CEE Bankwatch Network

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THE LONG AND WINDING ROAD

European public funding for fossil fuel-dependent companies and the need for decarbonisation pathways

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CEE Bankwatch Network has been systematically following and commenting on the development of EBRD lending policies for the energy sector. At the beginning of 2018, together with other NGOs, we participated in a public consultation and submitted our comments:

> **Comments on the Existing EBRD Energy Sector Strategy from 2013.**
> February 2018. Available online

And ahead of the bank's annual meeting in May we submitted to the EBRD a follow up briefing including the Elekroprivreda Srbije and Bulgarian Energy Holding case studies:

> **How can the EBRD maximise its leverage to bring about decarbonisation?**
> May 2018: Available online

CEE Bankwatch Network follows closely the EBRD's 'sister institutions' and actively advocates for improvement of their lending policies. As the European Investment Bank (EIB) is expected to review its 2013 'Screening and Assessment Criteria for Energy Projects' (also known as its Energy Lending Criteria) we have also prepared case studies and a position on conditions for lending to fossil fuel-dependent companies by the EIB. This information is available here.

This paper builds on the above mentioned documents, elaborates on our previous suggestions and introduces additional case studies for the Polish company Energa, Czech utility ČEZ and Grupa Azoty, Poland (an EIB client).

September 2018

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A summary of our recommendations regarding fossil fuel dependent companies, with a particular focus on coal.

1. Loans to companies with a high share of fossil fuels in their power and heat generation portfolio need to be conditioned on **the company committing to a decarbonisation plan aligned with the Paris Agreement prior to loan approval.** The first emissions reductions must already be measurable within the lifetime of the EBRD project.

2. Given the danger of carbon lock-in and stranded assets, **no financial support should be given to companies planning new coal power capacity** at all, including buying or retrofitting existing coal assets. As fossil fuels are becoming not only an environmental but also financial liability, supporting companies planning new coal power plants cannot contribute to creating a transition to stable companies operating on market principles.

3. The EBRD needs to incorporate the **low-carbon transition into its project-level transition indicators** to ensure that vulnerabilities resulting from fossil fuel exposure are taken fully into account in project design.

Our case studies on Elektroprivreda Srbije (EPS, Serbia), Energa and in the case of the EIB, Grupa Azoty (Poland), ČEZ (Czech Republic) and Bulgarian Energy Holding (BEH, Bulgaria) show examples of EBRD investments where potential emissions reductions gains have not been maximised or where the company increases its emissions (The EPS and BEH case studies are available in the previously mentioned paper from May 2018).

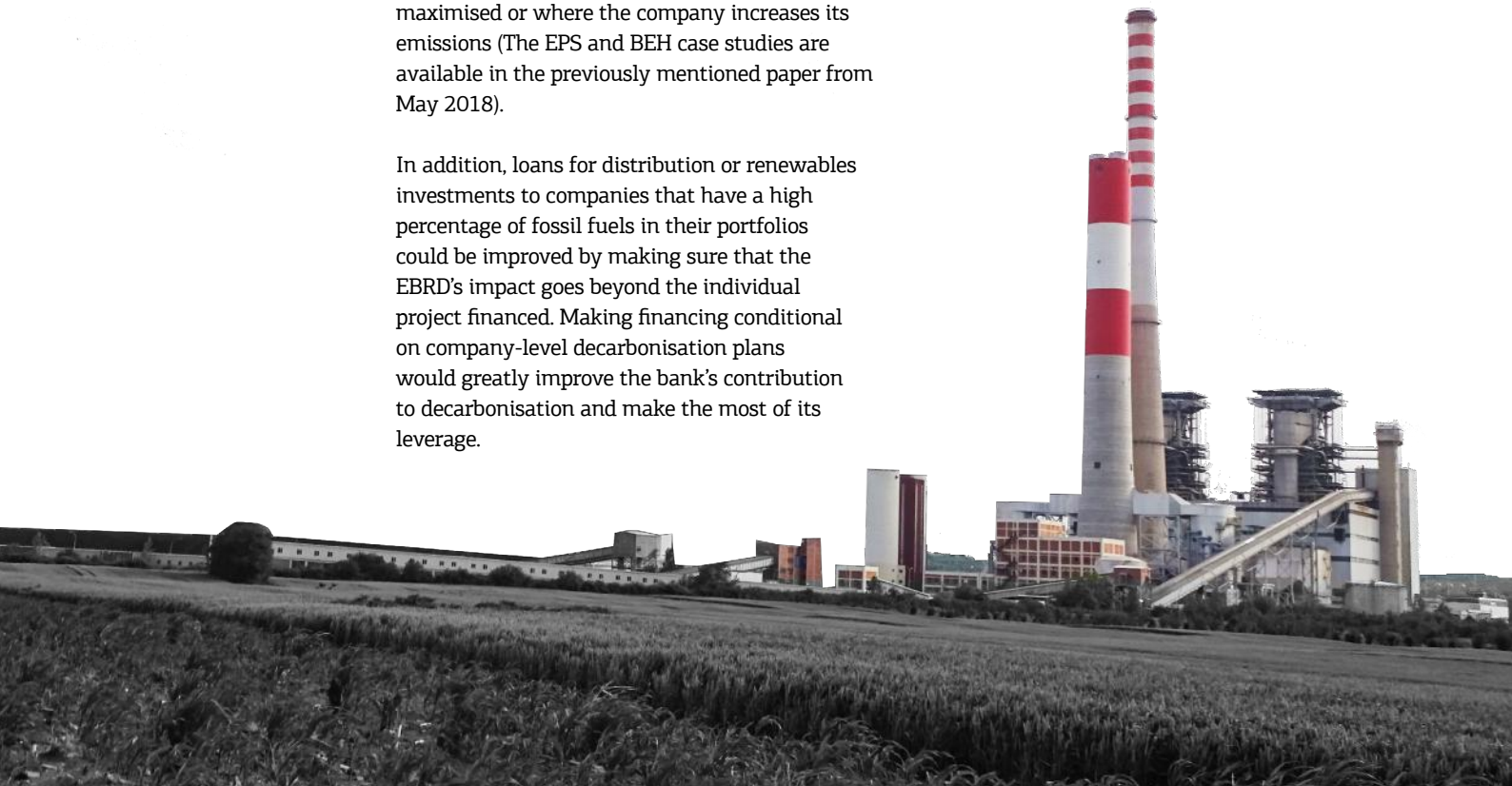
In addition, loans for distribution or renewables investments to companies that have a high percentage of fossil fuels in their portfolios could be improved by making sure that the EBRD's impact goes beyond the individual project financed. Making financing conditional on company-level decarbonisation plans would greatly improve the bank's contribution to decarbonisation and make the most of its leverage.

