plant.

11. The Minister accepted that the levels of uncertainty were frustrating and caused difficulties in relation to long term investment decisions but he noted that it was very challenging to put in place a strategy for 20, 30 or 40 years when the market and technology were changing so quickly. The Minister anticipated that future legislation would provide further clarity and encouraged the industry to respond to all consultations, which are a necessary part of the legislative process, and requests for input to ensure their views were understood to inform the decision taken.

**4. (b) Opportunities for investment in *new* coal-fired power stations are restricted (paragraph 9 of the Forum's Paper)**

12. Members again referred to uncertainty being the main area of concern and in particular issues surrounding Carbon Price Floor and implementation of general CCS policy decisions and the selection of demonstrator projects. The impact of Carbon Price Floor on the unabated proportion of CCS plants was a major disincentive.

13. The Minister noted the concerns and said he expected the further work on Electricity Market Reform would provide more clarity and thereby provide more certainty to encourage the investment required. Adam Dawson added that the OCCS were happy to continue to hear representations from the industry regarding the CCS structure. Lessons learnt from Longannet were being published on the DECC website and a further Industry Day is taking place in December.

**4. (c) Coal Production in the UK is a growth industry (paragraph 10 of the Forum's Paper)**

14. Members noted that domestic coal production had increased and it was expected that this was a continuing upward trend, making a positive impact on the economic output of the country and energy security. However, given the uncertainty over the future level of coal-fired generation, it was unlikely that it could continue to receive the levels of investment required in the future to maintain production levels. In the context of planning constraints, specific reference was made to the contradiction between the general presumption in favour of sustainable development in the draft National Planning Policy Framework, currently under consultation, and the specific presumption against coal extraction which was causing concerns in relation to future investment in surface mining.

15. The Minister noted this point. He said the excellent work done by the industry on remediation of former surface mines was exemplary and felt that because the work was done so well that local communities did not remember how things had been before the work was carried out. Public perception was too strongly influenced by poorly remediated sites which were largely historical. The Minister said he was encouraged to note that DCLG had received over 14,000 responses to the consultation on the NPPF and awaited a response in due course.

**4. (d) Revised approach to Carbon Price Flooring (CPF) to be put forward in the New Year – (paragraph 14 of the Forum’s Paper).**

16. Members expressed concerns regarding the Carbon Price Support Mechanism as coal is priced on the basis of its calorific value and there is therefore a bias in favour of imported coal. It was however noted that the Government may now be moving to CPF rates based on heat content with a revised proposal to be put forward in the New Year. This potential development was encouraged by the Forum’s members.

17. The Minister confirmed that the Department was continuing to look at the CPF.

**4. (e) Removal of gas oil from CRC Energy Efficiency Scheme – (paragraph 14 of the Forum’s Paper).**

18. Members referred to the Government’s proposal for simplifying the CRC Energy Efficiency Scheme to remove gas oil from the list of fuels to be included and this would remove a major cost imposition on the surface mining industry. They welcomed this change. However, this would still leave the industry having to pay the levy for the first two years of the Scheme and on electricity consumption, adversely affecting the deep mines in particular and those surface mine producers who have invested significant sums in conveying systems to remove HGV traffic from local roads.

19. The Minister noted these continuing concerns. He explained that this was an extremely challenging area and the Department had engaged extensively with stakeholders to gather as broad a range of potential opinion as possible. He was alive to the inter-related impact of the current instruments and recognised the concerns. The Minister added that the Department welcomed the Forum’s thoughts when it published the draft legislation in early 2012 for formal public consultation which will amend the existing CRC scheme.

20. John Harris confirmed Members would submit their views and added on a general note it would be helpful if the Government could be more vocal about the role of coal especially as it sees such a long term future for the fuel in the energy mix. As an example of the Government’s silence on the role of coal he noted there had been no mention of coal in the latest Annual Energy Statement from DECC.

21. The Minister replied that he believed in a mixed-fuel future energy system and that in that context, it would not be possible at this stage to say that one fuel was more important than another. He certainly saw a future for cost competitive CCS coal in the future low carbon energy mix, and was keen to support the development of a CCS industry in the UK which could also be sold across the world.

**4. (f) Abandoned Mine Methane (AMM)/Coal Bed Methane (CBM) Operations – (paragraph 17 of the Forum’s Paper).**

22. Members noted the diverse alternative resources which coal reserves offer and specifically asked the Minister to consider whether the government could affirm a more positive interest in UCG, given the potential contribution available

23. The Minister stated that CBM and UCG are very much in their infancy at this stage, but the Department will continue to keep a watching brief on the development of all these alternative energy sources.

**5. Next Steps**

24. The Minister thanked the members for their paper and the work they had done during the year and confirmed a note of the meeting would be circulated to Members as a response to the Forum’s 2011 Paper.

25. The Minister went on to ask members of the Forum to respond to the recent consultation on Coal Industry and Miner Welfare regulations, as a part of Energy thread on Red Tape Challenge website. This represents an element of the Coalition Government’s wider deregulation agenda. The consultation was launched on 25 November 2011 and closes on 30 December 2011. The Minister added he was also interested in hearing members’ views on other legislation outside of DECC’s remit which affected the coal industry.

26. John Harris thanked the Minister for his comments and appreciated his positive points and the constructive nature of the discussions.

**16 January 2012**