Financing investment in coal production and use

David Brewer

Director General

Confederation of UK Coal Producers

coalpro
confederation of uk coal producers

Agenda

- Look at financing from mainly a UK perspective
- Mining Equipment
- Surface mines
- Underground mines
- Power Generation

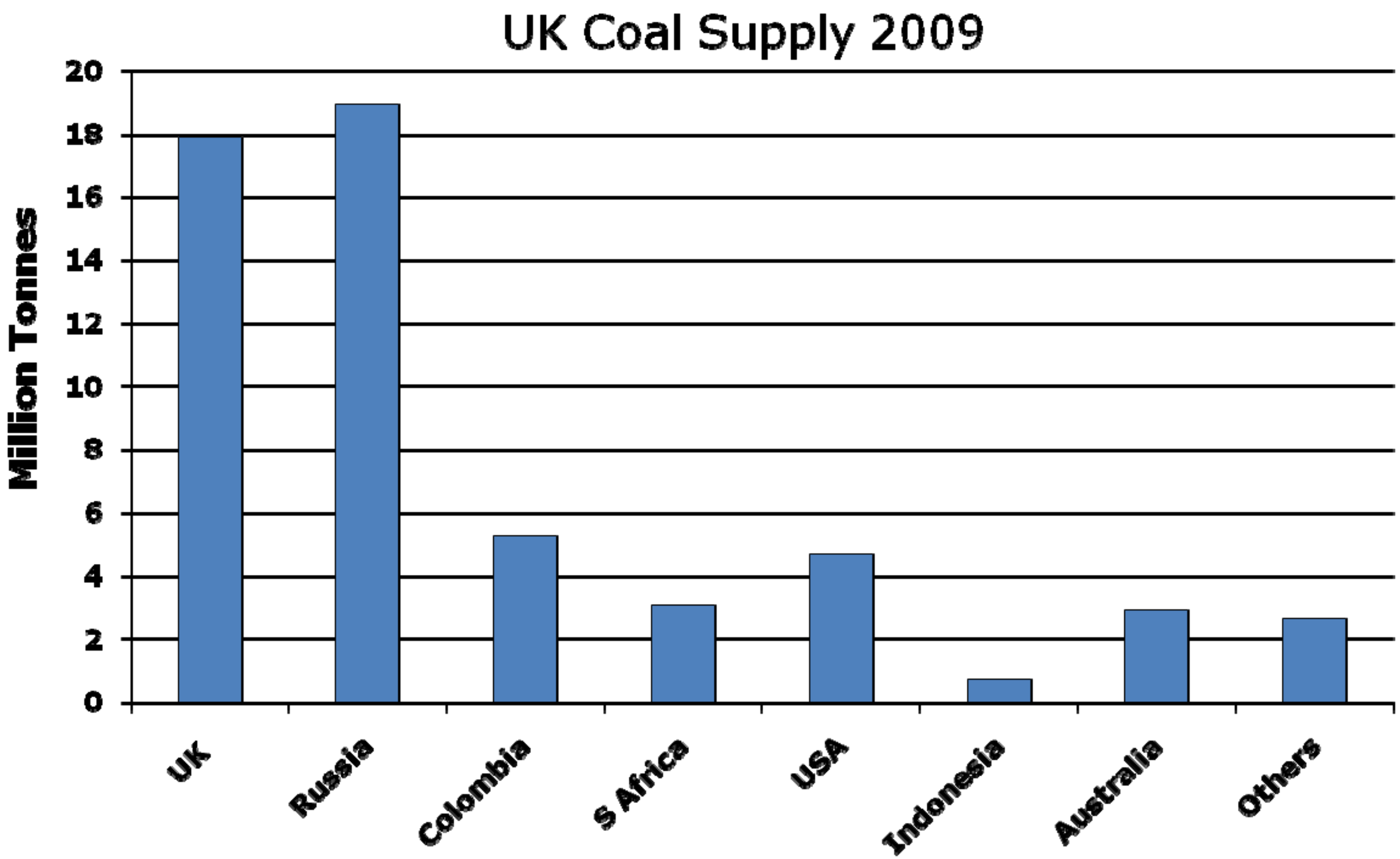
Indigenous coal has a vital part to play in EU energy mix

- Provides security and diversity
- Can compete with imports
- Quality customer relationship and service valued by the market
- Removes variability associated with exchange rates and long distance transport movements, with the benefit of substantially lower carbon transport footprint

Mining needs continual investment

- Extractive industry
- Easiest reserves already worked
- Financing risks increasing
  - Market
  - Environment
  - Planning
  - Operational