All EBRD investments in companies involved in power generation need to lead to absolute decreases in the companies' carbon emissions in the short term as well as the long term. So far, this has not always been the case, and this needs to be turned around to achieve maximum impact:

- Supply side energy efficiency improvements achieve short-term results, but due to the money saved and additional investments enabled, sometimes lead to overall increases in carbon emissions (the Kolubara Environmental Improvement project is a case in point, as discussed in the briefing How can the EBRD maximise its leverage to bring about decarbonisation?).

- Similarly, financing for company restructuring must lead not only to organisational restructuring but also to a decarbonisation trajectory for the company. This is not only to reduce overall emissions but also to reduce companies' exposure to fossil fuels, which will become more and more of a liability in the future and threaten to limit the EBRD's overall transition impact on those companies.

- Efforts to improve distribution grids to enable more renewables to be connected are very welcome, but it needs to be ensured that companies actually do connect more renewables and decrease their emissions as a result.



DECARBONISATION PLAN

Our case studies illustrated that support for modernisation projects does not automatically mean that the company as a whole is reducing GHG emissions or embracing a decarbonisation pathway. Moreover, in the worst cases, single modernisation projects can be used as 'green washing' or can free a company's capital for other projects that could prolong or worsen the fossil fuel reliance of the company. The EBRD should therefore build on its Green Economy Transition Approach also to strive to extend the concept to the entire operations of fossil fuel dependent companies.

The EBRD should introduce mandatory *Decarbonisation plans* as precondition for granting loans to energy corporations. The plans should demonstrate that the company is embarking on a decarbonisation pathway, while having a science-based reduction target as well as a plan with concrete steps.

The aim of introducing *Decarbonisation plans* should not be seen as a formal bullet point of a checklist. It should serve as an opportunity for enhancing dialogue and stimulate the internal process of assessing the risks connected with reliance on carbon heavy production and shifting business models towards low-carbon development. The EBRD should work with the companies to help them develop such plans and embrace the change. The EBRD should assess the submitted plans to check the ambition as well as the potential and measures, and make eventually specific recommendations for GHG reduction measures in the short, medium and long term perspective.

A decarbonisation plan should answer the following questions:

- What are the company's long term decarbonisation target and milestones on the pathway, and are they aligned with the Paris Agreement?
- What are the past GHG emissions of the whole company and its energy production?
- How is the plan taking into account national climate policies and targets, as well as the Paris agreement (the Nationally Determined Contributions (NDCs) and further UNFCCC agreements) and EU climate policies and targets, especially the Integrated National Energy and Climate Plans for the period of 2021-2030 (if applicable)?
- What are the short-term steps and measures that the company commits to do which would deliver impact and results already in the frame of the EBRD project management?

A plan must answer the key questions proposed above in a positive way and clearly demonstrate resolve to embrace a decarbonisation pathway. We propose the following evaluation criteria:

- The plan expects an immediate and continuous drop in absolute GHG emissions as well as relative (per unit of energy produced) emissions.
- In the plan the company commits to concrete measures/activities at asset level and an implementation timeline, leading to emissions reductions.
- Some of the measures and the ensuing emissions reductions must already be measurable within the lifetime of the EBRD project/loan.
- The plan includes a coal phase out date and eventually a fossil fuels exit date.
- The plan reports about past emissions and sets a system of annual reporting (if not already existing).

- The plan should not rely on selling carbon-heavy assets to third parties. Selling a source of emissions to somebody else does not help to tackle climate change.

To make the Decarbonisation Plan enforceable, the Environmental and Social Action Plan (ESAP) and Stakeholder Engagement Plan (SEP), which are part of the contract signed between the EBRD and its client, should include also responsible people at the company, deadlines for implementation of timely measures and consultation of the Decarbonisation Plan with interested stakeholders and civil society.

