

Germany's flawed lignite compensation

Dave Jones, 14-April 2022



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Germany's flawed assumptions behind €4.4bn lignite compensation

Three key assumptions in the German government's calculation lead to a systematic overvaluation of the compensation payments

- Not ECT (Sarah)
- Bilateral deal between RWE/LEAG and the German government(!)

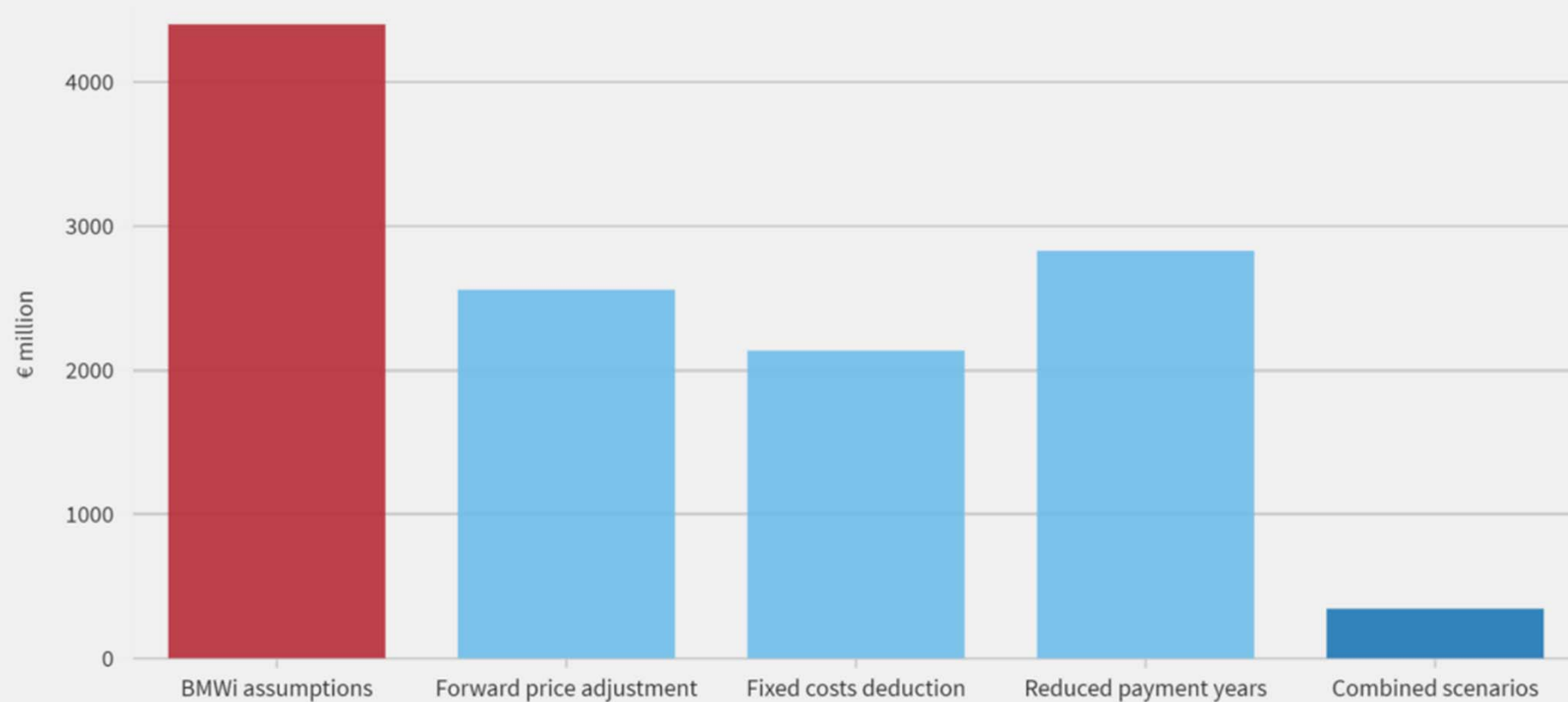
Why Ember's interest in this case?

Compensation to fossil companies will make the energy transition more expensive, and slow the transition.

