

Happy 50th Birthday!

RWE's elderly lignite power stations get a €½billion birthday present.

By Dave Jones, 02.Jul.2015

Last night, the German government announced their new plan to deal with reducing CO2 emissions from lignite. Their plan is... to pay lignite power stations. The burden of responsibility has been turned on its head: the previous "climate levy" proposal was clearly "polluter pays", but now it is "polluter is paid".

Last night's compromise is a long way from the original idea and arguably ducks the longer term question of how best to tackle Germany's continuing paradoxical use of some of the most polluting forms of electricity generation in the EU, whilst investing so much in the 'Energiewende' transition to renewables.

The "capacity reserve" proposal is for 2.7GW of lignite plant to be paid over 4 years to stay idle, running only when the system operator needs additional electricity. After that, the stations must shut.

- Payments: Today, Sigmar Gabriel announced[1] the payments would cost "about €230m per year". However, it is not yet clear on what basis the payments will be made; it was only said that "operators can get cost-based compensation based on available market data at the time of negotiations". Key questions remain: Would it be based on future profit of the plant? Does it include costs that would ordinarily be picked up by the utility – e.g. decommissioning costs or redundancy payments?

- Closures: It is also not clear which plans are included. However, it is expected that of this 2.7GW, 1.5GW will be 5x300MW lignite units owned by RWE: Frimmersdorf P and Q, Weisweiler E and F, and Niederaussem C.

Two of the five RWE lignite units will celebrate their 50th birthday this year; all five units will be 50 years old by 2020. Under Gabriel's estimate these units would receive payments of €511m[2].

However, all the RWE units would arguably have shut naturally by 2020 without payments. RWE announced back in August 2013, that 2 out of the 5 RWE units (Frimmersdorf P and Q) were "under intense review" due to economics[3]. Also back in 2013, RWE CEO of Generation said all the small lignite units were "having massive difficulties to earn their full costs... when electricity price is €38/MWh"[4]. Today, the electricity price to 2020 is much lower at €32/MWh, so it is hard to imagine how cost-cutting would offset this fall in electricity prices, and that these lignite units are profitable. There is a very real question about the extent to which RWE has kept these lignite units open uneconomically, perhaps waiting for the day that the German government opens its cheque book.

Sandbag's opinion on how make this "capacity reserve" more useful is:

- **Pay only 2.7GW of lignite units that would not close under business-as-usual.** The burden of proof should be on the utilities. Institutes as well as NGO's have shown that a 2.7GW reserve is not enough to achieve the CO2 cuts in the electricity sector[5]. The government should ensure that Frimmersdorf is closed without payments, and add further RWE 40+ year-old lignite units into the reserve in their place.
- **Do not call it a "reserve".** A "capacity reserve" is not needed when the power system is so over-supplied. Lignite has cheap variable costs but high fixed costs, so lignite is the last fuel type that should be used as reserve plant. Therefore, we see it makes more economic sense to pay money to close the units instantly. Or, at least to keep the "reserve" limited to one year.
- **Make transparent proposals for compensation payments, reflecting the economic reality and as small as possible.** The reality is that these units are all struggling to make any positive cashflow, and that due to their age and tightening limits of non-CO2 pollutants, they are already over-staying their economic life. For RWE to be paid €0.5 billion seems generous to say the least.
- **Think about how the policy will work in the longer term.** 2.7GW only constitutes 13% of Germany's lignite capacity. A longer term solution is needed.

Anyhow, we wish happy 50th birthday to these ageing RWE lignite units, they certainly seem to be getting a nice birthday present.

Dave Jones, Power analyst at Sandbag comments:

"The new proposal from the German government to limit coal emissions seem to write a half billion Euro cheque to 50 year old heavily polluting lignite units. This is a very generous 50th birthday present for units that are likely to close by 2020, but there are some key ways in which this proposal can be improved, making it less expensive, and cutting emissions faster."

ENDS

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Notes to editors

[1] <http://uk.reuters.com/article/2015/07/02/germany-energy-reserve-idUKB4N0Z800620150702>

[2] €230m/year x 4 years x 1.5GW out of 2.7GW

[3] See slide 5 of RWE's [presentation](#) "3 steps to long term value"

[4] See <http://www.ingenieur.de/Branchen/Energiewirtschaft/Unrentabel-RWE-ueberprueft-Kraftwerk>

[5] Agora estimate 4GW to 6GW of lignite plant must shut <http://www.agora-energiewende.org/topics/the-energiewende/detail-view/article/kohlekraftwerks-reserve-muss-deutlich-groesser-ausfallen-um-klimaschutz-effekt-zu-bewirken/>; WWF say the electricity sector is not pulling its weight to achieve the 40% <http://www.wwf.de/fileadmin/fm-wwf/Publikationen-PDF/WWF-statement-a-new-climate-policy-instrument-for-the-electricity-sector.pdf>

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