One possible option of how to set (and/or check) climate corporate targets is to apply guidelines developed by the **Sectoral Decarbonisation Approach (SDA)**[1], an initiative which developed a method for setting corporate emission reduction targets in line with climate science. SDA is a collaboration project between the Carbon disclosure project (CDP), World Resources Institute (WRI), WWF and the United Nations Global Compact (UNGC). Such an approach has been incorporated for example in the decarbonisation strategy adopted by the European utility ENEL.[2]

One recent example from the private sector involves the Dutch bank ABN-AMRO, which in 2017 adopted a new sustainable policy for the energy sector,[3] including acceptance criteria for energy utilities to establish mandatory transition plans. The policy reads as follows:

"The company has an energy transition strategy which includes:

- *Measurable targets on the reduction of greenhouse gas emissions;*
- *Measurable targets on investments in electricity generation from renewable energy sources and/or moving the energy mix of the utility company towards low-carbon energy sources."*

Which companies should provide a decarbonisation plan

We believe that any energy company which is burning fossil fuels in large sized facilities should make considerations about decarbonisation pathways and be required to have such a plan. From a pure climate change perspective, absolute emissions need to drop promptly and therefore we propose to use as the main qualification criteria the level of absolute emissions. We suggest a threshold of 200 000 tonnes of CO2 annually from energy production related combustion across the company. This corresponds to approximately 100 MW of thermal capacity in coal. It should be noted that clearly, if a company owns only one or two fossil fuel plants, their decarbonisation plan would be correspondingly less extensive and should not constitute a big administrative burden.

Reporting of emissions

Prior to any loan approval, companies should disclose their past GHG emissions data in the Decarbonisation plan as well as make it publicly available and commit to annual reporting. Emissions data should be available for at least the last three years and be publicly available in annual reports.

In fact, not all countries and companies have clear standards for measuring and disclosing greenhouse gas emissions. While in the EU companies need to follow the EU ETS standards, in other countries the situation is usually worse.

There are several global major GHG emissions reporting and verification standards which are widely used by corporations, such as[4, 5]: ISO 14064, the Greenhouse Gas Reporting Protocol or the Carbon Disclosure Project[6, 7], the Global Reporting Initiative[8] or the Climate Disclosure Standard Board.[9] Moreover, there are some corporate emissions reporting standards which have been developed by national authorities, for example in the UK, USA or the EU's ETS reporting guidelines.[10]

Whatever emissions disclosure methodology the company opts to use, it should meet the following minimum standards: the company is publicly (available online) and on a yearly basis providing detailed information on major GHG emissions of subsidiaries and also on single major pollution sources, as well as the carbon intensity per produced unit of electricity and heat. The company should also provide information about which methods and standards or regulation they have used for calculation and verification of their emissions data. The EBRD can recommend to the company to use the applicable provisions from the bank´s Monitoring, Reporting and Verification (MRV) system. Moreover, the EBRD should encourage non-EU companies to adopt EU standards, in particular the EU ETS measurements and verification rules for CO2 emissions.

1

http://sciencebasedtargets.org/sda/

2

Enel: Decarbonization of the energy mix: https://www.enel.com/content/dam/enel-com/storie/doc_pdf/112-119_ENG_BDS2016_20170502_4WEB.pdf

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https://www.abnamro.com/en/images/Documents/040_Sustainable_banking/070_Sustainability_policy/030_Sector_specific_policy/1482725/ABN_AMRO_Summary_of_Sustainability_Sector_Policy_for_Energy.pdf

4

European Commission: Company GHG Emissions Reporting – a Study on Methods and Initiatives , 2010: http://ec.europa.eu/environment/pubs/pdf/ERM_GHG_Reporting_final.pdf

5

Kauffmann, C., C. Tébar Less and D. Teichmann (2012), "Corporate Greenhouse Gas Emission Reporting: A Stocktaking of Government Schemes", OECD Working Papers on International Investment, 2012/01, OECD Publishing. http://dx.doi.org/10.1787/5k97g3x674lq-en

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https://www.cdp.net

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https://ghgprotocol.org

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https://www.globalreporting.org

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https://www.cdsb.net

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https://www.epa.gov/ghgreporting, https://www.gov.uk/guidance/measuring-and-reporting-environmental-impacts-guidance-for-businesses; https://ec.europa.eu/clima/policies/ets_en

No financial support to companies planning new coal or coal expansion

As identified in our case studies, some companies who are benefiting from support by the EBRD are still relying on coal production, some do not reduce emissions and some even plan coal expansion. Building a new coal asset, whose usual economical as well technical operation lifetime is in decades, cannot be justified. A study by Climate Analytics from 2016 assessed the implications of the Paris Agreement for the power sector, concluding that the EU and OECD need to phase out coal by 2030 and most of the rest of the world by 2050.[11] Even the International Energy Agency, in its recent B2DS scenario (the "1,75°C scenario") forecasts that coal power should be phased out globally by 2040.[12]

Next to the clear environmental impact, fossil fuels production and coal in particular should be also considered as a financial liability and the EBRD should, when discussing with companies their transition plans, describe the risks associated with reliance on carbon intensive energy production. These risks can hamper the development pathway towards stable companies operating on market principles. A recent report by the Institute for Energy Economics and Financial Analysis (IEEFA) looks at the economic risks connected to the heavy coal reliance of the Polish utility PGE. IEEFA suggests that the major risks for such a business model are the growing price of CO2 allowances, the costs of compliance with air-pollution limits, reliance on future capacity payments and the growth of productionvv of energy from renewable energy sources.[13]

The EBRD should therefore restrain from granting any financial support to a whole company, if the company is building or planning to build any new coal power plants, including CHP plants, or buying or retrofitting existing coal assets.