Flawed assumptions of Germany's €4.4bn lignite compensation

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Compensation scenarios using the BMWi formula



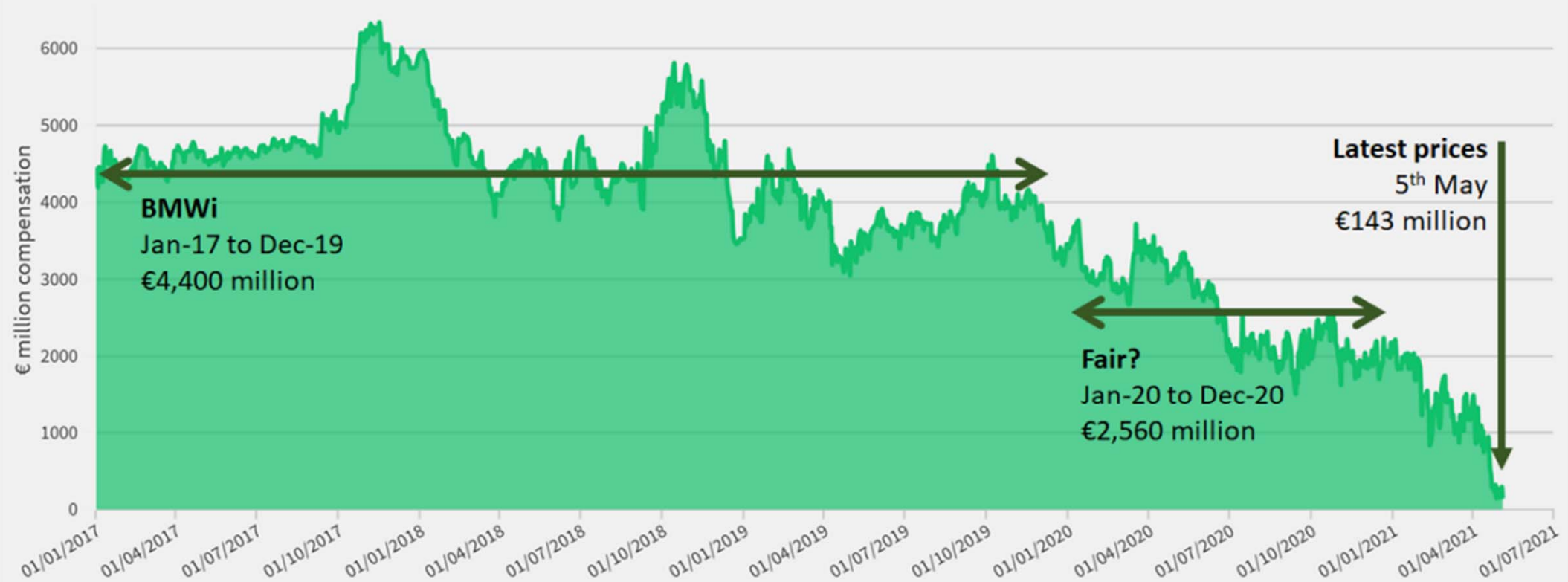
Source: BMWi lignite compensation formula; Ember's scenario calculations

Three scenarios have been analysed using different assumptions based on: (1) Forward power and CO2 prices from 2020 (2) Deduction of avoidable fixed costs due to early closure of plants and mines (3) Reduction in the number of years of compensation payments

