

Fifth Annual Coal Industry Meeting

17.30 – 18.30, 3 February 2015

Church House Conference Centre, London SW1

Attendees:

Matthew Hancock, Minister of State, DECC

Chair:

Paddy Tipping

Industry:

Tom Allchurch, RecyCoal
Chris Anastasi, GDF
Alan Bilton, Federation of Independent Mines
Neil Brown, Miller Argent
John Campbell, Fergusson Group
Iain Cockburn, Hargreaves
Simon Reed, Coal Authority
Kevin Coyne, UNITE
Peter Emery, Drax
Terry Fox, NACODS
Brian Galloway, Scottish Power
Phil Garner, Coalpro
Mark Harrington, Kier
John Harris, Hatfield Colliery
David Jerome, Peel Ports
Chris Kitchen, NUM
Mike MacDonald, Prospect
Clare McCallan, Coal Authority
Derek Parkin, UK Coal
Philip Pearson, TUC
Barnaby Pilgrim, Banks Group
Luke Warren, CCSA
Nigel Yaxley, Coallimp

Government:

Amy Clemitshaw, DECC
David Rutland, DECC
Simon Dawes, DECC
John Spurgeon, DECC
David Leitch, DECC
Helena Crow, HMT
David Fielder, DECC

Agenda

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| 1 | Welcome and opening remarks | Paddy Tipping, Chair |
| 2 | Engagement with DECC during 2014 | Barnaby Pilgrim (Banks Group) |
| 3 | NERA studies – Carbon Price Floor | John Campbell (Fergusson Group) |
| 4 | CCS Competition and Contracts for Difference | Luke Warren (CCSA) |
| 5 | Capacity Market and the transition to low carbon | Philip Pearson (TUC) |
| 6 | Emissions Performance Standard | Nigel Yaxley (Coallmp) |
| 7 | Future of UK mining | Phil Garner (Coalpro) |
| 8 | Discussion/Q&A | All |
| 9 | Remarks by Matthew Hancock | Minister of State |
| 10 | Closing remarks | Chair |

Welcome and opening remarks

1. The Chair, Paddy Tipping, welcomed all participants to the fifth annual meeting of the Coal Forum.
2. The Chair invited comments from members on a seminar held earlier that afternoon and chaired by Ian Lavery MP, which focused on the future of the coal mining industry. Specific points raised in feedback included:
 - There was more work needed to ensure the message of the role of coal in the energy mix was understood more widely;
 - Support for coal with CCS was high but more action was needed to develop confidence in its potential;
 - There was discussion around the Emissions Performance Standard in the light of proposed Opposition amendments to the Infrastructure Bill;
 - Restoration of opencast sites was identified as an issue of particular concern with operators struggling to obtain permission to open new sites until this is resolved.
3. The Chair invited members to begin their presentations as per the agenda.

The slides had been circulated to all in advance of the meeting.

Engagement with DECC during 2014

4. Barnaby Pilgrim (Banks Group) highlighted this would be an important year for the coal industry and the issues set out in the Forum's strategy document, as presented at last year's annual meeting, were still very pressing.

5. He commented that good progress had been made on the five main actions set out last year, which had included a significant level of engagement with Government departments – DECC, HMT and Defra. The Forum’s strategy document had been the main instrument guiding the sector’s discussions on the Carbon Price Floor, Capacity Market, EPS and the development of CCS. The extent of the engagement with HMG officials was acknowledged and members wanted to continue this in 2015 through establishing quarterly meetings between officials and the Coal Forum Working Group. They also want to establish regular contact with BIS.

6. He stressed that the next Coal Forum meeting should be held in autumn 2015 rather than early 2016. This would enable early engagement with the new government and maintain momentum on key issues.

NERA studies - Carbon Price Floor

7. John Campbell (Fergusson Group) summarised the NERA studies on the Carbon Price Floor. Key findings included: the phasing out of the Carbon Price Support after 2016 could deliver lower wholesale electricity prices and sustained economic benefits for existing coal plant. And whilst emissions do increase at UK level, they do not at the EU level. He pointed to the outcome of the Capacity Market auction and the concern that the CPF was impacting the competitiveness of coal plant in that process; only two plants secured refurbishment agreements - and six have no capacity agreements at all. The priority issue for the coal industry in 2015 is to continue pushing for the CPF to be eliminated or, if this was too big a step initially, to be frozen at a lower level of less than £10/t.

8. The Minister queried whether the changes in the energy market, in particular the fall in oil prices and consequent impact on coal relative to other fuel prices, changed these conclusions at all. John Campbell said his expectation was that recent wholesale energy price reductions do not alter key findings of the studies.

CCS Competition and Contracts for Difference

9. Luke Warren (CCSA) welcomed the progress in the CCS competition with work over the past year on the White Rose and Peterhead FEED studies. He urged that this momentum be maintained under the next government and identified two clear actions for the next government to follow: to successfully deliver two projects from the CCS competition and retain the £1bn committed under the 2010 Spending Review; and to progress a second phase of projects by retaining momentum on the work on CCS CfDs. This would set in place the framework necessary to start developing regional clusters.

