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4th October 2004.

Mr. A. MacFaul,
Head of Government Affairs,
Ofgem,
9 Millbank,
LONDON.
SW1P 3GE

Dear Mr. MacFaul,

Consultation Response – Ofgem’s three year strategy 2005-08

Many thanks for offering Scottish Coal the opportunity to respond to your Consultation Process. We have reviewed the documentation provided and we would comment as follows:-

1. The key challenges you consider the industry faces in the short to medium term (for example, structural, social, environmental or technological).

Scottish Coal is the largest opencast coal producer in the UK, consistently producing circa 4.5 million tonnes per annum, supplying the UK electricity supply industry with good quality coal produced to the highest environmental and health and safety standards. Our business fully recognises the need to contribute to a low carbon economy and as such, we have developed and commenced the implementation of the Company’s renewable energy strategy.

The strategy concentrates specifically on the development of a biomass supply chain which we see as a new fuel capable of displacing coal through co-firing (in the short-term with biomass, and in the long term with energy crop and biomass both producing electricity contribution to the Government’s renewable energy targets) and through stand-alone biomass plants in the medium term.

Scottish Coal has a turn-over £130m per annum and has over 1,000 employees, the good majority of whom have particular expertise in the fuel production and bulk handling.

It is extremely important to our business that we are able to contribute to the co-firing agenda and commence this vital business change.

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To date, progress in implementing our internal strategy has been significantly hindered by Ofgem's interpretation of the co-firing guidelines, compounded by Ofgem's limited human resource and certain administrative and definitional issues. We are pleased to note that the ROC Consultation Terms of Reference (para 29) will seek to address the administrative and definitional issues.

Although we are encouraged by Ofgem's work on setting the RPI-X cost control mechanism, we would ask that proper and detailed consideration is applied to Ofgem's limited human resource and skill availability, particularly as it relates to the co-firing/biomass/energy crop supply chain, which is an integral part of the fuel supply mechanisms to power stations.

2. The action you consider the Authority should take to respond to these challenges.

Scottish Coal believes that Ofgem should review the co-firing guidance documentation and consider the level of delivery to date which has been significantly hindered by Ofgem's interpretation of the guidance. Scottish Coal would encourage Ofgem to consider wider environmental effects such as the transportation of biomass by road where there are rail and ship alternatives, particularly, if a pre-blended coal and biomass/energy crop product can be introduced to strict auditable specification. Scottish Coal has demonstrated that the production of off-site validated combi fuel is possible, all within a tightly controlled system, this would have significant positive effects, both environmental and in terms of the supply price for power station fuel.

Reviewing the guidelines and altering the way in which they are applied, would allow industry to make a significant contribution to the Government's renewable energy targets without compromising validity of any ROC claim. Scottish Coal would be happy to share the process with Ofgem and would formally request that Ofgem allocate resources such that this matter can be concluded as referenced in the Royal Commission for Environmental Pollution Recommendations.

We also believe that a more holistic approach to co-firing as a first phase the the biomass supply chain and energy crop delivery mechanism will improve Ofgem's understanding of the fuel supply chain and thus add greater value, ultimately reducing the wholesale price of electricity in the UK as well as delivering renewable energy targets.

We are encouraged that Ofgem undertakes impact assessments on important decisions and we would request that this procedure is applied when analysing the most appropriate and formulating revised co-firing guidance and its application.

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3. The priority of areas of work that you think we should tackle, in response to the challenges you identify.

As identified above, we think it would be appropriate to review the co-firing guidance and the way in which it is applied, all against Ofgem's human resource availability and skill level.

We also believe that it would be appropriate for Ofgem to develop and review as appropriate, a list of approved fuel suppliers. Complementing Ofgem's list of approved power generators. This is vital, to ensure that fuel suppliers operate to the same strict rules and regulations and are afforded opportunities to develop their businesses in line with wider legislation and Government targets, managed through Ofgem's guidance documentation.

Delivering opportunities around co-firing and the biomass supply chain is critical to the survival of businesses such as Scottish Coal, which is a major fuel supply business, producing indigenous fuel in a competitive market in an environmentally acceptable manner, contributing significantly to the balance of payments and security of supply as well as providing well-paid skilled employment in areas of high unemployment.

The development of a biomass supply chain, not only contributes to a low carbon economy by displacing coal, but also provides additional income and investment opportunities by way of the establishment of energy crops and linkage to the existing forestry sector.

Scottish Coal would be very grateful if you would consider the contents of this consultation response in detail and incorporate the important matters raised into your forward strategy. As always, we would be more than happy to make available a senior Company representative to liaise with Ofgem to drive forward the issues raised.

Yours sincerely,

D.W. Purchase
Development Director