



**JP ELEKTROPRIVREDA BiH**  
—— d.d. - Sarajevo ——

## **Internal carbon pricing**

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## EnC Initiative

April 2021

Based on Recommendations from Study on Carbon Pricing Design for the EnC

EnC send „an initiative to introduce internal price of carbon as a fast and efficient transitory measure to facilitate implementation of the emission reduction plans” including a draft Letter of Intent



## Letter of Intent

May 2021

EP BiH accepted initiative and agreed final text with EnC

Letter of Intent on implementing the internal carbon pricing signed on 22.05.2021. with presence of Minister of energy of FBiH and Director of EnC Secretariat.



## Objective

*EP BiH* affirms its intention to take on the fair contribution in decarbonisation of energy sector by means of introducing carbon pricing with the objective to:

- actively accelerate the transition to a climate sustainable energy sector
- recognize and disclose the exposure to future regulation and climate policy risks
- de-risk business and investments against future carbon pricing legislation
- make use of the opportunities that a low-carbon economy will create



## Key elements of Lol

1. *EP BiH* intends to design and implement a mechanism of an internal price on carbon emission by the end of 2021 at the latest.
2. The internal carbon pricing mechanism shall be applied in the absence of a mandatory emission pricing regime imposed by BiH.
3. The level of internal carbon price will relate to the level of the market price of carbon emissions and its projections under the EU ETS.
4. The internal carbon pricing mechanism will serve as a calculation tool for the investment decision and, to the extent possible, as a carbon charge on existing emissions.



## Key elements of Lol

5. In particular, the internal carbon pricing mechanism will be applied in assessing the profitability already in the initial phase of development of all new investment projects.
6. Moreover, the internal carbon pricing mechanism will be extended to an internal charging of the existing carbon emissions from *EPBiH's* plants and systems. This will help to allocate a larger amount of own funds from profits and depreciation that will be used in the decarbonisation process .



## Key elements of Lol

Funds will be used for projects such as:

- development and construction of production plants based on renewable sources and other clean technologies;
- reduction of carbon emissions, including capacity closures in thermal power plants and coal mines;
- ensuring a socially fair transition for employees of thermal power plants and coal mines;
- reclamation and sustainable use of available land site and other assets;
- stimulate research and development activities in innovative projects with the aim of achieving profitable and sustainable low-carbon business.



## Rulebook on internal prices

### October 2021

- The Supervisory Board adopted an amended Rulebook on Internal Prices, which enables the implementation of the Letter of Intent
- The internal production price is determined in the Price List for internal calculation based on unit prices, including the internal cost of CO<sub>2</sub> for each production unit.





## Rulebook on internal prices

- Production revenue determined on the basis of the internal price of production is reduced by the amount of internally determined cost of CO<sub>2</sub> allocated to corporate support functions.
- The income allocated in this way is a special income intended for investments in the decarbonisation process.



## Rulebook on internal prices

- Internal cost of CO<sub>2</sub>, is calculated on the basis of the realized production by blocks and parameters determined in the Price list for internal calculation:
  - Emissions of CO<sub>2</sub> in t/MWh per unit,
  - Level of free allocation and
  - Price of CO<sub>2</sub>.

The share of free internal allocation is reduced by 5% per year so that in 2025 it could be 75%



## Price list for internal accounting

- The Management Board adopts the Price List for internal accounting every year
- Total internal CO<sub>2</sub> cost is determined as the sum of unit costs calculated based on internal prices for each unit
- The internal cost of CO<sub>2</sub> determined in this way will be one of the elements when making decisions on the distribution of profits, and the determination and reservation of funds for projects in the function of the decarbonisation process.



## Illustration

The application of the Rulebook includes this year 2021

The result of the calculation for the period I-VI 2021 is the cost of CO<sub>2</sub> of 11.7 million KM (**6 million €**) with the price of CO<sub>2</sub> of 100 KM/t and the share of free allocation of 95%.

This means that already in the first year the fund on this basis would be over € 10 million, and every following year it would increase based on the reduction of free allocations (-5% per year) and the growth of CO<sub>2</sub> price.