11

Rocha, M., Parra, P., Roming, N., Ural, U., Ancygier, A., Cantzler, J., ... Hare, B. Implications of the Paris Agreement for coal use in the power sector, Climate Analytics, 2016.

12

See IEA Energy Technology Perspective scenario http://www.iea.org/etp/

13

IEEFA report: 'Poland's biggest utility is risking financial instability by doubling down on coal-fired generation'. http://ieefa.org/ieefa-report-polands-biggest-utility-is-risking-financial-instability-by-doubling-down-on-coal-fired-generation/

CASE STUDIES

Case studies for **Elektroprivreda Srbije (EPS, Serbia) and Bulgarian Energy Holding (BEH, Bulgaria)** are available in our briefing 'How can the EBRD maximise its leverage to bring about decarbonisation?' May 2018:

In addition, currently the EBRD's Project Complaint Mechanism (PCM) is conducting a compliance review on the EPS Restructuring loan and a problem-solving initiative on resettlement of a community by Maritsa East Mines, a daughter company of Bulgarian Energy Holding. The complaints submitted by Bankwatch and member groups CEKOR and Za Zemiata can be found on the PCM register.

The following case studies on Energa and CEŽ and an illustrative example of Grupa Azoty show that, while the companies were and are benefitting from support by the EBRD (and the EIB), and while they are investing into various green projects, their core business is not decarbonizing fast enough and in fact all three companies are investing into new coal, or coal expansion.

ENERGA SA
(POLAND)

Energa is a majority state-owned Polish utility focused on hard coal mining as well as generation, distribution and trade with electricity. The group's distribution network is located in western and south-western Poland, covers 20% of Poland and is one of the four largest energy companies in Poland and the third distribution system operator (DSO). The company has been listed on the Warsaw Stock Exchange since 2008.

The Polish State Treasury owns 51.52% of the company's share capital, while at the General Meeting the state controls 64% of the votes.

A few years ago, Energa was viewed as the most progressive utility in Poland. The company was in fact the only state-owned utility that has been diversifying its portfolio business model, modernising and expanding its distribution grid, upscaling sales of electricity and investing into renewable energy. It reached the lowest share of coal on its power generation and lowest emissions per MWh produced (see graph below). Since around 2015, however, driven partly by more straightforward state intervention, Energa has changed course towards a future based on more coal. This was confirmed in 2016 by a new investment strategy (described further below), which embarked on building – together with another Polish utility Enea – a completely new hard coal power plant of 1000 MWe: Ostrołęka C. Moreover, together with other utilities it financially helped to rescue hard coal mining: in 2016, Energa, together with the biggest Polish state-owned utility PGE S.A. and the oil and gas company PGNiGi, invested PLN 500 million (approximately EUR 115 million) each into the Mining Group (PGG) the biggest hard-coal miner in the EU-28. The deal was orchestrated by the Polish government which exercised its majority in the above mentioned energy and oil companies. The deal was widely celebrated by the prime minister's office. It cannot be ruled out that that the state would again any time in the future push utilities (including Energa) in which there is majority state ownership into similar deals.

In 2017 the media reported that Energa is trying to cancel old contracts with renewable producers on buying so called green certificates. The company estimated they would save more than PLN 2 billion over the next years. The move was a result of an amended law. The amendment was widely reported as "Lex Energa", as it was designed to benefit Energa.

Energa also plans to continue operating their biggest existing coal plant Ostrołęka B. In January 2018, the company updated a contract for supply of coal to Ostrołęka B with Polska Grupa Górnicza S.A – this increased the supply of coal for the plant, with the contract set to last until 2030.

Energa operates coal, wind, hydropower, biomass, and PV power plants with a total installed generation capacity of 1.4 GW. In 2017, coal power generation capacity was only 731 MW, which is 52% of its total 1398 MW. The company's CO_2 emissions levels and installed capacity in the last few years have been stable; this would dramatically change by putting Ostrołęka C into operation, as this would lead to a more than doubling of the company's CO_2 emissions.

Image: Artur Andrzej (CC BY-SA 3.0)

Year	MtCO2	Net Generation (TWh)	Emission performance standard (gCO2/kWh)	Installed capacity (GW)
2014	2,876	4,725	609	1313.23
2015	2,000	3,837	521	1337.21
2016	2,237	3,689	606	1302.61
2017	2,250	3,999	563	1398.51

OSTROŁĘKA C – 1000 MW COAL PROJECT

Ostrołęka C is a highly controversial project which could become the last coal power plant to be built in the EU after 2020. The 1000 MW power plant is proposed to be built in Rzekuń in Mazowieckie Voivodeship, Poland. It is to be fuelled by hard coal.