Coal market within the UK much larger than indigenous production



coalpro
confederation of uk coal producers

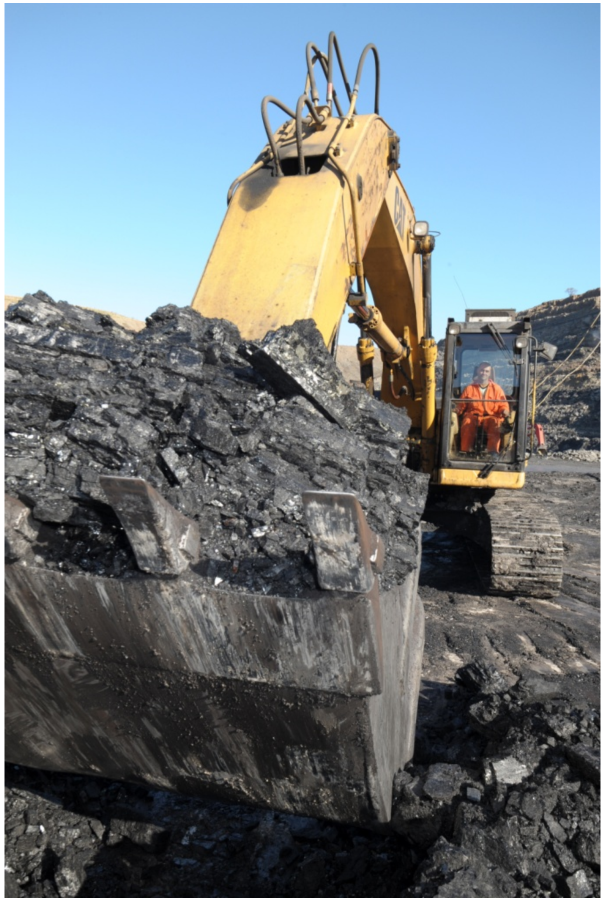
Mining equipment investment

- Economic downturn impacted on manufacturers as well
- Equipment companies willing to provide flexible payments to help finance some projects
- UK COAL has worked with companies to help provide new face equipment at Thoresby and Kellingley collieries

coalpro
confederation of uk coal producers

Surface mine investment

- Comparatively low start up costs, but can still be significant given relative size of companies
- Operationally less risky
- Less market uncertainty as relatively short duration
- Planning consent can be a major obstacle, with potentially a long judicial process before permission is obtained



coalpro
confederation of uk coal producers

Deep mine investment

- Long development lead times increases pressure on investment decisions and adds to supply uncertainties
- Potential investors want the certainty that they will get a payback which could be 10-15 years away
- Significant medium to long term market uncertainty
- Harworth Colliery - mothballed UK deep mine prospect - 54Mt in Top Hard seam. Cost around £200m

coalpro
confederation of uk coal producers

Sources of finance

- Internal cash resources
- Banking facility
  - Scottish Resources recently increased debt facility to £47.5m
- Share issue
  - UK COAL raised £100m in Q3 2009
- Venture capital
- European Investment Bank
- Government?

coalpro
confederation of uk coal producers

Global Financial Crisis

- Has caused the traditional providers of finance to business to become more risk averse
- In an attempt to re-establish credibility with the public all bank dealings have to be visible
- Projects perceived to have environmental benefit are ranked high on the list if viable returns are available

Investors perception of mining projects

- Coal mining projects are high risk (underground mining significantly more risky geologically than surface mine projects)
- Both underground and surface projects have significant planning, environmental and legislative risks
- Long term market decline/uncertainty
- Coal mining has low environmental stature in spite of the possible development of CCS

coalpro
confederation of uk coal producers

UK coal market uncertainty

- European environmental legislation on SO_2 and NOx will close coal power stations over the next 14 years with inevitable reduction in coal demand
  - 8GW of coal capacity supposedly due to close by 2015 under LCPD
  - IED requires further emissions abatement or close by early 2020s
- Tightening carbon emission caps placing downward pressure on coal burn
  - Coal generators to purchase 100% of EUETS allowances from 2013
- UK Government policy to reduce GHG emissions by 80% by 2050 from 1990 baseline.
  - Intermediate target 34% reduction by 2020
  - >30% renewable electricity by 2020
- No new coal build without partial CCS with obligation to fully retrofit at a later stage

coalpro
confederation of uk coal producers

European Investment Bank

- Furthers the objectives of the EU by providing long-term finance
- Corporate Operational Plan 2009-11
  - Support sustainable, competitive and secure energy
  - However, maximise the proportion of its projects associated with low carbon technologies
- Result no funding available for projects involving fossil fuel extraction, e.g Harworth
- Needs new direction from Board of Governors to change this approach

Summary – Mining Investment

- Coal important for security of supply within Europe
- Mining finance difficult to obtain especially for new deep mine projects
- Traditional sources of finance now more risk averse
- Investment emphasis more on renewable energy
- Major coal projects will only get financed with the support of EU / Member States in the medium term
- Coal mining investment needs to be given a higher priority within European institutions

coalpro
confederation of uk coal producers

Investment in Coal-Fired Power Generation

- Ageing plant
- Erosion of market by renewables
- Volatile electricity prices in liberalised market
- Carbon price
- No new (or reboilered) coal-fired plant without partial CCS
- Existing plant – 8GW out of 28GW LCPD closures (no FGD investment) by end 2015
- Remainder requires NOx abatement under IED

coalpro
confederation of uk coal producers

Investment in Coal-Fired Power Generation

- Load following fossil fuel plant still required
- But coal-fired plant owned by international companies which can invest anywhere
- Gas the lower risk option – lower capital cost, lower carbon cost, no requirement for CCS on new plant
- Government will support four new coal plants with partial CCS (but subsequent CCS retrofit implied)
- Beyond that, why invest in new coal or ageing old coal? Portfolio generators may want to spread risk

coalpro
confederation of uk coal producers

Investment in Coal in the UK – the vicious circle

- Market and price uncertainty, and regulatory requirements and uncertainty means limited investment in coal-fired power generation, new or old
- Gas the preferred option
- Uncertainty over market for coal makes investment in new and replacement mining capacity difficult
- Exacerbated by global financial crisis and risk averse financial institutions

coalpro
confederation of uk coal producers

Is the UK different? Discussion

- Substantial investment in SOx and NOx abatement in Germany to meet LCPD and IED requirements
- Investment in new coal-fired plant in Germany
- But the same international companies are involved
- Germany faces same carbon price and same increased penetration by renewables
- Germany has a liberalised market
- Why the difference? Are there wider lessons here?

coalpro
confederation of uk coal producers