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# Germany's Power Plant Strategy

## Security of Supply, Hydrogen Readiness and the Path to a New Capacity Market

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Ensuring a reliable electricity supply during the accelerating shift towards renewable generation is one of the most pressing challenges facing Germany's energy sector. With the legally mandated coal phase-out by 2038 and the growing volatility of wind and solar output, the need for new, controllable back-up capacity has become paramount. This article explores the political, legal and contractual dimensions of Germany's emerging power plant strategy, evaluates its interaction with EU State aid law, and considers practical implications for investors and project developers

## I. Introduction

The 2015 Paris Agreement commits its signatories to keeping global warming well below 2 °C above pre-industrial levels. In Germany, the Federal Climate Protection Act translates this into a binding target of climate neutrality by 2045, with a minimum 65 % reduction of greenhouse gas emissions (compared to 1990 levels) by 2030. The European Union's Renewable Energy Directive (RED III) further mandates a renewable energy share of 42.5 % in electricity generation by 2030.

Against this backdrop, Germany is simultaneously phasing out coal-fired power generation. More than 30 GW of secured coal capacity will be removed from the system.

Because solar and wind power are inherently intermittent, the resulting gap must be bridged by new dispatchable plants that can start up within hours when demand exceeds renewable

supply, e.g., during extended periods with little wind or sunshine.

This dual imperative – decarbonisation on the one hand, security of supply on the other – has given rise to the German power plant strategy (Kraftwerks-strategie), a regulatory programme whose legislative and contractual consequences are of direct relevance to all actors in the power generation supply-chain.

## II. Genesis of the Power Plant Strategy

Efforts to establish a regulatory framework for new back-up power plants date back several years. Under the previous "traffic light coalition" of the SPD, Greens and FDP, a draft Power Plant Safety Act (Kraftwerkssicherheits-gesetz – KWSG) was prepared in 2024 providing for the tendering of 12.5 GW of new capacity, divided into hydrogen-ready gas-fired plants, "sprinter" hydrogen plants, and long-term storage. However, the collapse of that coalition in November 2024 prevented the Act's passage through the German parliament (*Bundestag*), and the first tenders planned for early 2025 were cancelled.

The new "grand coalition" of CDU/CSU and SPD, formed after the February 2025 elections, initially raised the ambition to up to 20 GW of gas-fired capacity in its coalition agreement. This number proved too high for the European Commission, which required new negotiations on State aid compatibility. In the course of those negotiations, the planned volume was substantially reduced.

## III. Controversy over the Compatibility of the Power Plant Strategy with EU State aid framework

One reason for the later reduction was that the justification for State aid has shifted under the new power plant strategy compared to the previous government's draft: the current approach is framed primarily as a measure to safeguard security of electricity supply, whereas climate protection now plays a less significant role. Against this background, the central controversy is whether placing such strong emphasis on – and, pursuant to the coalition's original idea, subsiding 20 GW of – new gas-fired capacity can still be regarded as compatible with the EU State aid framework.

An expert opinion commissioned by German Environmental Aid (Deutsche Umwelthilfe) in October 2025 argues that the gas-focused power plant strategy raises serious doubts as to its compatibility with EU State aid law: The experts criticize that it is not genuinely technology-open and does not adequately consider alternative options such as large-scale battery storage.[1]

Furthermore, also in October 2025, climate protection NGO 1KOMMA5°

[1] Memorandum of 6 October 2025 commissioned on behalf of Deutsche Umwelthilfe, https://www.duh.de/fileadmin/user_upload/download/Pressemitteilungen/Energie/Thema_Gas/Memo_Geplante_F%C3%B6rderung_von_Gaskraftwerken_KLG_final.pdf .

lodged a complaint with the Commission alleging distortion of competition.[2] Thereafter, subsidising at least 20 GW of new gas-fired capacity would systematically disadvantage decentralised flexibility and virtual power plants, drive up costs for consumers via levies and thereby unduly distort competition in the internal energy market.

Separately, on 16 April 2026, the Commission approved the "*Industrie-strompreis*" [3] under the Clean Industrial Deal State Aid Framework (CISAF). With a budget of at least EUR 3 billion, the measure grants a temporary electricity price relief for energy-intensive companies for the period from 2026 until 2028. Even though this approval concerns electricity costs rather than the power plant tenders themselves, it demonstrates the Commission's continued willingness to approve German energy-sector State aid provided the CISAF conditions are met.

## IV. The January 2026 agreement with the European Commission

On 15 January 2026, the Federal Ministry for Economic Affairs and Energy (BMWE) announced an agreement in principle with the European Commission on the key parameters of the revised power plant strategy[4]. Rather than focusing solely on additional generation capacity, the approach aims at combining security of supply with the decarbonisation of the German power plant fleet.

German Federal Economy Minister Katherina Reiche described the agreement as "a key step for ensuring supply security in Germany" and as the "starting point for a comprehensive, technology-neutral capacity market".

Pursuant to the agreement, an initial round of tenders for 12 GW of new dispatchable capacity was foreseen for 2026. Within this volume, 10 GW were reserved for plants capable of running over longer periods – in practice, this primarily applies to modern and highly efficient gas-fired power plants. The remaining 2 GW were open to other technologies such as storage and aggregated assets. All new plants are required to commence service no later than 2031.