Ostrołęka C is a joint project of Energa SA and Enea SA. The utilities signed in February 2017 a share purchase agreement, under which Energa SA and Enea S.A. acquired joint control over Elektrownia Ostrołęka SA. This company's purpose is the construction and operating of a new coal-fired unit. Both utilities hold half shares and voting rights.

The plant is a green field project, and will be independent from the Ostrołęka B power plant which has been functioning since the 1970s. Ostrołęka C ka C is in fact an older project which obtained permits as far back as 2012, but was stopped because of the high economic risks of such a project and the lack of available financial resources.

In April 2018 the joint project of Energa and Enea revealed the results of a tender for the coal plant builder. The decision was announced on the awarding of the contract to the Consortium of GE Power Sp. z o.o. and Alstom Power System S.A.S. The amount of the contract was PLN 6,02 billion, approximatey EUR 1.4 billion). A month later, the CEO of Energa said that the company was trying to finalise arrangements about the financing of the Ostrołęka C plant and finalise the contract with the supplier (GE) before the end of 2018, so that the construction work could start. The plant is planned to start producing electricity in 2024.

The management of Energa and Enea have been explicit that the project bets on so called "capacity payments", without such the project would be little economical meaningful. The shaky business case of Ostrołęka C has been criticised in two studies published earlier in 2018:

> *The risk analysis related to the Ostrołęka C power plant development*
>
> Jan Popczyk, Krzysztof Bodzek
> Silesian University of Technology

The paper suggests that the new block would hamper or even block potential investment in renewable sources of energy and related services in the Ostrołęka region. It demonstrates that alternative investments in distributed renewable sources would contribute to new employment more than 45% higher compared to the new coal block and related coal mining (should the coal be imported, employment derived from alternative renewable energy generation would be 1,200% higher). It also shows that the prices of power generated at Ostrołęka C power plant will be higher than the prices of power from renewable sources.

A second analysis is entitled:

> *Ostrołęka C – The investment rationale, and why the project is not rational*
>
> Michal Hetmanski and Filip Piasecki
> Instart Foundation

This study identifies several problems, including that the actual costs of construction of Ostrołęka C are significantly underestimated and the history of the construction of other blocs of 800+ MW of capacity shows that this is a high-risk investment. It also shows that the difference between the actual and estimated costs of pollution treatment exceeds PLN 500 million – the integrated permit for the investment expired and the whole process must be repeated, given the strict BAT guidelines, which increases the investment costs and might delay the building. Finally, the study also suggests that the power market for Ostrołęka C is not a certain source of funding. The British experience shows that capacity mechanisms are the most profitable for existing units which support new and large investments. On the one hand, this is a potential source of revenues, but also a threat given the contractual penalties.

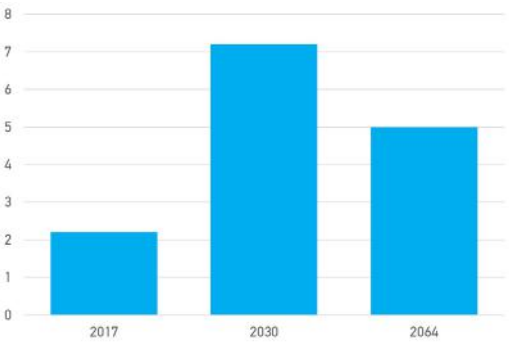
The full versions of the two studies are available only in Polish, with English summaries.

MISSING DECARBONISATION GOALS AND PATHWAY

At the end of 2016 the company adopted strategic development plans: "Strategy of the Energa SA Group for 2016-2025" and the "Long-Term Plan of Strategic Investments of the Energa SA Group for 2016–2025". The plans refer to diversification of sources. One of the goals is "maintaining strong position in renewable energy sources" but the plans also include building 1000 MW of coal capacity. In general, the company does not mention in their strategy or CSR documents any climate related targets, neither does it estimate the future pathway of their climate impact nor any plans for phasing out any of its coal capacities.

Based on available information, we have estimated Energa's energy generation related emissions in the graph below. Finalising Ostrołęka C would significantly increase Energa's emissions and ensure that its emissions in 2064 would be more than double (124% higher) compared to current levels. This flatly contradicts what the EU and the rest of the world has embarked on in order to fight climate change. Furthermore, as per a study by Ecofys14 and a growing number of authorities, constructing any new coal-fired power plant is now inconsistent with a 2°C scenario.

Expected emission of Energa's power production (in mil. of tonnes of CO_2)



Source: Energa annual report 2017; estimates of CEE Bankwatch Network

The yearly CO2 emissions of the new plant are estimated to reach around 4.5 to 5 million tonnes, which would add 180-200 million tonnes of CO2 for the entire operation (estimated to run for 40 years) up to 2064. This means that the construction of such a large 1000 MW plant would lock Energa, as well as Poland, into a carbon intensive power generation pathway for many decades to come. This also threatens to slow down the development of renewable energy sources, energy efficiency and Poland's energy transition in general, as well as hampering the obtaining of the EU's climate targets.

Even the European association of energy utilities Eurelectric announced in 2018 that its members commit to not building any new coal power plant after 2020, and it pledged its commitment to develop decarbonisation; although this pledge was not supported by energy producer associations from Poland and Greece.

