

Hard coal auction

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
On Sept 1, The German Bundesnetzagentur will auction compensation for decommissioning of up to 4GW of hard coal power plant capacity as a step in the country's exit from coal.¹

We observe that – perhaps somewhat surprisingly - a significant share of the eligible hard coal capacity for this auction is ultimately controlled by a number of European sovereigns and sub-sovereigns (Table 1). As several of the ultimate owners recently have indicated intensified commitment to climate change mitigation in general- even issuing or aspiring to issue green bonds - a certain element of political pressure could enter into the auction dynamics.

In fact, **we believe there is a distinct probability that the bids coming in the auction will be substantially below the posted maximum price of €165k per MW**. Thus, for operators looking to rid themselves of hard coal CO2 burdens on balance sheet, it may make sense to allow some headroom for other players' potentially politically driven levels of bids in the auction.

Indeed, **we would suggest operators looking to exit German hard coal to bid €0 per MW but conditional on no further liabilities once the decommissioning has been effectuated**. We expect further liabilities to accrue in the coal sector and view the probability of ever making an over-the-cycle monetizable profit there to be slim, especially for operators with implicit or explicit guarantee streams from high-grade (AAA/AA) ultimate owners. Hence, getting out today at €0 might be a good outcome financially and in addition to improving carbon emission metrics.

Table 1. Biggest eligible hard-coal operators and their eligible capacity for the Sep 2020 Bundesnetzagentur decommissioning auction. Excludes <500MW operators. 'North of Mainz' inclusion as per the BNA's auction rules. Total of 11GW eligible. 'Ultimate owner' refers to entities controlling more than 50% of the equity or a dominant position indicated in parenthesis. Max valuation refers to MW capacity x max bid. Source: Bundesnetzagentur, Bloomberg, AFII.

Operator	MW capacity	Ultimate owner/bond issuer	Owner domicile	Max valuation
Uniper	2,392	Republic of Finland	 Finland	€395mn
Vattenfall	2,164	Kingdom of Sweden	 Sweden	€357mn
STEAG	1,536	Municipals	 Germany	€253mn
RWE	764	Public equity market	 EU/World	€126mn
TRIANEL	735	Municipals	 Germany	€121mn
Engie	731	Republic of France (34% vote)	 France	€121mn
EVN	725	State Niederösterreich	 Austria	€120mn
Merhum	690	Private entity EPH	 Poland	€114mn
ENBW	514	State+municipals	 Germany	€85mn

¹ The announcement is posted (in German only) [here](#). In the auction, operators of hard coal plants enter requests for compensation for shutting down capacity. The lowest 'bidder', ie. the one asking for the lowest compensation, is most likely to get it. For an English language background on the procedures of the German coal exit, we would refer refer to "[Spelling out the coal exit](#)" (Clean Energy Wire, 3 Jul 2020).

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