

Summary of comments on the preliminary analysis of subsidies to coal-based power production

Inputs from public consultations

On 25 March 2019, the Energy Community Secretariat opened a public consultation inviting all interested stakeholders to comment on the results of the preliminary Analysis of Direct and Selected Hidden Subsidies to Coal Electricity Production in the Energy Community Contracting Parties (hereinafter “Analysis”) and improve the database used, in particular concerning the amount of coal electricity production-related direct subsidies in each Contracting Party. The public consultation ran until 25 April 2019. During the period open for public consultation, the Energy Community Secretariat received eight submissions. Six contributions were received after the deadline. The list of stakeholders whom participated in the public consultation are listed below. Taking into account the received information, the Secretariat revised its study two times in order to incorporate improved data and new information¹. The first revised version of the Analysis was published in June 2019, the second in September 2019.

Stakeholder	submission received on
1. KEK	12.04.2019
2. RMU Banovići	22.04.2019
3. EFT, TPP Stanari	24.04.2019
4. ERS-RITE Ugljevik	24.04.2019
5. ERS-RITE Gacko	24.04.2019
6. Elektroprivreda Srbije	25.04.2019
7. CAN Europe	25.04.2019
8. BankWatch	25.04.2019
9. Client-Earth	26.04.2019
10. Elektroprivreda BiH	29.04.2019
11. Mr Davor Vuletic	30.04.2019
1. (Taken for the first revision of the Analysis)	
12. ERS RITE Ugljevik via MEM RS	20.06.2019
13. DTEK	03.06.2019
14. Elektroprivreda Crne Gore	28.08.2019
2. (Taken for the second revision of the Analysis)	

Comments referring to a specific data point or assessments referring to a particular Contracting Party are presented in the attached summary² of comments and submissions.

Comments of general nature are referring mainly to:

- the mandate, scope and purpose of the Analysis,
- the approach and methodology used,

¹ The Secretariat accepted all inputs for the second revision of the Analysis

- the assumptions and input data.

The comments related to the topic, scope and purpose of the Analysis questioned the mandate, purpose and competence of the authors to deal with the matter and their ability to produce results containing information of relevance.

These legitimate questions, considered with due attention by the Secretariat, can be summarized as follows:

- that the Secretariat has neither the mandate nor the competence to undertake such complex tasks,
- that the study is examining possibilities to achieve the Sustainable Development Goals (SDG) of the United Nations by 2030 not taking into account national circumstances, as well as the specific needs and conditions of developing countries as Parties to the Paris Agreement,
- that this subject should be handled by a well-known consulting company, in line with internationally recognized standards and methods.

The comments questioning the approach and methodology used have also several aspects in common, such as:

- A too wide interpretation of subsidies which includes investment by state-owned enterprises,
- A general assignment of coal mining subsidies to coal-based power plants,
- Introduction of the term indirect and hidden subsidies, whereas referring to WTO methods which do not recognize nor define indirect subsidies,
- Non-existence of commitments under the Treaty establishing the Energy Community for Contracting Parties to pay for carbon emissions.

As regards input data, assumptions and parameters, most comments referred to:

- The assumed price of coal, considering the 3 EUR/GJ used (as a minimum) as overestimated.
- The input data were not reduced to comparable parameters. The carbon price used for the Analysis is from the end of 2018, while electricity prices and costs are from 2017 and direct subsidies analysed are for the period 2015-2017.
- Particular data points were related to a specific subsidy, financial data for a specific operator or reference market data.

All comments and suggestions are annexed to this summary.

Replies and considerations

All comments and suggestions received during the public consultation were carefully analysed by the Secretariat. In addition, any submissions containing information shedding more light or providing better insights into the operation of coal mines and related power plants were taken into account in a subsequent update of the findings.

As regards comments of a general nature, the Secretariat provides below additional information to clarify its mandate and competence and provides further explanations as regards the approach and methodology used in the Analysis.

1. Mandate and competences

There is a need to clarify and recall the role of the Energy Community Secretariat.

The intention of the Secretariat was not only to determine the amount of subsidies provided per producer and per Contracting Party, but to indicate the state of play ahead of an imminent decarbonisation path.

