



Mr David Demain
Industrial Pollution Control
Department for Environment, Food and Rural Affairs
Area 3C, Ergon House
17 Smith Square
London SW1P 3JR

25th July 2008

Dear Mr Demain,

Consultation on the European Commission's proposed Directive on Industrial Emissions (Integrated Pollution Prevention and Control) (Recast) – Combustion Plants

I am pleased to respond to the DEFRA Consultation on the Industrial Emissions Directive (IED) on behalf of CoalImp – the Association of UK Coal Importers.

CoalImp represents major coal users (including all of the coal-fired generators in Great Britain), rail companies, ports and other infrastructure operators in the coal supply chain. The twenty two members (listed in the attached Appendix) account for the handling, transportation and use of the majority of imported supplies into the country, in turn accounting for around a quarter of electricity produced last year.

Individual CoalImp members will be submitting detailed responses to the Consultation, answering the complete list of questions posed. The purpose of this letter is to focus on the key issues of major concern to members and the potential consequences for the coal supply sector.

Cumulative Impact of Regulation

Members operating coal-fired plant are well used to a complex market and regulatory environment. The existing provisions of the Large Combustion Plants Directive (LCPD) mean that opted-out plant will close by 2016 and that, without any new regulation, emissions from opted-in plant will be driven further down after that date.

The opted-out plant closures, together with nuclear plant retirements, means that there will be a potential 'generation gap' in 2016 of significant scale, variously estimated between 20-25GW. The investment decisions for new plant to fill this gap are complicated by uncertainty over the future carbon trading regime and by the extent to which the market may be foreclosed to non-renewable generation (even if this is zero or low carbon) by the EU renewable energy targets.

Attempts by generators to bring forward investment, for example in capture-ready coal plant, are being hampered by regulatory delays and planning issues. Building sufficient plant in time for the existing 2016 'cliff edge' is already a major challenge, not least because of skills issues.

There is a very real cumulative impact of different aspects of regulation – including LCPD, emissions trading and renewables targets, coupled with planning issues – which makes investment decisions for new plant extremely difficult. All delays to these investment decisions exacerbate the 2016 cliff edge and mean that the role of existing plant needs careful consideration. CoalImp believes that implementation of the IED as proposed would inevitably lead to further closures of opted-in coal plant from 2016 resulting in almost inevitable power cuts.

Existing Plant

Whilst issues arising from the IED for new plant are not trivial, the main concern of this letter is the impact of the proposals on existing plant. The key issue is one of flexibility. There are crucial differences between existing and new plant which must be taken into account by regulators.

As old plant is progressively replaced with new, this can meet longer-term policy objectives both for industrial emissions and for carbon. This can, and should, be achieved with the full range of options – nuclear, renewables and fossil fuel. Fossil fuel plant should initially be built 'carbon capture ready' and then progressively fitted with carbon capture and storage.

It is clear that not all plant on the system can operate at base load. As the transition to new plant is taking place it is inevitable that some of the oldest units on the system will need to run at lower load factors for mid-merit and peaking. The flexibility in the existing LCPD is therefore entirely appropriate and necessary, enabling plant to opt for the National Emissions Reduction Plan (NERP) approach or ELVs depending on their individual circumstances.

The IED proposals make profound changes to the IPPC and LCP Directives in terms of removing flexibility. The most critical issue is the proposed imposition of the Annex 5 ELV for NO_x which would effectively require fitting of selective catalytic reduction (SCR) to all coal plant from 2016. The high level of capital investment required to fit SCR to forty-year-old coal plant, where load factors are low in the short term and closure may follow in the medium term, could simply not be justified. Many plant would inevitably be driven to a closure decision. Continuation of the flexibility arrangements in the existing LCPD would enable plant to deploy a range of measures consistent with environmental objectives, including reduced output.

CoalImp believes that the Industrial Emissions Directive should be dropped. There are minimal benefits and significant drawbacks. If it is not abandoned, it is essential that the proposed directive is modified to introduce the flexibility needed to cope with the transition from existing to new plant which cannot be achieved (literally) overnight. This flexibility may take the form of a continuation of the option to switch to the NERP from 2016 or a new limited hours opt-out similar to the arrangement currently applying.