LOANS BY MULTILATERAL FINANCIAL INSTITUTIONS

Energa lists in its annual report the following loans for Energa SA, including Energa-Operator, to finance the expansion and modernisation of the distribution grid in 2009-2012, as well as allowing for the connection of sizable additional renewable energy capacity:

2012

- the EIB – PLN 1,050 million;
- the EBRD – PLN 1,076 million;
- the NIB – PLN 200 million.

14

Ecofys report "The Coal Gap: planned coal-fired power plants inconsistent with 2 ⁰C and threaten achievement of INDCs": https://www.ecofys.com/files/files/climate-action-tracker-2015-coal-gap-briefing-cop21.pdf

The following amounts are still to be repaid:

- EIB – PLN 634 million (by 2025),
- EBRD – PLN 648 million (by 2024),
- NIB – PLN 97 million (by 2022).

2013

In 2013 Energa SA together with its subsidiary Energa-Operator SA entered into the following loan agreements to finance the capital expenditure program of Energa-Operator SA for the period of 2012-2015 associated with the expansion and modernisation of the distribution grid:

- Agreement with the EBRD with a limit of PLN 800 million – as of 31 December 2017, PLN 667 million of the loan was utilised (of which PLN 264 million by Energa SA and PLN 403 million by Energa-Operator SA). The final maturity of the loan is December 2024.
- Agreement with the EIB with a limit of PLN 1,000 million – as of 31 December 2017, PLN 963 million of the loan was utilised (of which PLN 763 million by Energa SA and PLN 200 million by Energa-Operator SA). The final maturity of the loan is September 2031.

2014

Nordic Investment Bank: loan agreement with a limit of PLN 67.5 million to finance a wind farm construction project in Myślino. The aggregate use of the loan, as of 31 December 2017, was PLN 55 million. The final maturity of the loan is 15 September 2026.

2017

Hybrid bond issue program: Energa SA and the EIB issued EUR 250 million in hybrid bonds. The bonds are subordinated, unsecured, coupon bearer securities which have been subscribed for by EIB under the European Fund for Strategic Investments launched by the EIB jointly with the European Commission to execute the so-called Juncker Plan. The purpose of the raised finances was for the modernisation and expansion of the Energa Group's distribution assets in 2017-2019.

CONCLUSIONS AND SUGGESTIONS

The case study has demonstrated that Energa has been and is benefiting from support from IFIs including the EBRD. During the same period the company has decided to redirect its business focus in a very environmentally destructive direction. Such additional financial capital frees up the company's resources, which could go to grid investments and renewables development or the repayment of existing financial obligations (loans and bonds from previous years), but could instead enable Energa to proceed with a harmful coal power plant construction project or may also have already made it easier to spend funds on the unprofitable coal mining company PGG. One of the goals of the loans from the EBRD (and the EIB) was to modernise the grids and allow "sizable additional renewable energy capacity". Building a 1000 MW coal plant is likely to hamper the development of renewable energy and debase these grid investments.

We recommend that no financial support should be given to any companies which are going to invest into the building of new coal power plants. Moreover, the lack of any climate targets and decarbonisation plans in this case study makes more imminent our call, to introduce the requirement of an effective decarbonisation plan for carbon-heavy companies, as a precondition of any loans granted by the EBRD.

ČEZ GROUP (CZECH REPUBLIC)

ČEZ Group is a utility with operations in many countries in central and southeast Europe and Turkey, with headquarters in the Czech Republic. Its businesses encompass generation, distribution and trading of power and heat, as well as coal mining. ČEZ is 70% owned by the Czech state.

Due to its over-reliance on coal, it emitted 28 million tonnes of CO2 in 2017, making it the 10th largest emitter in the EU.

ČEZ Group accounts for almost 75% of the total electric energy generated in the Czech Republic. It currently operates power plants with a total installed capacity of 15.4 GW, namely: two nuclear power plants, 11 coal-fired power plants in the Czech Republic, three coal-fired power plants abroad, 35 hydropower plants including three pumped storage plants, two wind power plants, 12 photovoltaic power plants and one biogas station. In renewables, ČEZ group is active in Romania, operating the largest European onshore wind park, and in Germany, where it owns wind parks with an installed capacity of more than 130 MW. In the Czech Republic, ČEZ operates more than 125 MW of installed solar capacity. In several plants in the Czech Republic, ČEZ either burns biomass or biomass together with coal. It also owns more than 1 960 MW of installed capacity in hydropower.

The carbon intensity of ČEZ's generation portfolio fell from 555gCO2/KWh in 2011 to 443 in 2017. While the amount of electricity produced from coal is (with one exceptional year) slightly decreasing, the amount of heat and electricity produced from gas is increasing.

Year	MtCO2	Net Generation (TWh)	Emission performance standard (gCO2/KWh)	Installed capacity (GW)
2011	38.444	69.209	555	15.122
2012	34.115	68.832	496	15.779
2013	30.787	66.625	462	15.199
2014	27.514	63.124	436	16.037
2015	28.675	60.917	471	15.920
2016	28.974	61.132	474	15.620
2017	27.850	62.887	443	14.866

Photo: VitVit (CC BY-SA 4.0)

PROJECTS SUPPORTED BY THE EIB AND THE EBRD

Since 2008 ČEZ has received three loans totalling EUR 580 million from the EIB to invest into PV and the distribution network.