Relevant for this Analysis are the levels of existing and new commitments for subsidization, their duration, type and impact on the financial position and operation of power producers, as well as impact of other policy measures. As noted by several stakeholders, such measures include leniency towards cases of non-compliance with technical and other requirements for mining activities and negligence of environmental and health damage caused by the power plants. The Analysis covers only policy measures which intervened directly in the management of economic operators and the non-recognition of carbon costs (which increases the risk of carbon leakage and market distortion). No obligation on the Contracting Parties will be imposed as a result of the findings presented in the Analysis. To the contrary, the Secretariat will support, if stakeholders agree to do so, the development of a database of existing subsidies, imposed emission charges and other mechanisms related to decarbonisation, with the view to monitor their level and impact on market developments and security of supply.

Consideration of possible future commitments with respect to decarbonisation will be based on additional comprehensive studies, which will be assigned to independent consultants. One study is already commissioned and close to finalization (on generation adequacy and capacity mechanisms) and the other will be launched soon (study on carbon pricing schemes). If the need arises, further elaborations will follow in order to clearly define the position of the Energy Community as regards the decarbonisation of the energy sector.

2. Approach and methodology

The approach undertaken in the Analysis underpins the purpose of the document and the expected process to follow. The underlying purpose of the analysis is to stimulate a substantial debate towards a sustainable energy sector in the Energy Community.

For direct subsidies, the methodological approach of the United Nations is strictly applied. Nevertheless, in cases of ambiguity, particularly when investment of a state-owned enterprise is assessed, the guiding principle is the existence of a sound economic analysis with a scrutinized cost benefit analysis, i.e. the positive net present value of the investment. If such a documentary basis was not made available, the investment is classified as a subsidy.

As regards state guarantees, the principle explained above was consistently applied, supported by additional explanations of concerned stakeholders. All submissions received following the launch of the public consultation were taken into account and corrections made, whenever justified. The updated specification of subsidies per Contracting Party is attached to this file.

As regards hidden subsidies, stakeholders expressed diverging comments. These ranged from those that hidden subsidies are not methodologically explained and must not be considered at all, to those that other more important types of hidden subsidies should be taken into account. The authors acknowledged both the relevance and uncertainty involved in the monetization of these aspects. Therefore, for the time being, only the originally included two types of hidden subsidies are

estimated, namely foregone profit of state-owned operators of thermal power plants and foregone carbon costs.

The assumptions applied for the calculation are explained in the Analysis.

Non-compliance with operational, technical and mining rules and leniency towards operators are not valued at this point.

3. Input data, assumptions and parameters

Many of the received comments objected to the observed period; namely that direct subsidies covered the period 2015-2017, whereas the operation and the financial results were taken for the year 2017 only and the EU ETS carbon price was from end-2018.

The authors acknowledge that the observed period for operators should be extended to eliminate the impact of hydrological conditions on market prices and operation of power producers. The Analysis applies estimates to determine costs of trade, distribution and non-coal power production within integrated undertakings. Foregone return was estimated as a three-year average.

Assumed costs of production in a new power plant are taken as indicative only and costs of coal at a power plant site of 2 EUR/GJ are taken as a minimum in an integrated coal mine and power plant. This also implies that in such a plant the initial investments would be higher, of around 1.500 EUR/kW. With costs of capital at 5%, this again leads to levelized costs of electricity of around 40 EUR/MWh.

As regards consistency of the input data in terms of the reference time period, the authors would like to stress that the purpose of the Analysis is to make a rough estimate, to the extent possible, of the actual costs of production of electricity in the existing thermal power plants in order to be able to better assess the impact of the expected decarbonisation path on their financial position. Therefore, the average costs of production during the period 2015-2017 are expected to remain at a similar level until the end of the useful life of the observed plants or higher, as a result of investments to ensure compliance with emission targets.

On top of that, polluting plants will have to cover new pollution-related costs, in line with decarbonisation commitments. For the purpose of this Analysis, the cost of CO₂ is set at 20 EUR/MWh, as a realistic indicative level for the time being.