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Energy firms face tough year as new emissions rules bite

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Mark Milner, industrial editor

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A combination of new regulations and tougher controls on emissions which came into force yesterday will make life tougher for Britain's power generators.

The EU's large combustion plants directive (LCPD) is designed to curb emissions of sulphur dioxide and nitrous oxide, while the second phase of the EU's emissions trading scheme puts a cap on carbon dioxide emissions.

Under the LCPD, electricity generators and some other coal-fired industrial plants had to decide whether to fit flue gas desulphurisation equipment to remove sulphur dioxide and nitrous oxide. If they have, the companies can run the plant like they did last year. If they have not fitted it - opted-out - they can run the plant for only 20,000 hours between now and 2015. Once the hours have been run, the station has to close. All opted out stations have to shut by the end of 2015, whether they have run the full hours or not.

When to run is the dilemma for producers. They could run the 20,000 hours quickly and shut down. Or they could hoard the hours, waiting until demand is high - along with higher prices.

The emissions trading scheme covers CO2 emissions from big polluters, including the electricity generating industry. In the first phase, allocations across the EU were too generous. This time Brussels has got tougher, demanding real cuts on 2005 levels.

This comes as the industry is warning that Britain needs more power stations, soon. The ideal is clear - a balance of different sources of generation and a drive to reduce consumption. How the balance is struck is another matter. The government will soon reveal the results of its consultation on nuclear power.

Coal, too, is controversial. The government is keen on carbon capture and storage, to meet environmental concerns about the levels of carbon dioxide from coal-fired stations as well as giving huge export opportunities. The technology, however, is untested on a commercial scale. The energy minister, Malcolm Wicks, also has an ambitious vision for offshore wind generation.

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