Impact of Power and Carbon prices on compensation formula

Using market prices of forward power and carbon prices for 2021-2023

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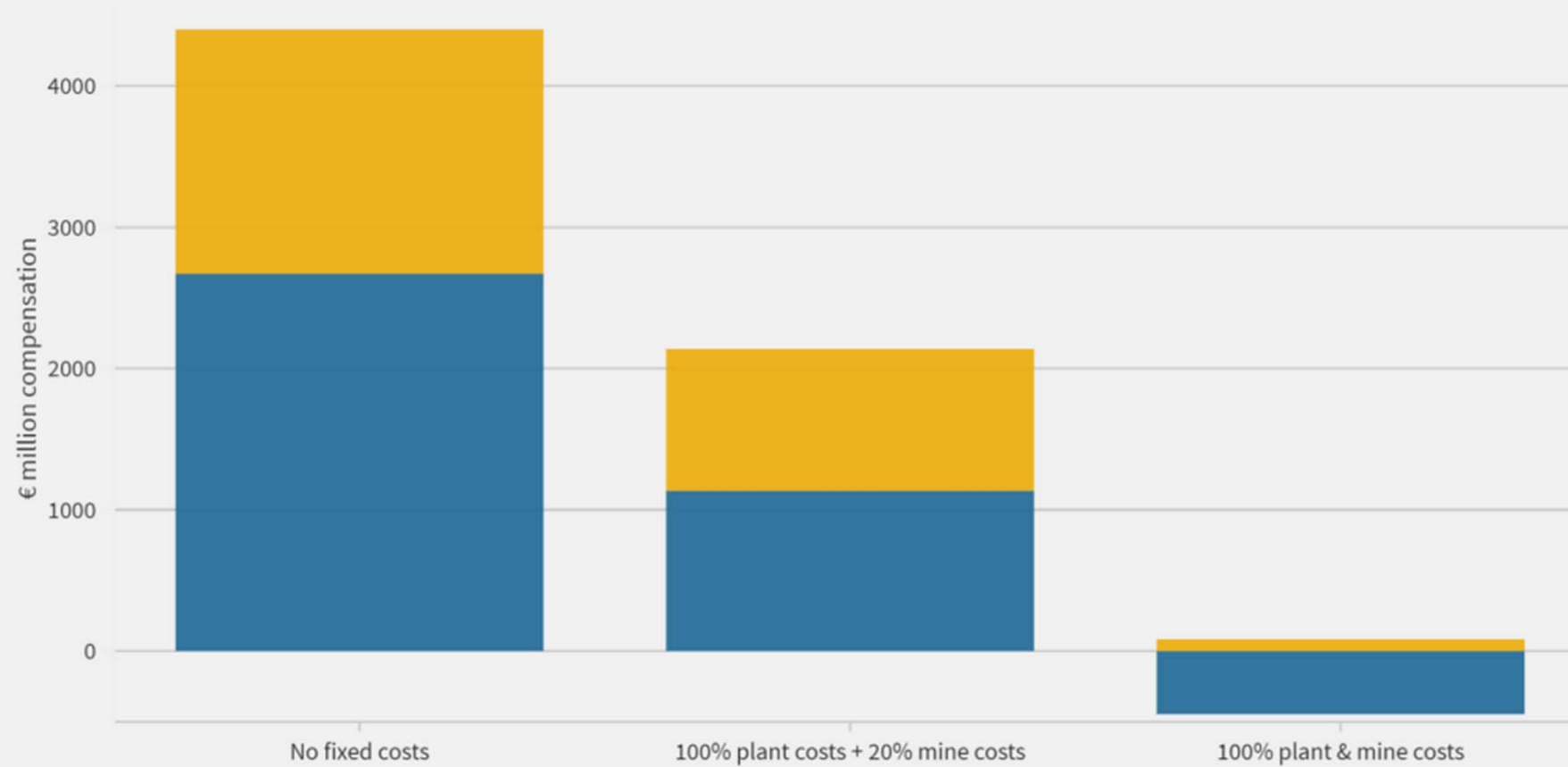
From Jan-2021, prices for average of 2022 and 2023 only.

