Selling Coal Plants Pays No Climate Dividends

A Close-not-Sell Briefing for Financial Institutions

Many financial institutions and several energy companies have finally begun to commit to climate initiatives and exiting coal. However, while some think that selling plants to clean up their own portfolios is a responsible thing to do to reduce emissions, the reality is quite the opposite. This briefing details how the sale of coal power plants to different owners brings no real benefit in terms of emission reductions, and is instead an act of greenwashing that ultimately goes against the interests of responsible financial institutions.

Executive Summary

Europe Beyond Coal (EBC) is encouraged by recent trends in the financial services industry toward stronger restrictions on financing thermal coal production and coal-fired power generation.

This briefing paper discusses an area where current policies are lagging: namely a growing trend of energy companies attempting to green their businesses by selling off their coal power plants, rather than decommissioning them, in a move that results in no net climate dividends.

The paper maps past sales of coal power plants in Europe which have not led to any real reductions of emissions. It also identifies up to 11 GW of European coal capacity which might be up for sale.

In this context, EBC recommends that financial institutions (FIs) further strengthen their coal finance policies by adopting the measures below:

- Adopt coal policies that require coal companies to publish clearly articulated and detailed implementation plans for the gradual closure (not sale) of existing coal plants and mines, exiting coal at the latest by 2030 in the OECD and Europe, and by 2040 in the rest of the world. Client companies should be informed that selling coal assets is explicitly not a desired or legitimate climate action.
- Help their clients to assess ways to decommission their coal assets in a manner that is consistent with fiduciary duties.
- Stop providing financial services to customers who are contributing – including through acquisitions – to coal's continued use beyond a timeline consistent with the goals of the UN Paris Climate Agreement.
- Reject any participation in the controversial sale of coal assets.
- Incorporate this issue into their just transition policies: ensure that power utilities do not sell their assets to predatory buyers which could lead to lifetime extensions, social and environmental liability, and leaving workers exposed to the negative impacts of the transition without support.
- Treat the sale of coal plants - instead of immediate closure - with a similar gravity to norm-based violations, and regularly screen their portfolio for such cases. Any announced sales must trigger a rapid engagement process. The engagement must be coupled with a credible threat of divestment.

Handing off responsibility

A growing number of European energy companies are attempting to 'green' their businesses by selling their coal power plants. However, not only does this practice generally not lead to any actual reduction in emissions, it can even cause them to increase. Sales are commonly accompanied by grandiose claims from the seller about large emission reductions and heightened climate ambitions, for instance:

> *"The sale means more than 75 percent of our production will be climate neutral compared to about 50 percent today*."
> (Vattenfall's President and CEO, referring to 2016 Magnus Hall sale)
>
> *„…looking towards an increasingly decarbonised, digitalised and decentralised energy world."* (Alpiq statement, referring to the 2019 sale of two Czech coal power plants).

Yet in most cases, the plants continue to operate at capacity. Some even emit more greenhouse gases under their new owners, who have little incentive to spend money on emission reduction technology or early closures. A new owner of an old plant will have one mission: to keep their new asset online as long as possible before it reaches the end of its lifespan.

New owner, same old emissions

As yet, of all the companies listed below that have purchased coal plants, none have shown any intention of closing them at a speed aligned with limiting warming to 1.5 degrees Celsius. In countries like Germany and France, there is hope that a politically imposed coal phase-out could hasten their closures. But in countries that do not yet have national coal phase-out plans (for example Poland, the Czech Republic, and many non-EU countries) owners do not face the same threat of enforced closure.

Select European Utilities Company CFPP[1] Sales (2013-2019)

Seller (HQ)[2]	Buyer (HQ)	Year of sale	Name of coal power plant(s)	GW
Vattenfall (Sweden)	EPH/PPF	2016	Boxberg, Jänschwalde, SchwarzePumpe, Lippendorf	9.2
EDF (France)	PGE	2017	Rybnik, Czechnica, Gdansk-2, Gdynia-3, Krakow LEG, Wroclaw	2.9
ČEZ (Czechia)	Sev.en, Sokolovská Uhelná	2013, 2017, 2019	Chvaletice, Tisová, Počerady	2.1
Alpiq (Switzerland)	Sev.en	2019	Kladno, Zlín	0.6
Engie (France)	Riverstone Holdings	2019	Wilhelmshaven, Bremen-Farge, Zolling, Maasvlakte	3.1
Fortum (Finland) and Uniper (Germany)	EPH	2019	Emile-Houchet, Provence	1.3
Enel (Italy/Russia)	Siberian Generating Company	2019	Reftinskaya	3.8