Consequences of Closures

In addition to what is already needed in terms of new capacity, attempting to plan the simultaneous replacement of a major part of the opted-in coal generation fleet by a single, quite arbitrary, date is patently ridiculous. Even if this could be achieved, and power cuts could be avoided, a rapid 'dash for gas' would be the almost certain consequence. This would entail long-term carbon lock-in and would further compromise security of supply, as well as foreclosing the market against a more phased introduction of new nuclear stations (which cannot be built by 2016) or coal stations with carbon capture and storage. Worsening the 2016 cliff edge effect therefore has an entirely counterproductive effect on longer term carbon abatement as well as bringing increased risks to security of supply.

Consequences for Coal Supply

A collapse in coal-fired generation – whether temporary or permanent – would have serious implications for coal supply. Coal-fired generators currently use a diverse mix of indigenous and imported coal which provides a major contribution to the security of the UK's electricity supplies. It is commonly suggested that coal imports provide the balancing factor between indigenous supply and total coal demand. At current levels of supply and demand this is indeed the case.

However, if total demand were to fall towards the level of indigenous coal supply – as would certainly be the case with a significant tranche of opted-in plant closures – this would lead to a number of problems. It certainly cannot be assumed that all the indigenous coal could be burnt in these circumstances – an issue that will doubtless be covered in the Coalpro response to these proposals.

Turning to the question of imported supplies, which are the concern of this Association, there is not a 'tap' which can simply be turned off in 2016 and back on as new coal-fired capacity comes on line. There are major UK infrastructure issues involved. Ports use significant areas of land for coal unloading, stocking and loading of trains. Railway companies have major investments in rolling stock which cannot simply stand idle. Network Rail allocates capacity 'slots' for coal traffic which could not be maintained if the traffic were not there. There are also employment implications to all of these activities. It would not be possible to maintain the assets and the skilled workforce through the period from 2016 until some future date when new coal stations may come on stream. This would be a huge loss to the security and diversity of the UK's energy supply.

None of these coal supply issues have been taken into account in the impact assessment.

Summary

The existing provisions of the Large Combustion Plants Directive (LCPD) mean that opted-out plant will close by 2016 and that, without any new regulation, emissions from opted-in plant will be driven further down after that date.

There is a very real cumulative impact of different aspects of regulation – including LCPD, emissions trading and renewables targets, coupled with planning issues – which makes investment decisions for new plant extremely difficult.

CoalImp believes that implementation of the IED as proposed would inevitably lead to further closures of opted-in coal plant from 2016 resulting in almost inevitable power cuts. Worsening the 2016 cliff edge effect has an entirely counterproductive effect on longer term carbon abatement as well as bringing increased risks to security of supply.

A collapse in coal-fired generation – whether temporary or permanent – would have serious implications for coal supply. In the case of imported coal port and rail infrastructure, it would not be possible to maintain the assets and the skilled workforce through the period from 2016 until some future date when new coal stations may come on stream. This would be a huge loss to the security and diversity of the UK's energy supply.

CoalImp believes that the Industrial Emissions Directive should be dropped. There are minimal benefits and significant drawbacks. If it is not abandoned, it is essential that the proposed directive is modified to introduce the flexibility needed to cope with the transition from existing to new plant which cannot be achieved (literally) overnight.

Yours sincerely

Nigel Yaxley
Managing Director

CoalImp Membership

Associated British Ports
British Energy Power and Energy Trading Limited
Clydeport
Drax Power Limited
EDF Energy plc
E.ON UK
EWS Energy
Fergusson Group
FirstGBRf
Forth Ports PLC
Freightliner Heavy Haul Limited
Hargreaves Services
International Power Plc
Network Rail
Oxbow Coal Ltd
Port of Tyne Authority
Rio Tinto Alcan
Rudrum Holdings Limited
RWE Trading
Scottish Power Energy Management Limited
SSE Energy Supply Ltd
Welsh Power Ltd