

Phasing out coal in Germany Parliament adopts coal phase-out

On 3 July 2020, German legislators took the final step to set the phase-out of coal in motion. This concluded the legislative procedure for the phase-out of coal power in Germany – the Act on the Phase-out of Coal (Kohleausstiegsgesetz) and the Act on Structural Change in Coal Mining Areas (Strukturstärkungsgesetz Kohleregionen) – and implemented the central elements of the recommendations by the Commission on Growth, Structural Change and Employment.

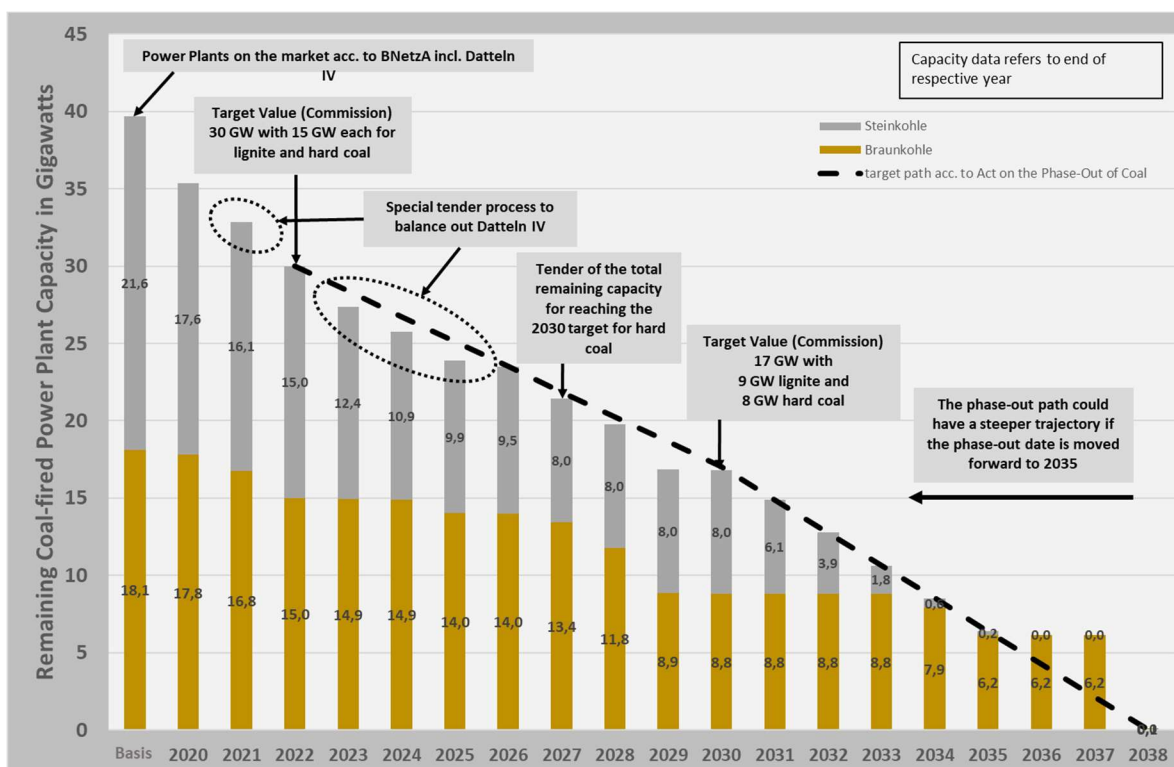
The key points:

- 1) In 2018, the German government appointed a Commission on Growth, Structural Change and Employment. At the beginning of 2019, the Commission presented proposals for a gradual phase-out and end of coal-fired power generation in Germany and for sustainable, forward-looking structural development in the regions affected by the coal phase-out. With the Act on the Phase-out of Coal, the German government is now implementing the central elements of the Commission's recommendations on the gradual phase-out and end of coal-fired power generation in Germany.
- 2) Together with the Act on the Phase-out of Coal, the legislators also adopted the Act on Structural Change in Coal Mining Areas, implementing the Commission's structural policy recommendations.
- 3) The Act on the Phase-out of Coal contains legislative provisions on phasing out electricity generation from hard coal and lignite, amendments to the Combined Heat and Power Act (KWKG) and to the Energy Industry Act (EnWG), and other legal provisions. The Commission's recommendation on increasing the expansion target for renewables to 65 percent of gross electricity consumption in Germany by 2030 was laid down in law with an amendment to the Renewable Energy Sources Act (EEG). Amendment to the EEG, for example to determine concrete technology-specific expansion plans, improve the framework conditions for renewables and update the targets in light of the goal of climate neutrality by 2050, is planned before the end of 2020.
- 4) The Act on the Phase-out of Coal determines that by the end of 2022, coal-fired power plant capacities will be reduced from the current level of more than 40 gigawatts (GW) to only 30 GW – 15 GW each for hard coal and lignite. Further power plants will gradually be taken off the market between 2023 and 2030. The goal is to reduce the total capacity of coal-fired power plants on the market to 17 GW – 9 GW lignite / 8 GW hard coal – by 2030. The last coal-fired power plant in Germany will go offline by 2038 at the latest. A review in 2026, 2029 and 2032 will evaluate whether all shutdowns scheduled after 2030 can be moved forward by up to three years, resulting in an earlier final date for the coal exit of 2035. The first hard coal-fired and lignite-fired plants will be taken off the market in 2020.
- 5) Talks were held with the operators regarding the shutdown of lignite-fired plants and agreement was reached on power plant shutdowns and related compensation. This creates legal and planning certainty for all parties. The power plant operators will receive direct compensation payments totalling 4.35 billion euros.
- 6) Regarding the shutdown of hard coal-fired plants, operators can receive close-down premiums up to 2027. The level of these premiums will be determined on the basis of a market tender process. The tender for closure will be supported by regulatory law from 2024 and, from 2031, will be completely replaced by shutdowns in accordance with regulatory law. This support will ensure compliance with the planned reduction path, even if the tender is under-subscribed.