Further tender rounds envisaged for 2027 and 2029/2030 are to be embedded in a comprehensive, technology-neutral capacity mechanism from 2032 onwards. All plants supported under the strategy must be hydrogen-ready from the outset and

[2] 1KOMMA5° press release of 21 October 2025, https://1komma5.com/de/magazin/pressemitteilungen/1komma5-legt-beschwerde-in-bruessel-ein/ .

[3] BMWE press release of 16 April 2026, https://www.bundeswirtschaftsministerium.de/Redaktion/DE/Pressemitteilungen/2026/04/20260416-industriestrompreis-wird-eingefuehrt.html#:~:text=Die%20Europ%C3%A4ische%20Kommission%20hat%20heute%20die%20nationale%20Richtlinie,zu%20entlasten%20und%20den%20Industriestandort%20Deutschland%20zu%20st%C3%A4rken .

[4] BMWE press release of 15 January 2026 on Energy Transition, https://www.bundeswirtschaftsministerium.de/Redaktion/DE/Pressemitteilungen/2026/01/20260115-grundsatzeinigung-mit-europaeischen-kommission-ueber-eckpunkte-der-kraftwerksstrategie.html .

fully fossil-free by 2045. In addition, 2 GW are to be converted to hydrogen by 2040 and a further 2 GW by 2043

To compensate additional fuel costs from 2027 onwards, the government will establish a legal framework (including CCfDs).

## V. Implementation in the StromVKG draft

On 27 April 2026, the BMWE published the draft Act on Ensuring the Security of Electricity Supply and the Provision of New Capacity (StromVKG) and launched consultations. The draft implements and further refines the January 2026 agreement with the European Commission and is intended to ensure sufficient controllable capacity by 2031. It is still an internal ministry draft and may be amended in the course of the legislative process.

The draft provides for two initial auction dates on 1 September and 8 December 2026, for a total of 9 GW of new long-term capacity (corresponding to around 10 GW of installed "long-duration" plant capacity). Participation is open to power plants and storage facilities in this first round. Within this volume, the capacities require 10-hour continuous availability.

Such requirement likely eliminates Battery Energy Storage Systems (BESS) from the tenders of the two initial auctions.

Once commissioned, the capacities must be available for security-of-supply purposes from the 2031/32 delivery period onwards for a commitment period of 15 years. A regional component (focus on the "netztechnischer Süden") allows these capacities to be steered to system-relevant locations, mainly brownfield coal sites in Southern Germany.

A further auction for 2 GW of additional generation capacity is scheduled for 18 May 2027. For this second auction there is no minimum duration, i.e. BESS can participate.

For BESS projects and other renewables Annex 2 and § 15 Strom VKG regulate that the final product and 50% of the core components must be produced within the European Economic Area. This is an important restriction which must be taken into consideration as early as possible.

Both auction rounds have a 15-year commitment period.

In addition, technology-neutral capacity auctions will take place on 1 October 2027 and 1 October 2029. Depending on the investment level, contract lengths of 1, 7 or 15 years are possible.

Eligible units must comply with a $CO_2$ emission limit of 550 g/kWh, avoid double remuneration with other support schemes and, for multi-year contracts, meet minimum investment thresholds and resilience requirements for key components. Gas-fired plants with 15-year contracts must be "hydrogen-ready", whereas the definition for such technical requirement is still open, and all units with 15-year commitments must operate climate-neutral after 2045. Actual switch to

hydrogen is only required from 2045 onwards. Capacity providers are subject to strict availability obligations, annual function tests, non-realisation penalties and a peak-price "reliability option" that claws back revenues above a strike price based on open-cycle gas turbine costs.

At this point, the draft Act does not mark the conclusion of the State aid procedure under Articles 107 and 108 of the Treaty on the Functioning of the European Union (TFEU). Final approval by the European Commission may only be granted once the relevant legislation has been passed by the Bundestag and the Commission has been formally notified.

## VI. Contractual and Procurement Considerations

The scale and urgency of the planned capacity additions raise a host of contractual challenges familiar to large-scale infrastructure projects:

The market for core components is currently characterised by long lead times and limited delivery slots.

Permitting procedures under the Federal Immission Control Act (BImSchG), water law and grid connection regulations remain complex despite planned acceleration. Early coordination with authorities is essential.

Force majeure, delay provisions and cost-overrun mechanisms in EPC contracts require careful calibration given both the technical uncertainties (hydrogen readiness) and the regulatory uncertainties (State aid approval, timing of capacity market launch).

## VII. Outlook

The path from political intention to tendered gigawatts remains fraught with legal, regulatory and political obstacles.

Three milestones will determine whether the power plant strategy stays on track: first, the passage of the StromVKG; second, final EU State aid approval following notification; and third, the successful design and launch of tenders in late 2026 or early 2027.

In any case, the tenders for 9 GW + 2 GW of power capacity will open up a huge new market in 2026 onwards for different players and will lead to a boom in the energy sector.

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