Capacity Market and the transition to low carbon

10. Philip Pearson (TUC) said the future of coal generation and mining depended on the successful development of CCS for power generation and industry. A slower

rate of progress threatened jobs in the supply chain. There needed to be a managed transition from existing coal to coal utilising CCS. The outcome of the Capacity Market auction implied that only 3.5GW of coal plant might potentially carry out investment to comply with the Industrial Emissions Directive, in addition to the 2GW already compliant. This would be insufficient to see the coal sector through to the CCS era. It was important that state aid bids be determined quickly by Government to support deep mines.

Emissions Performance Standard

11. Nigel Yaxley (Coallimp) noted the concern of Coal Forum members regarding Opposition attempts to table amendments to the Infrastructure Bill which would have applied the EPS to existing coal plant. They were aware of the possibility that after the election a new government might seek to introduce further measures to limit the use of coal. Members recognised that a phased reduction in unabated coal usage by 2030 was inevitable, but this should be properly managed rather than with sudden actions to limit its use.

Future of UK Mining

12. Phil Garner (Coalpro) commented on the range of issues impacting on future coal usage. Coal prices were set by internationally traded coal deals and were dependent on global supply and demand. Customers were reluctant to enter into long-term contracts in view of the uncertainty. He referred to the other issues affecting coal – the review of the Large Combustion Plant Directive BREF document and requirements of the Industrial Emissions Directive.

Remarks by the Minister, Matthew Hancock

13. The Minister said he was grateful for the presentation and for the contributions by all members to the discussion, which he had found very useful. He said the Coal Forum acted as the strategy body for the coal industry and it served a valuable purpose in bringing together government departments and industry to discuss the issues facing the sector. He agreed to the proposal to hold the next Coal Forum meeting in the autumn.

14. The Minister commented on the dynamics of the coal debates in Parliament and confirmed that the Government was committed to the £1bn allocated under the CCS programme. He noted that work was in progress to develop a CCS CfD and progress was being made in developing CCS; the opening of the Boundary Dam project in Canada last year was evidence of that.

15. The Minister said he noted the request to freeze the Carbon Price Floor at £10/t, although the policy was the responsibility of HMT and the affordability of the proposal would likely be a key consideration.

16. On the results of the Capacity Market auction, he commented that six out of the nine coal plants that pre-qualified received capacity agreements.

17. The Minister confirmed that the state aid application relating to UK Coal's deep mines was currently being considered and a decision would be made before Purdah.

Discussion

18. The following points were made during discussion:

- Chris Kitchen (NUM) and Terry Fox (NACODs) queried whether Hatfield's request for financial support had evolved into an application for state aid and requested a meeting to discuss latest developments. The Minister said he would consider.
- John Harris (Hatfield Colliery) said that it would be preferable if support wasn't given as State aid as this would require a closure date to be established for the mine. He appreciated there may be issues with pursuing a commercial solution.
- Derek Parkin (UK Coal) and Chris Kitchen (NUM) commented that the state aid rules for the coal sector, which only provided for support to 2018, did not align with the development of commercial scale CCS. There needed to be a managed transition to CCS otherwise it would be too late for the domestic coal industry.
- Derek Parkin (UK Coal) asked whether the Minister would make a commitment to making a decision on UK Coal's request for state aid before Purdah. The Minister agreed to this.
- Iain Cockburn (Hargreaves) referred to industry proposals to amend the CPF to support the restoration of surface mines and asked what could be done to progress this discussion. The Minister said he was in the process of setting up a meeting with the relevant parties to discuss the issue although he stressed that only one Budget remained this Parliament, and the proposals would likely represent a significant tax cost, so no promises could be made.
- Luke Warren (CCSA), while noting comments about the delay in developing CCS, said there was now a framework in place that was more robust and deliverable with greater focus on delivery in 2020's and on developing infrastructure and CCS CfDs.
The Minister agreed that CfDs were important to enable CCS to compete with other low carbon technologies and for access to the Levy Control Framework.
- Neil Brown (Miller Argent) commented on the importance of coal not only to the power sector but also on the industrial sector. In South Wales, coal has an important role in the steel sector which supports around 8,000 jobs.
- Mike MacDonald (Prospect) welcomed the application for state aid for coal mines and the £1bn support for CCS. He questioned the value of introducing CCS if there was no domestic production industry.

- Barnaby Pilgrim (Banks Group) stressed the importance of forward investment signals for the coal sector.

Closing remarks

19. The Minister said he had found the discussion very useful and thanked all members for their input. He repeated that the Coal Forum served a valuable role in bringing together industry and government departments. He thanked members for the constructive tone of the discussion.

20. The Chair also thanked all participants for attending and for their contributions to the meeting.