

Ofgem Consultation: Corporate Strategy and Plan 2006-11

Response from Coalpro

The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output. CoalPro is not opposed to the development of any other form of energy and believes in a balanced energy policy. CoalPro is pro-coal.

CoalPro finds it incredible that Ofgem's corporate strategy and plan for 2006-11 apparently affords minimal consideration to the place of coal in the electricity generation mix. It is understandable that the document makes frequent reference to gas as Ofgem is the regulator for both gas and electricity markets. It is, however, incomprehensible that the document barely mentions coal.

Coal-fired generation is second to gas in the generation mix only by a small margin. Of perhaps greater significance is that coal is the largest source of electricity at peak periods and over the winter has provided some 50% of the country's electricity. Without coal, and lots of it, the lights go out, not just this winter - every winter, not just on a peak demand day - every peak on every winter day.

Ofgem rightly points to the investment in new gas infrastructure. It does not follow that there will be any gas to flow through it, and it certainly does not follow that it will be at lower prices. The UK is not the only country investing in new infrastructure to handle imported gas; similar investment is taking place in North America, the Mediterranean Basin and in South and East Asia. For the UK, a European gas market is likely to be replaced by a world gas market. There is no guarantee whatsoever that it will be any more benign.

The security of supply and price risks associated with an excessive reliance on gas have been comprehensively demonstrated over this winter. Ofgem appears to make an artificial distinction between security of supply on the one hand and price on the other. They are two sides of the same coin. It will generally be possible to obtain all the gas we need provided we are prepared to pay enough for it and outbid everybody else. If one is a member of the fuel poor and have to turn off the gas or the lights because one cannot afford it, or an industrialist who has to close a plant that has become uneconomic because of high prices, then, for the individual or the industrialist concerned, that is the same as losing one's supply.

It is equally clear that, irrespective of any possible short term scenario, the relative abundance of global coal reserves, including significant reserves in the UK, compared with the relative paucity of gas reserves, including declining reserves in

the UK, means that over the long term the price differential between coal and gas must move inexorably in favour of coal to an ever widening extent. Coal also has pure security of supply advantages - multiple sources, multiple distribution channels, easily stored.

Ofgem also refer to the likely closure of coal-fired power plants. But the world has changed. Recent announcements mean that almost 20GW of coal-fired plant has now opted in under the LCPD, a far greater proportion than seemed likely only a few months ago. Coal burn is therefore likely to be much higher over the next few years than previously anticipated to the benefit of electricity consumers.

It is CoalPro's view that Ofgem's proposed corporate strategy and plan completely fails to recognise the security of supply and price risks associated with gas. Ofgem has gas myopia and is consequently in denial.

With respect to Q.2 of the consultation, therefore, Ofgem has failed to identify all the relevant issues, and with respect to Q.4, Ofgem's approach is fundamentally flawed.

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