1. The first loan of EUR 180 million was issued in 2010-2011 for a series of land-based, multi-megawatt photovoltaic power plants in the Czech Republic. The project description says: "Electricity generation from PV sources will displace fossil fuel-fired generation and the associated emissions of CO2, NOX and SO2."

2. The second loan of EUR 200 million was issued in 2011-2013 with the aim of reinforcing and extending the electricity distribution network in the Czech Republic. The project description states: "The Promoter's investments are expected to cater for demand growth, reduce losses, connect new end-users and also to renew generators and improve the reliability, and quality of electricity supply."

3. The third loan of EUR 200 million aims to reinforce and extend the electricity distribution network in the Czech Republic.

Since 2008 ČEZ Group has received **three loans worth EUR 318 million from the EBRD** to invest into its projects abroad, namely in Albania, Bulgaria and Romania.

- ČEZ received a EUR 50 million loan for its 76% owned subsidiary ČEZ Shpërndarje, aimed at reducing electricity distribution losses, upgrading and modernising the electricity distribution network, as well as improving the Company's financial and operational performance. By early 2013 ČEZ had its distribution licence revoked in Albania, facing claims that it had failed to reduce distribution losses. Whatever the rights and wrongs of ČEZ's involvement in Albania, it is clear that the company did not stay around long enough after receiving the EBRD loan to make any real impact.

- In 2016 ČEZ Distribution Bulgaria received a loan of EUR 116 million. This Bulgarian electricity distribution company is 67% owned by the ČEZ Group and 33% by other minority shareholders. The aim of the project was to finance the company's capital investment programme in the distribution network for the period 2016-2017 including the acquisition of energy infrastructure, equipment and reconstruction and building of new infrastructure. The investment was expected to reduce the company's technical and commercial grid losses and improve the quality of distribution services. Jointly with a technical cooperation project with the Bulgarian Energy Regulator the investment programme was supposed to lead to CO2 emission savings of up to 47,000 tonnes per year.

  ČEZ entered the Bulgarian market in 2004. Since 2013 ČEZ has been facing protests against high electricity prices by Bulgarian citizens and investigation by Bulgarian officials. Because of alleged losses, ČEZ is involved arbitration with the state of Bulgaria. In 2017 ČEZ sold its Bulgarian coal power plant in Varna, and subsequently at the beginning of 2018 ČEZ announced it would leave the Bulgarian market entirely by selling all its other subsidiary companies. As part of the transaction the new buyer has to refinance the loan from the EBRD. In this case, too, it is therefore questionable how much the loan has achieved in terms of distribution improvements.

- In 2015, the EBRD provided a senior loan of EUR 152 million to ČEZ Distributie S.A, an electricity distribution company in Romania. ČEZ Distributie is 100% owned by the ČEZ Group. The loan was to cover ČEZ Distributie's 2015-2016 investment programme in the distribution network aimed at reducing losses, improving efficiency and installing smart meters, and the restructuring of ČEZ Distributie's balance sheet in order to optimise its capital structure with the tariff methodology in place in Romania. According to the EBRD, it is supporting the implementation of smart metering in Romania together with new communication equipment that will contribute to improving the operation of the network. ČEZ Distributie will be replacing 50% of the meters by 2020. In addition the project should contribute to reducing technical and commercial losses, leading to CO2 emission savings of up to 285,000 tonnes per year.

IS ČEZ DECARBONISING QUICKLY ENOUGH?

ČEZ Group has publicly endorsed the goal of Eurelectric utilities to achieve carbon neutral electricity by 2050 and also, prior to the Paris climate conference in 2015, committed to reduce the carbon intensity of its power production.[15] In 2017 ČEZ's director of strategy told journalists that ČEZ will by 2035 reduce its coal capacity by half.[16] This is a step in the right direction, but such plans are still far away from what is now needed to effectively act to cope with climate change. Climate analytics in their 2017 study suggest coal plants in the EU should close by around 2030[17] and the IEA estimates that the EU as a whole needs to phase out unabated coal generation by 2030 to stay below 2 degrees[18].

ČEZ has made progress in reducing its relative emissions per energy produced, partly due to increased efficiency but to a significant extent also due to selling its coal power plants to third parties, e.g., the lignite power plant Chvaletice, the lignite power plant Tisová or, most recently, a plant in Varna, Bulgaria. ČEZ may still be planning to sell its 1 000 MW lignite power plant at Počerady. In 2017 the planned sale was rejected by ČEZ's supervisory board[19], but it may still be reopened. The sale of individual coal power plants might have improved the climate performance of ČEZ but has not helped to reduce global emissions if the plants continue to be operated by another owner.

In recent years ČEZ has invested large amounts of funds into Czech domestic coal. In the period 2008-2017 ČEZ built a new lignite 660 MW block at Ledvice with total costs of CZK 41.5 billion (EUR 1.6 billion); in 2016 ČEZ put into operation three retrofitted blocks (3 x 250 MW) at the Prunerov power plant with costs of CZK 33.8 billion (EUR 1.3 billion), and; in 2015 the company completed the retrofit of Tušimice plant for CZK 26 billion (EUR 1 billion). During that period ČEZ was also benefiting from various loans provided by the EIB and the EBRD, which could have freed finances for such expensive coal investments which prolong ČEZ's reliance on coal for 25-40 years.