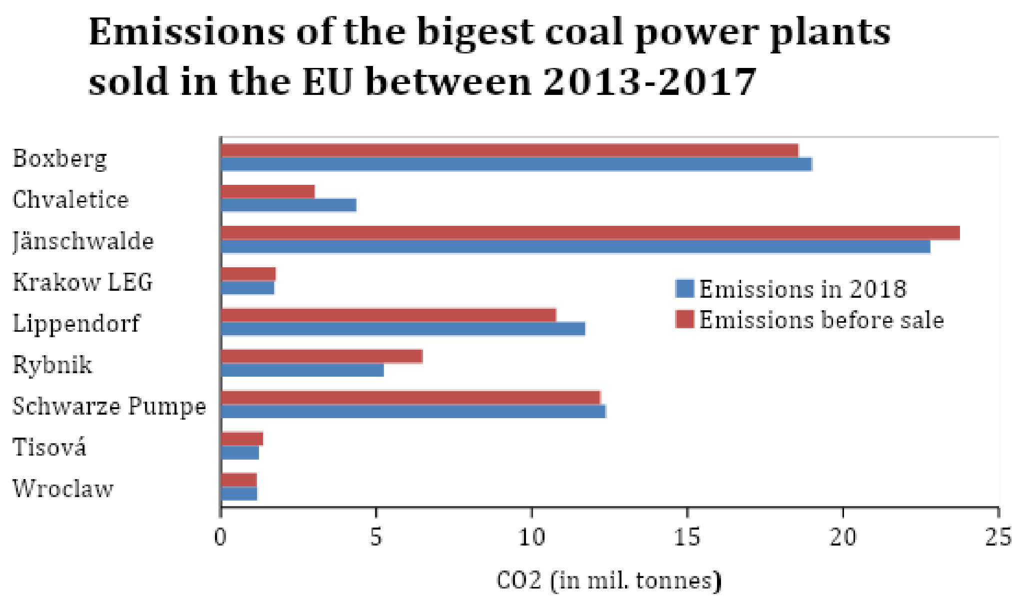
Source: EBC

A climate hot potato

An additional problem with selling carbon-intensive assets is that the new owners are often not publicly listed (i.e. private equity, private companies or HNWI). This makes it harder for governments, consumers, and civil society to exert pressure for closures. In cases where a plant is sold successive times, it is not unusual for the emission-saving claim to be made twice, while the plant is continuing to emit carbon dioxide.

[1] CFPP stands for coal-fired power plant

[2] HQ stands for headquarters



Source: EBC, EU ETS data

Keeping coal plants in operation also occupies space in the energy market and restricts opportunities for renewable energy alternatives. Conversely, a managed wind-down of coal plants would open up investment space for renewables, associated grid infrastructure, and energy storage solutions, enabling a balanced, equitable transition for the company and its workers in the same region.

Why closing and not selling assets makes sense

If you ignore the climate imperative, it sounds counterintuitive to close and not sell an asset. But there are also compelling economic arguments for utilities to eliminate coal from their energy mix. The decision of French utility, Engie, to close rather than sell its coal plants in Chile was astutely motivated by a desire to prevent its rivals from gaining market share from its sales.

The economic argument

Another report by IEEFA on Poland's electricity system found that without government capacity payments, power generation from burning hard coal in Poland would on average be a loss-making exercise from 2022 onwards. This onrushing profitability collapse is reflected by the growing trend of European coal plants coming under heightened pressure from rising carbon prices and falling gas prices. Closing, converting or repurposing coal plants increasingly makes economic sense. This does not mean converting to gas, but rather utilising grid connections at former coal power plant sites to install renewable energy systems and/or district heating connections for zero-carbon or electric heating. Alternatively, depending on their location (eg. a port, river access, industrial center) sites can be repurposed for industrial, commercial or residential use.

The case for closures

Companies and investors engaged in coal are coming under increasing pressure from governments, consumers, and civil society to align their business models with the goals of the UN Paris Climate Agreement. All economically, socially, and environmentally responsible companies should now be planning, or undertaking the managed closure of their coal plants and their investors should be requiring they do so. This will enable all parties to recoup the maximum value of their asset and preserve the social licence to operate. By implementing plans for socially-responsible and managed closures, energy companies also have the opportunity to take advantage of the skills of their existing workforces to help them transition to new renewable energy alternatives, which harbour greater long-term rewards than coal.

