



Coal boost could raise UK carbon emissions demand this winter

British transmission system operator (TSO) National Grid is predicting that UK power generators will favour coal over natural gas this winter, which could boost demand for carbon allowances in the EU's second biggest greenhouse-gas-emitting economy.

"The continuation of high gas prices relative to coal strongly favours coal as the preferred source of fuel for power generation," National Grid said on Tuesday as it published its winter 2012–2013 consultation report. *"Despite forward coal prices increasing, the current prices strongly favour coal burn over gas for all of next winter and beyond,"* the TSO said.

For demand for gas - which is the cleaner of the two fuels - to improve, National Grid believes that emissions allowance prices would need to be €30/tonne of carbon dioxide equivalent (tCO₂e).

That is more than treble Monday's price of €8.00/tCO₂e for EU emissions allowances for December '12 delivery.

"Carbon prices in May 2011 were €16.50/tCO₂e, which gradually decreased to €10.00/tCO₂e by the start of winter 2011/12," National Grid said.

"The fall continued throughout the winter to €7.00–8.00/tCO₂e. The fall has followed the same trend as the coal prices, making coal favourable during the winter period."

In the past year, lower carbon prices caused by oversupply of allowances and cheaper international coal have improved the UK's clean dark spreads, which measure the profitability of coal-fired power generation when carbon costs are factored in.

Clean spark spreads, which measure the profitability of gas-fired generation when including carbon costs, have declined.

EU rules

However, limits on the running hours for certain coal plants covered by the EU's large combustion plants directive (LCPD) will begin to have an impact this winter, with at least 500MW of capacity already lost and the potential to lose another 4,500MW before the end of March, National Grid said (see EDCM 16 June 2012 and EDEM 3 May 2012).

"Two stations are expected to have used all their allocated hours by the end of March 2013 and another station is now expected to close by then even if all its available running hours have not been used," the TSO said.

From a carbon-allowance demand perspective, coal's improved profitability was probably at least partly offset by lower energy demand in Britain last winter.

"The six months from October 2011 to March 2012 were mostly very warm, with just the first two weeks of February with weather significantly colder than normal," National Grid said. *"Underlying [power] demand over the winter period 2011-2012 was down on the previous two years."*

Explaining the reduction, the TSO said: *"Some of the difference may be accounted for by the exceptionally mild weather before Christmas, as weather correction fails to deal fully with very unusual conditions, but the main reasons for the reduction are likely to have been the high cost of energy and the state of the economy."*

The UK's annual greenhouse gas emissions fell by 7% in 2011 as the country's utilities boosted power generation from low-carbon sources by 5%.



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