Moreover, the above-mentioned plans and various public statements lack details. ČEZ has not published closure dates for its older power plants. Its latest presentation for investors suggests the previously refurbished power plant Ledvice will operate for another 40 years and Prunerov and Tusimice for 25 respectively.[20] This means that at least the Ledvice plant will operate beyond 2050 which could clash with ČEZ's own commitment to become climate neutral by 2050.

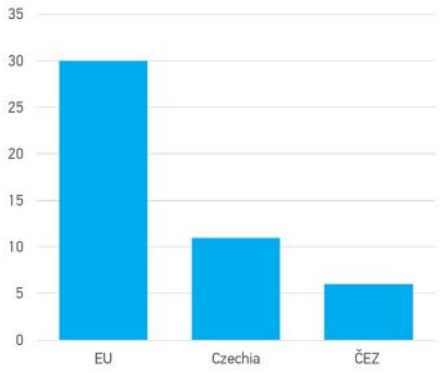
Additionally, in early 2018 ČEZ announced that it will build a new lignite fired CHP boiler in Melnik (307 MWt) by 2022 and operate it for 40 years.

At the same time, ČEZ is currently asking for a permission to expand the Bilina coal mine in Northern Bohemia. If it is successful, up to 150 million tonnes of coal will be extracted between 2019 and 2035 on a territory of 39 km^2.[21]

In 2017 ČEZ had only 6%[22] of its electricity produced from renewable energy sources (including hydro), compared to the share of renewable power in the EU estimated to be 30% in 2017[23]; this is also below the Czech share of around 11% of electricity produced from renewable energy sources.[24]

In June 2018, Czech environmental organisations revealed that ČEZ subsidiary Elektrárna Počerady a. s. secretly joined a court case of some German coal companies against the August 2017 approved pollution limits for large combustion plants, so called BREFs. The Czech state had earlier decided not to join the litigation.[25]

Share of renewable production (2017, in %)



Source: own calculation

15
ČEZ Pledges to Greatly Reduce Its Carbon Footprint; https://www.cez.cz/en/cez-group/media/press-releases/5320.html

16
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25
Počerady se přidala k žalobě proti znečištění, státu navzdory

https://ekonomika.idnes.cz/elektrarna-pocerady-limity-emise-zaloba-znecisteni-fhb-/ekonomika.aspx?c=A180625_172118_ekonomika_jn

CONCLUSIONS

While we in general do not see as problematic support for the development of solar or investments into distribution networks per se, in the case of ČEZ it is noticeable that the group's overall CO2 emissions are dropping slowly and its decarbonisation goals by 2035 are not ambitious enough. Over the last decade, while ČEZ has benefited from cooperation with the EBRD and the EIB, the company has spent several billion euros refurbishing their old power plants which has locked the utility into several more decades of its coal business. We would argue that loans for coal heavy utilities free up the utility's money which can be henceforward invested elsewhere.

Additional questions about the effectiveness of EBRD loans for ČEZ arise due to the conflicts which have arisen in Albania and Bulgaria and led to the group's exit from those countries.

In the future, ČEZ plans to close some old plants, but still wants to continue to operate several coal power plants for another 20-40 years, and it is planning a new CHP lignite plant. The latter investment will require tens of millions of euros. And ČEZ wants to expand its lignite mine in Northern Bohemia with the potential to extract up to 150 million tonnes of coal.

Photo: Dawid Skalec (CC BY-SA 4.0)

AZOTY
POLAND

Building a coal power plant after receiving a loan from the EIB

In January 2018, Grupa Azoty announced that it had signed a loan agreement with the EIB for up to EUR 145m[26], which should help it fund major capital investment projects and R&D activities. At the end of the same month, the Azoty Group published information that it had approved a tender for building a new 100 MWe hard coal CHP plant, with expected investment costs of around EUR 207 million.[27]

This case raises legitimate concerns that such financing for one part of operations can make it easier to use other available capital for climate harmful coal investments in another part of the company. Therefore, a complex decarbonisation transition approach, including decarbonisation plans, can help to avoid even indirect support for climate harmful development.

The Azoty case also demonstrates why decarbonisation should be pursued by the EBRD and the EIB for all fossil fuel dependent companies. The EBRD is expected to review its Green Economy Transition Strategy that guides its climate investments in all sectors. Outside of the energy sector, it invests in fossil fuel dependent companies, for example in manufacturing or district heating in the municipal environmental infrastructure sector. Focus on energy savings, emission reductions and resource efficiency is welcome, as long as it is part of a wider strategy for low-carbon transition.

26

Grupa Azoty secures new long-term finance from EIB: http://grupaazoty.com/en/wydarzenia/finansowanie-ebi.html

27

Jest decyzja Grupy Azoty. Ruszy przetarg na blok węglowy w Puławach

28

https://biznesalert.pl/grupa-azoty-elektrownia-pulawy-przetarg-wegiel/

CEE Bankwatch Network

CEE Bankwatch Network is today the largest network of grassroots environmental groups in countries of central and eastern Europe and a leading force in preventing dubious public investments that harm the planet and people's well-being in this region and beyond.

Operating since 1995 in countries that have undergone significant social and economic transformation, we have the know-how to effectively work in unpredictable environments from North Africa to Central Asia.

Together with local communities and other NGOs we work to expose their influence and provide a counterbalance to their unchecked power.

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