Impact of fixed costs on German lignite compensation

Total compensation based on % of fixed plant and mine costs avoided

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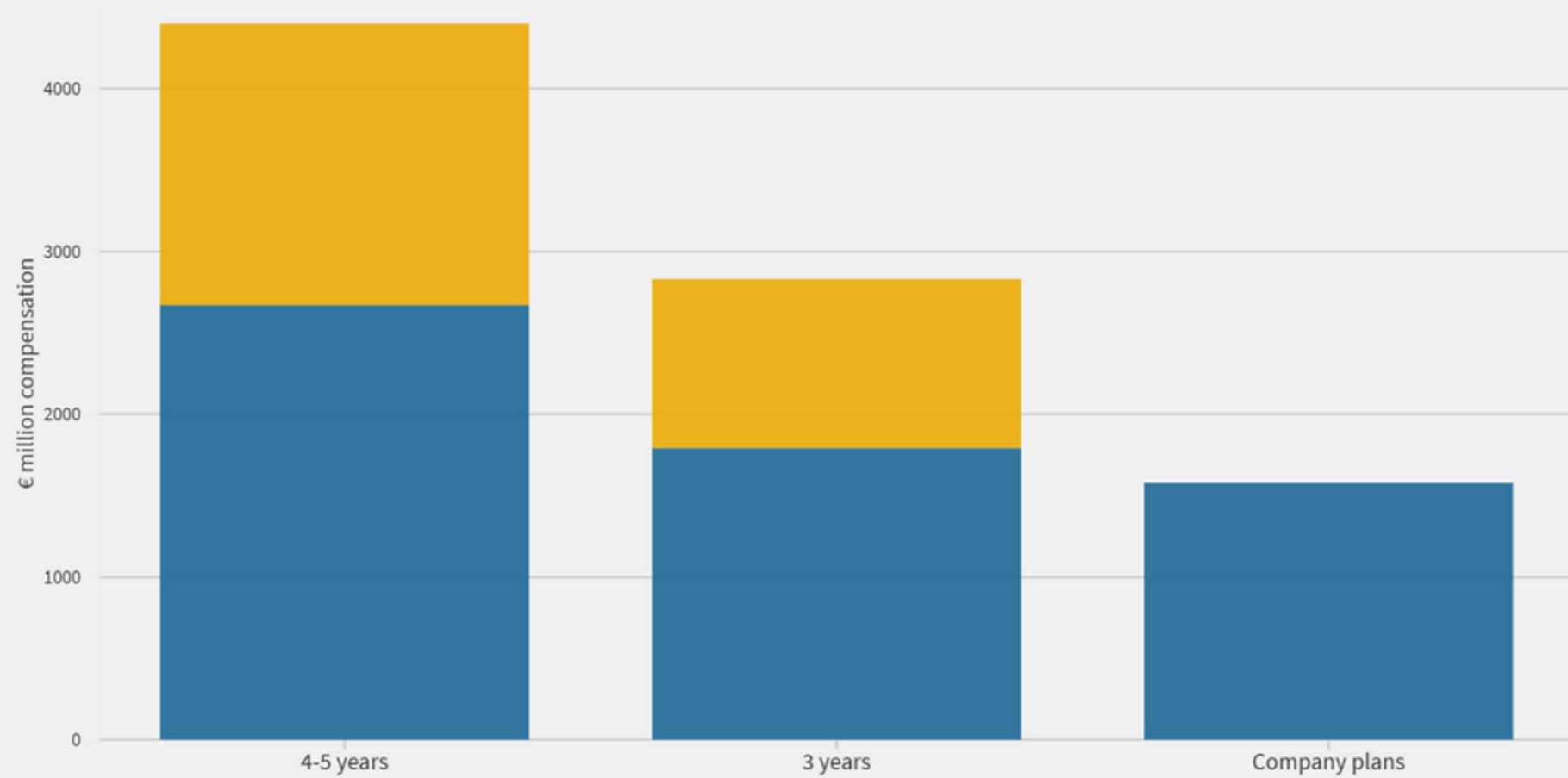
■ RWE ■ LEAG



