German Government presents Coal Exit Bill
By 2038 at the latest, electricity shall no longer be generated in coal-fired power plants in Germany. For this purpose, on 29 January 2020, the German government proposed a so-called Coal Exit Bill (or, in full: Bill on the Reduction and Termination of Coal-fired Power Generation and on the Amendment of Other Acts).

Central to the proposed legislation is the new Bill on the Reduction and Termination of Coal-Based Electricity Generation (Kohleverstromungsbeendigungsgesetz – KVBG). It provides for a gradual shutdown of German coal-fired power plants, the net nominal capacity of which at the end of 2018 was around 21 GW of lignite and around 24 GW of hard coal. This installed capacity is expected to decrease as follows to:

- > 15 GW of hard coal and 15 GW of lignite by the end of 2022;
- > 8 GW of hard coal and 9 GW of lignite by the end of 2030; and
- > zero GW by the end of 2038 at the latest.

To this end, the proposed legislation provides for a mix of instruments, including agreements with power plant operators (for lignite) and invitations to tenders or legally ordered closures (for hard coal).

Compensation is only provided for power plant decommissioning that takes place before 2030. The draft law stipulates that RWE can expect a maximum of €2.6bn for the decommissioning of approx. 5.1 GW of power plant capacity in the Rhineland and LEAG can expect up to €1.75bn for the decommissioning of 2.8 GW in the region of Lusatia (Lausitz). The compensation payment is intended to cover lost electricity market revenues and other revenues, for example from the provision of system services or heat, minus the cost of ongoing operations and for emission allowances. The compensation is to be used by the plant operators to cover the recultivation costs associated with the shutdown of the open-cast mines belonging to the plants.

The Government intends to regulate details with the operators by means of public law contracts, if possible. If this is not feasible, the specific exit modalities shall be determined by means of a statutory instrument.

In the years 2026, 2029 and 2032, it is to be examined whether the decommissioning date of power plants to be decommissioned after 2030 can be brought forward by up to three years in each case. For these plants, it must also always be examined whether they should initially only be decommissioned temporarily to ensure grid stability and whether they should continue to be available for use via the security of supply system in accordance with section 13g of the Energy Industry Act (Energiewirtschaftsgesetz – EnWG).

Small lignite-fired plants with a net nominal capacity of up to and including 150 MW are not eligible for compensation. However, they can participate in the tenders for hard coal-fired plants and receive a decommissioning compensation if they are awarded the contract. After 2030, the rules on statutory reduction will also apply to them.
The decommissioning targets for hard coal-fired power plants are to be achieved through a combination of tenders and ordered shutdowns (so-called statutory reduction):

- In the years 2020 to 2023 only tenders will be held.
- In the years 2024 to 2026, tenders will be supplemented by ordered shutdowns if necessary to achieve the reduction targets.
- From 2027 onwards, only ordered shutdowns will take place.

The tender volume for 2020 is 4 GW and for 2021 1.5 GW. In these years, only shortened tender procedures will take place. Power plants in southern Germany are not allowed to bid in the first tender round. For the years from 2023 onwards, the German Federal Network Agency (Bundesnetzagentur – BNetzA) determines the exact shutdown volume each year, it is calculated as the difference between the power plants on the market (plants required for the capacity or grid reserve are not taken into account) and the statutory target level.

**Shutdown after tender**

The successful bidders will receive a shutdown compensation, the so-called hard coal surcharge, for each MW of net rated output switched off. The draft provides for a maximum price for the bids, which will go from:

- 165,000 Euro/MW in 2020;
- 155,000 Euro/MW in the years 2021-22 and;
- 116,000 Euro/MW in 2023 and will then be gradually reduced to 49,000 Euro/MW in the year 2026.

The final ranking of the bids depends not only on the bid value but also on how much CO₂ the plant has produced on average over the last three years and how important the plant is for system stability. Strong emitters and plants that are less grid-compatible thus move up in the ranking.

**Shutdown after order**

In the case of statutory reduction, BNetzA orders the end of electricity generation by the power plants in accordance with a list of power plants established by it.

The order of shutdown is primarily based on the age of the plants, so that older plants should generally be shut down first. Subsequent investments can push a plant down in the age sequence to a greater or lesser extent, depending on the time and amount of the investment.