Recommendations for financial institutions

Based on the above, Europe Beyond Coal urges financial institutions to align their business practices consistent with the following recommendations:

- Adopt coal policies that require coal companies to publish clearly articulated and detailed implementation plans for the gradual closure (not sale) of existing coal plants and mines, exiting coal at the latest by 2030 in the OECD and Europe, and by 2040 in the rest of the world. Client companies should be informed that selling coal assets is explicitly not legitimate climate action.
- Help their clients to assess ways to decommission their coal assets in a manner that is consistent with fiduciary duties.

- Stop providing financial services to customers who are contributing – including through acquisitions – to coal's continued use beyond a timeline consistent with the goals of the UN Paris Climate Agreement.
- Reject any participation in the controversial sale of coal assets.
- Incorporate this issue into their just transition policies: ensure that power utilities do not sell their assets to predatory buyers which could lead to lifetime extensions, social and environmental liability, and leaving workers exposed to the negative impacts of the transition without support.
- Treat the sale of coal plants - instead of immediate closure - with a similar gravity to norm-based violations, and regularly screen their portfolio for such cases. Any announced sales must trigger a rapid engagement process. The engagement must be coupled with a credible threat of divestment.

Annex

11 GW of European coal capacity potentially up for sale in Europe.

<table>
<tr><th>Seller</th><th>Possible buyer</th><th>Plant name and installed capacity</th><th>CO2 Emissions (2018, in mil. tonnes)</th></tr>
<tr><td>ČEZ</td><td>?</td><td>Chorzow and Skawina 680 MW</td><td>2.8 mil. t</td></tr>
<tr><td colspan="4">ČEZ indicated an interest to sell its hard coal CHP plants in Poland (Chorzow and Skawina).[3]</td></tr>
<tr><td>STEAG</td><td>Remondis(?)</td><td>6200 MW</td><td>N/A</td></tr>
<tr><td colspan="4">Five German cities hold the majority of STEAGs shares. Media reported[4] about their intention to sell their stakes and about the interest of company Remondis to buy the shares. STEAG also owns coal power plants in Turkey, Colombia, and the Philippines.</td></tr>
<tr><td>Vattenfall</td><td>?</td><td>Moorburg, 1640 MW</td><td>6.2 mil. t</td></tr>
<tr><td colspan="4">In November 2019, the CEO of Vattenfall suggested the company is considering selling Moorburg.[5]</td></tr>
<tr><td>PPC</td><td>?</td><td>Megalopolis, 1180 MW</td><td></td></tr>
<tr><td colspan="4">In recent years, state-owned Greek energy utility PPC has been offering two of its lignite power plants for sale (Florina Meliti and Megalopolis A+B). The sale of the Megalopolis units has encountered setbacks due to Greece's planned coal phase-out, but it remains a threat. The Florina plant is suspended due to the January 2020 annulment of its environmental permits.</td></tr>
<tr><td>Viesgo Group</td><td>?</td><td>Los Barrios, 568 MW</td><td>2.8 mil. t</td></tr>
<tr><td colspan="4">Media reported about the Visego Group (Macquarie and Wren House Infra Management) considering the sale of Spanish power plant Los Barrios.[6] Visego bought the plants in 2015 from E.ON.</td></tr>
</table>

[3] http://biznes.pap.pl/en/news/pap/info/2815181,cez-power-expects-to-complete-sale-of-polish-assets-in-2021---earnings-presentation
[4] https://www.cleanenergywire.org/news/waste-company-remondis-could-buy-parts-ailing-utility-steag
[5] https://www.reuters.com/article/us-energy-eworld-vattenfall/swedens-vattenfall-weighs-options-for-moorburg-coal-fired-plant-in-germany-idUS KBN2061ZW
[6] https://www.algecirasalminuto.com/articulo/general/viesgo-busca-compradores/20190506083601140386.html

This paper was issued by the Europe Beyond Coal campaign in February 2020. Questions about the paper should be directed to Joshua Archer, Coal Finance and Utilities Coordinator, at joshua@beyond-coal.eu.

Europe Beyond Coal is an alliance of civil society groups working to catalyse the closures of coal mines and power plants, to prevent the building of any new coal projects and hasten the just transition to clean, renewable energy and energy efficiency. Our groups are devoting their time, energy and resources to this independent campaign to make Europe coal-free by 2030 or sooner.
https://beyond-coal.eu/finance