Impact of payment duration on German lignite compensation

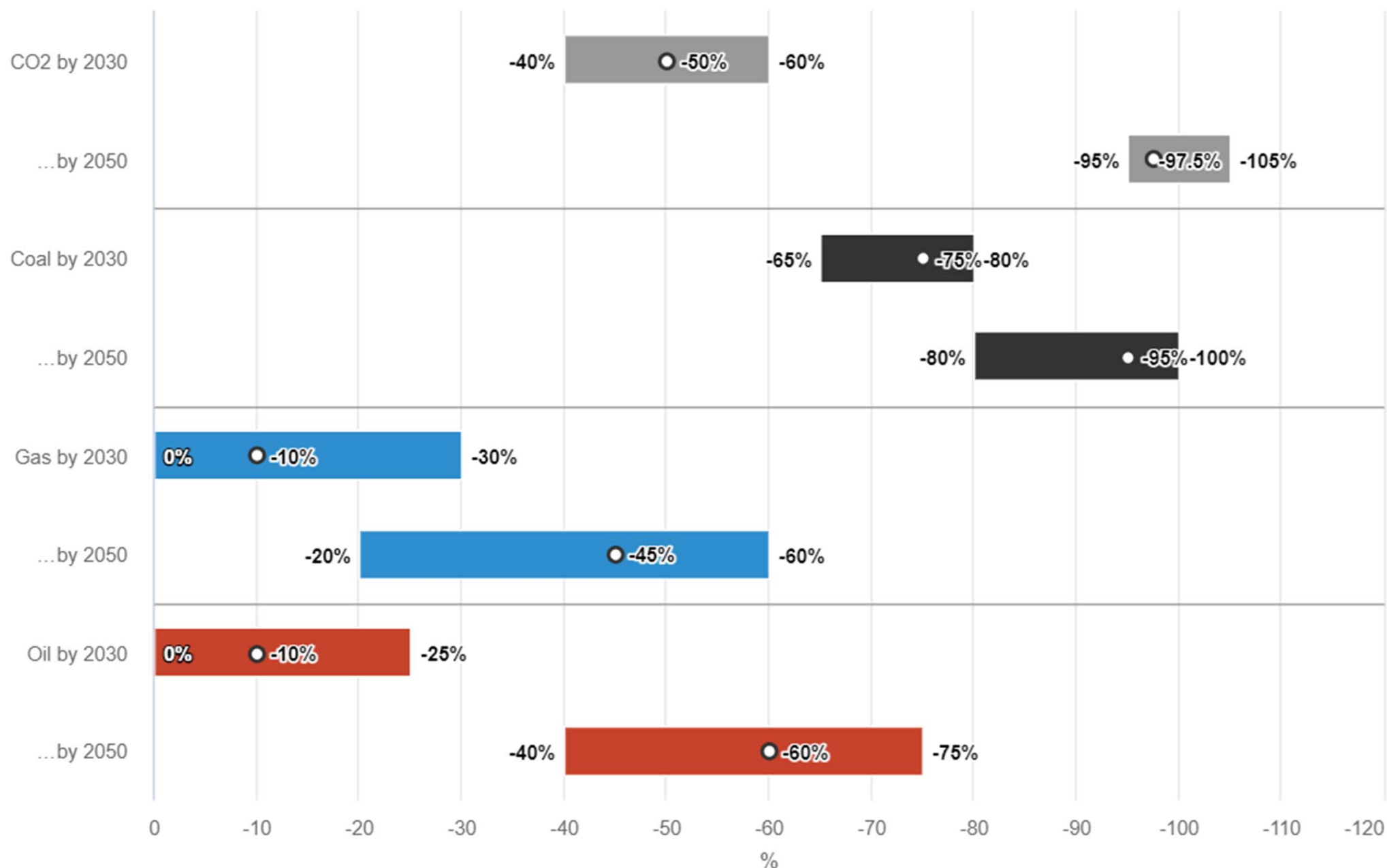
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■ RWE ■ LEAG



CO2 emissions and fossil fuel use fall rapidly in scenarios that keep warming below 1.5C