There is no compensation for the order of shutdown, as the Government assumes that the respective plants will already be amortised due to the age order.

Smaller power plants (lignite- and hard coal-fired) up to a nominal capacity of 150 MW will be included in the list but will not be subject to the statutory reduction until 2030, regardless of their place on the list. They can also participate in the tenders.

**End of generation**

A surcharge or the issued order for statutory reduction leads to a ban on coal-fired power generation. This does not apply if the corresponding plant is tied up in the capacity or grid reserve, as a result of which the decommissioning obligation is postponed accordingly.

Finally, the proposed law prohibits the commissioning of new coal-fired power plants after the law comes into effect unless they have received a permit under the Federal Immission Control Act (Bundes-Immissionsschutzgesetz – BImSchG) by 29 January 2020. This means that the hard coal-fired power plant Datteln IV, which is currently still in trial operation, is able to start regular operation. No new permits may be issued after 29 January 2020.

**Reduction of grid fees**

From 2023, the transmission system operators are to receive a subsidy, which is intended to reduce the level of transmission system fees. The aim is to dampen the expected rise in electricity prices due to the coal phase-out and thus to ease the burden on the consumers.

To this end, the EnWG provides a basis of authorisation to the Government to adjust the Electricity Grid Fee Ordinance (StromNEV) accordingly.

**Amendment of the Combined Heat and Power Act (KWKG)**

Coal-fired CHP plants that are not decommissioned but are switched to other fuels, in particular gas, can contribute to security of supply. In the future, the decommissioning of coal-fired CHP capacity will be supported with a coal replacement bonus of 180 Euro/kW. It will no longer be possible for such plants to participate in a tender procedure under the KWBG.

To encourage flexible operation, the number of subsidised full-utilisation hours will be limited to 3,500 per year. Overall, the KWKG’s subsidy period will be extended to 2030 and partially amended. In particular, electricity generation in the south and electricity consumption in the north of Germany will be incentivised.

**Contracts with power plant operators**

The lignite-fired power plants are to be decommissioned according to binding agreements with the power plant operators, if possible in the form of public law contracts.

The Government aims at concluding such contracts with all operators by the end of the legislative procedure, so that they can be approved by the German Parliament (Bundestag) together with the resolution on the Coal Exit Bill.

**Initial decommissioning**

Two months after the Coal Exit Bill comes into effect, BNetzA is to conduct the first tender for the decommissioning of hard coal-fired power plants with a tender volume of 4 GW. Seven months after the award of the contract, the ban on coal-fired power plants that have been awarded the contract will come into force.

For lignite-fired power plants, the bill provides for the decommissioning of only one lignite-fired power plant by the end of 2020: Niederaußem D in the Rhineland with a net nominal capacity of 297 MW.

**Legislative procedure**

The Coal Exit Bill will now have to pass the ordinary legislative procedure. Since the first tenders are to be held as early as 2020, it can be expected that the Government will not, as usual, submit the bill to the German Federal Council (Bundesrat) only, but will submit it to the German Parliament (Bundestag) via the government fractions as well. This will allow the two bodies to work on the proposals in parallel before they are subsequently merged again.

The bill is to come into effect the day after its promulgation. Until the EU Commission has given its approval under state aid law, no tenders for hard coal may be held, nor may contracts for the shutdown of lignite-fired power generation or a corresponding statutory instrument be concluded.
German Government presents Coal Exit Bill.

The Coal Exit Bill serves to implement the final report of the so-called Coal Commission presented one year ago, on 26 January 2019. A central task of the Coal Commission was to present a plan for the decarbonisation of the energy sector that is socially responsible and ensures the security of the electricity supply system. In addition to the Coal Exit Bill, which is primarily intended to implement the modalities of the phase-out itself, the Structural Strengthening Bill for Coal Regions (Strukturstärkungsgesetz Kohleregionen), which has been in the parliamentary process since summer 2019, provides for structural aid measures for coal-mining areas and sites affected by the premature termination of coal-based electricity generation.

Furthermore, the end of coal-fired power generation is an integral part of the Government's Climate Protection Agenda 2030 (Klimaschutzprogramm 2030), which was presented in July 2019. This agenda is intended to pave the way for a reduction in greenhouse gas emissions in Germany by at least 55% by 2030 compared with 1990 levels.

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