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There is a cap on the close-down premiums. This will gradually decrease from 165 million euros per gigawatt in 2020 to almost 90 million euros in 2027.

- 7) The reduction in power plant capacities (lignite and hard coal) will be gradual and as constant as possible. The annual hard coal capacity to be shut down for the years without a specific target level – 2023 to 2029 and 2031 to the final date – will be calculated from the difference between the total target path for shutting down (lignite and hard coal) and the lignite-fired power plant capacities to be shut down in the respective years. Only in the case of the last tender in 2027 will the tender be for the total remaining capacity for reaching the 2030 target level.
- 8) Despite the decision to phase out coal, a new coal-fired power plant that had already been licensed started operation in 2020. Talks between the German government and the operator aimed at preventing the start of operation failed, ultimately due to disagreement over the amount of compensation. What is important for the government is that the additional emissions likely to result from operation of the plant are balanced out by 2025 by means of early special tenders.



- 9) The adaptation of the Greenhouse Gas Emissions Trading Act (TEHG) specifies that allowances under the EU emissions trading scheme will be cancelled in an amount equalling the additional emission reductions achieved by the coal phase-out and where the allowances are not already taken from the market and put in the EU ETS market stability reserve. This will guarantee that the coal phase-out has a completely positive impact for climate action.
- 10) The adaptations to the Combined Heat and Power Act increased the incentives to upgrade CHP plants to low-emission fuels. The switch in district heating grids to incorporate renewable energies is to be significantly improved again in future with a new support programme.

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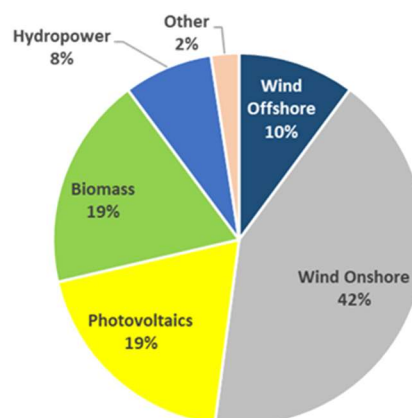
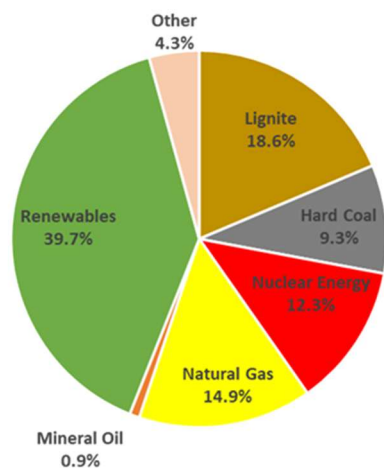
Background

Commission on Growth, Structural Change and Employment

- The Commission on Growth, Structural Change and Employment was appointed by the German government in June 2018. The Commission's mandate was to draw up proposals, for example for a gradual phase-out and end of coal-fired power generation in Germany and for sustainable, forward-looking structural development in the regions affected by the coal phase-out.
- The 28 members of the Commission represented a broad spectrum of groups including environmental, economic and industry associations, and the scientific community. The recommendations presented to the German government in January 2019 were adopted by a 27 to 1 vote of the Commission's members.
- In addition to proposals for a gradual phase-out of coal-fired power generation and recommendations for structural development measures in the regions affected, they included further measures to support the coal phase-out and to complete the energy transition in Germany.

Climate action, energy and coal

- Germany still has a coal-fired power generation capacity of more than 40 GW. Just over 50 percent of that is based on hard coal, the rest on lignite. In 2019, these power plants produced around 170 terawatt-hours (TWh) of electricity. In other words, almost 30 percent of the electricity produced in Germany in 2019 was provided by coal-fired power plants. The amount of electricity produced from renewable energy sources was significantly higher – 240 TWh.



- In order to achieve the 2030 emissions target for the energy sector laid down in the Climate Action Plan 2050 and adopted with the Climate Change Act (Klimaschutzgesetz), emissions from coal-fired power generation must be reduced to well below 90 million tonnes CO₂ by 2030. This corresponds to the remaining power plant capacity now laid down in the Act on the Phase-out of Coal of around 8 GW for electricity generated from hard coal and 9 GW for lignite.