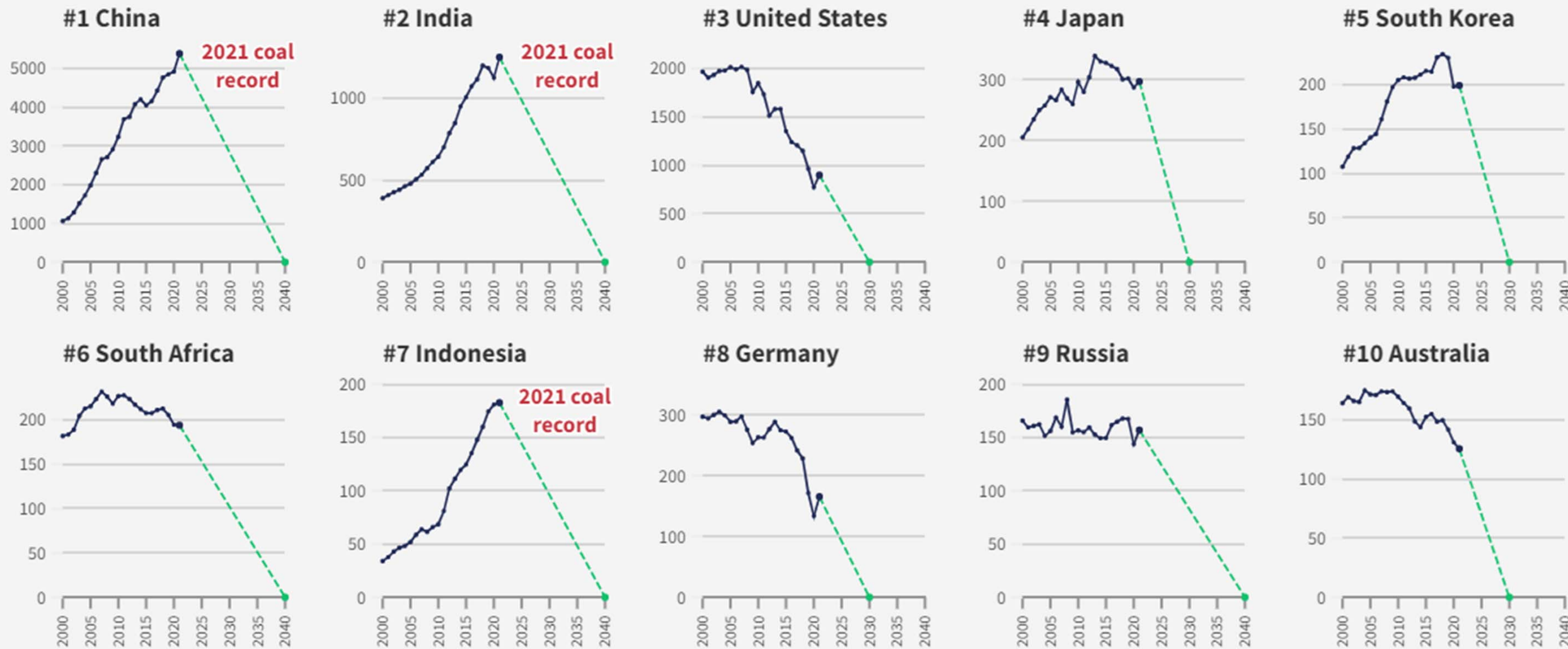
Reduction from 2019 levels, %, by 2030 and 2050 in 1.5C scenarios with no or low overshoot



Top 10 coal power countries in 2021

Coal electricity generation, in terawatt hours

■ Historic (2000-2021) ■ IEA 1.5 degree pathway



Source: Ember's Global Electricity Review 2022. IEA Net Zero by 2050 Report. • Provisional 2021 data for Indonesia

For the IEA 1.5 degree scenario, OECD countries must reach zero coal power by 2030, and non-OECD countries by 2040.



More than 60 Asian CSOs call on ADB to clarify details of its coal retirement mechanism



Published 5 months ago on November 1, 2021
By Newsroom

The main concerns include:

- A lack of clarity as to why the estimated timeline for winding down coal-fired power plants operating under the ETM may be up to 15 years, subjecting people to years more of unreliable, inefficient, and polluting coal-fired power, while cheaper renewable energy sources that could have come online would be left untapped;
- No assurances that capacities lost to early retirement of coal plants will be replaced by renewable energy sources (as there are no explicit safeguards to avoid a corresponding expansion in infrastructure for fossil gas-fired power);
- A lack of clarity in relation to how the ETM would avoid overpaying – or creating incentives for – operators of older plants to extend their planned lifespan in the expectation of receiving finance;
- The involvement – or potential involvement – in the scheme of financiers and developers implicated in the build out of the coal fleet elsewhere in the region or even the same countries;
- Whether electricity end-users will be forced to shoulder additional costs; and
- The severe lack of opportunities provided to date for communities and civil society and people's organizations to engage with the ADB's processes of



PROBLEM: caused by forcing closure of coal power plants

SOLUTION: don't "force" closure. For UK:

- "2024 coal phaseout" by emissions standard - all power generator must be $<450\text{gCO}_2/\text{KWh}$
- Destroy the economics
 - Carbon price
 - Air pollution legislation to force investment upgraded
 - Wind and solar!

Thank you

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