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JSC POWER PLANTS OF NORTH MACEDONIA –
SKOPJE, HEADQUARTERS
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**LETTER OF INTENT
ON IMPLEMENTING THE INTERNAL CARBON PRICING**

Having regard to the obligations stemming from:

1. the Paris Agreement, including national plans to reduce greenhouse gas emissions communicated in the Nationally Determined Contributions (NDCs) and long-term low greenhouse gas emission development strategies (LT-LEDS);
2. the Treaty establishing the Energy Community and the legal framework of the Energy Community acquis, including the obligation to implement the Large Combustion Plants Directive;
3. The conclusions of the Energy Community Ministerial Council meeting in December 2020 on Green Agenda for the Energy Community, tasking the European Commission together with the Energy Community Secretariat to start preparing a decarbonisation roadmap for the Energy Community until 2030 and beyond;
4. The Recommendation of the Ministerial Council of the Energy Community on preparing for the development of integrated national energy and climate plans (NECPs) by the Contracting Parties, aimed at development of the NECPs for the period from 2021 to 2030;

Recalling the Sofia Declaration on the Green Agenda for the Western Balkans, including the commitment of the Western Balkan Leaders to continue alignment with the EU Emissions Trading Scheme, as well as to work towards introducing other carbon pricing instruments to promote decarbonisation in the region and achieve net zero carbon emissions before 2050;

Recalling the Joint Communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on Eastern Partnership Policy Beyond 2020;

Acknowledging the recommendations of the Study on Carbon Pricing Design for the Energy Community, emphasising the gradual introduction of carbon pricing as optimal and most sustainable approach for the power sector and the economies;



Bearing in mind the ongoing European Commission's study on Extension of the EU Energy and Climate modelling capacity to include the Energy Community and its nine Contracting Parties aimed at proposing ambitious 2030 energy and climate targets;

Bearing in mind the ongoing activities on updating NDCs and developing LT-LEDS and the NECPs in order to define the national objectives, targets and plans;

Recalling the importance of the energy sector as the largest contributor to the greenhouse gas emissions in the Energy Community, in achieving overall, and national climate and environmental objectives for developing low-carbon economy;

AD ESM affirms its intention to take on the fair contribution in decarbonisation and modernisation of energy sector **by means** of introducing carbon pricing instruments 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;
- choose the right path for transition compatible with the long-term sustainable development.

1. **AD ESM** intends to design and implement a mechanism of an internal price on carbon emission of their plants and operations (internal carbon pricing mechanism) 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 the AD ESM.
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 Emission Trading Scheme
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, determined and disclosed as a cost component of the regular operation.
5. In particular, the internal carbon pricing mechanism will be applied in assessing the profitability of all investment projects.
6. Moreover, the internal carbon pricing mechanism will be extended to an internal charging of the existing carbon emissions from AD ESM plants and systems. This will help generating the means to be redistributed into climate projects, such as energy efficiency initiatives, sustainable land site reclamation, investment in clean technologies and carbon reduction projects, ensuring social justice of the transition, and to stimulate research and development activities in innovative projects in order to deliver higher returns in a low-carbon operation.



- AD ESM will liaise with the Secretariat of the Energy Community and appreciates the support offered by the latter for the implementation of the internal carbon pricing mechanism.

This document is a statement of intention and does not create any legal or binding obligation.

General Manager

President of the Board of Directors of AD ESM

Vasko Kovacevski, MA

