Instrat

CAPACITY MARKET AND THE FAILED RESCUE

Updated report: Ostrołęka C - next steps for Europe's last coal power plant

Executive summary

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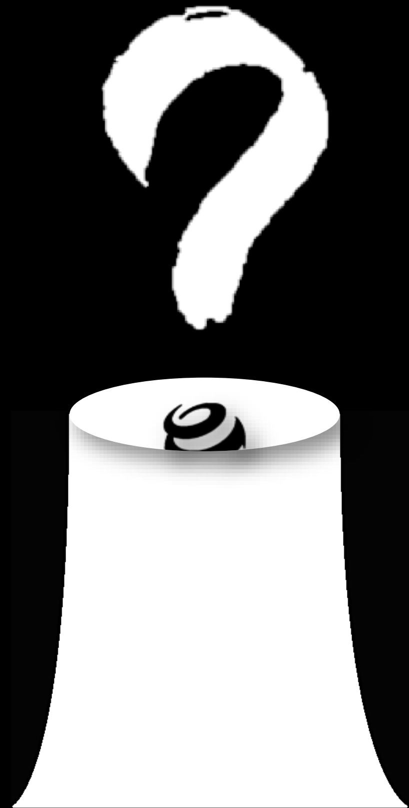
Study commenced by:
Workshop for All Beings
(Stowarzyszenie Pracownia na Rzecz Wszystkich Istot)



Conclusions and recommendations

Updating the previous study and embedding new, more real, yet pessimistic assumptions allowed for re-assessment of the viability of Ostrołęka C. This investment should be perceived not as a foundation for Poland's energy security, but a no-go project for the investors, banks and a threat to climate.

The recent reform of CO2 emission trading system poses the biggest threat to power generators dependent on coal, the fuel with the highest emissivity. Since the costs of every megawatt-hour will rise for coal, all new projects like Ostrołęka C simply cannot become viable. Even if the coal supply would come at no cost (only utilities based on RES enjoy this privilege), the project would still bring negative value for shareholders.

The recently introduced capacity market (CM) was to be a miracle and a remedy for power generators dependent on fossil fuels. Although it allows to cover a decent part of fixed costs of a power plant, it does not counteract the price pressure on the energy market. Ostrołęka C, with its costs structure, will become less competitive on the market, which in the long term becomes even more competitive. Against primary assumptions of the investor, revenue from the capacity agreement will constitute not ca. 33% but less than 13% of the whole revenue. In absolute values, that transposes into 2.6 bn PLN over 15 years of the acquired capacity agreement. When designing the mechanism, Ministry of Energy assessed the annual costs to equal around 4 bn PLN.

It has to be marked, that recent agreement over electricity market reform on the EU level should allow - as Ministry of Energy states - for grandfathering of the concluded contracts from 2018 and 2019, incl. for Ostrołęka C. New doubts came as a result of the recent ECJ ruling on the UK capacity mechanism, which has been suspended and sent to the European Commission for re- notification.

Similar to the one in the UK, Polish mechanism is said to be more in favour of the existing and not new (planned) power plants. Hence, one of the two main goals for introducing the capacity market might be also assessed as missed. The lower is the real fixed cost of running a plant (covered by the CM payment), the more often should the utility operator provide energy to the system. Although here the blackout prevention might be assessed as fairly targeted, the investment signal (not many new operators from non-fossil fuels among winners) could be put into question by the EU bodies.

What other factors could hinder the investment process? The investor still faces serious legal doubts concerning the integrated permit, encounters troubles with finding the third co-investor and banks to finance the project or lastly faces Enea's reluctant position on this project. Enea has been recently sued for its engagement by Ostrołęka C by the Client Earth Foundation or even its own labour union. This makes its presence in the project extremely fragile.

Discover more facts on Ostrołęka C on the campaign website www.elektrowniaostroleka.com/en