

ČEZ Briefing for Investors, Insurers and Banks

Spring 2020 update



Europe Beyond Coal revises its recommendations for financial institutions' engagement with CEZ

As companies and policymakers confront the mounting risks of climate change, the trajectory of coal exclusion policies among financial institutions and utilities is trending in a positive direction. The same is true for Czech energy holdings company ČEZ, which broadly outlined its own coal phase-out target dates in an [April 2020 presentation to investors](#), and has been steadily improving the alignment of its power generation fleet with the goal of limiting greenhouse gas emissions.

The Europe Beyond Coal campaign (EBC) encourages utilities like ČEZ to aspire toward greater seriousness about steps needed to avert the worst consequences of climate change. Unfortunately, ČEZ's commitments to date lack the speed and scale necessary to limit greenhouse gas emissions to levels consistent with the UN Paris Climate Agreement objective to 'hold the increase in the global average temperature to well below 2 degrees C above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5 degrees C.' Overall ČEZ's coal phase-out targets and implementation plan fall far short of what will be required to avert the worst consequences of climate change.

In this context, EBC is putting forward this briefing update as an addendum to the paper it released in December 2018 with the aim of assisting investors, insurers and banks in achieving a coal phase-out from ČEZ. Based on developments since EBC released its most recent briefing paper, investors, insurers and banks should require ČEZ to implement the following measures:

- Commit to align its business model with the UN Paris Climate Agreement and, more concretely, to adopt a time-bound climate science-based target built on a forward-looking climate-scenario analysis.
- Put an immediate end to capital expenditure for the extension of mining, new coal plants and the retrofitting of existing coal plants that would lead to life-extensions. This would include announcing a halt to planned new construction at the Melnik plant, immediately ceasing upgrades and lifetime extensions at existing plants, and abandoning plans to prolong mining in the Bílina lignite open-pit mine.
- Withdraw applications for derogations from 2021 BREF/BAT limit values for Počerady, Tušimice, Prunéřov and Ledvice.
- End the practice of selling off coal assets rather than implementing plant closures, with a view toward closing the final plant by 2030 at the latest.
- Release a detailed coal phase-out roadmap that emphasises supporting workers in coal-related businesses and communities in coal-dependent regions through an immediate, just energy transition.

- Join and report according to the TCFD guidelines.
- Investors, insurers and banks should also adopt ‘no-coal policies’ along the lines of Europe Beyond Coal’s principles and approaches for impactful and meaningful public coal policies for financial actors (outlined in the attached briefing paper).

ČEZ needs to demonstrate greater progress on coal phase-out

Since EBC's last investor briefing, ČEZ has reduced the share of coal in its energy mix from 46 percent in 2017 to 44 percent in 2018. Investors should welcome this trend, which will help ČEZ reduce its carbon exposure as global emissions reduction imperatives align more closely with the [imperative to phase out coal by 2030 at the latest in OECD and Eastern European countries](#).

That said, ČEZ is putting itself and investors at risk through its continued investments in coal power generation and coal mining. In the nearly five years that have passed since ČEZ announced its [commitment to carbon-neutral power generation by 2050](#), the company has not produced a detailed roadmap toward achieving this objective. ČEZ reiterated its commitment to decommissioning coal in its [April 2020 investor presentation](#), but on a timeline woefully behind that which the scientific community indicates will be necessary. The company also fails to offer critical details, such as target years for its existing coal power plants.

ČEZ Energy Mix¹

2019	Nuclear	Lignite	Hard coal	Hydro and Renewables	Gas
Generating capacity (GW)	4.29	5.09	1.45	2.86	0.96
TWh Generation (parentheses: % total ČEZ)	30.2 (47%)	22.8 (35%)	2.6 (4%)	5.0 (8%)	4.0 (6%)

1: CEZ Group investor report: Ready for Decentralized Energy Future. (April 2020). Slide 15. <https://www.cez.cz/edee/content/file/investori/2020-04-investment-story-published.pdf>

Meeting coal phase-out targets consistent with the best available science will also require ČEZ to enhance its investments in truly renewable energy solutions, such as wind and solar. An EBC analysis of ČEZ’s March 2020 [financial results](#) concludes that renewable sources generated only 7.8 percent of ČEZ’s 2019 energy output, and the company has not detailed plans to expand renewable energy generation beyond rhetorical commitments and allusions to the Czech Republic’s national energy plan. It would benefit investors if ČEZ were to outline more

ambitious, detailed renewable energy investments to signal greater seriousness about coal phase-out.

Plant sell-offs, investments in modernisation and mining remain cause for concern

EBC remains concerned about ČEZ's attempts to pass responsibility for polluting infrastructure to other utility companies, as opposed to demonstrating a good-faith effort to close plants down. The sale of the 1000 MW Počerady power plant to Sev.en Group, which is owned by major coal investor Pavel Tykač, has fomented scepticism about ČEZ's commitment to emissions reduction efforts. Prior plant sell-offs reinforce this scepticism, including the 2013 sale of the Chvaletice plant to Sev.en Group, and the 2016 hand-off of a 289 MW unit at Tisová. ČEZ needs to show that it has shifted course by committing to the full closure, not sale, of its remaining coal power fleet.

ČEZ also continues investing in expanded lignite mining capacity. For the period 2019 to 2023, the company plans to spend 16 billion CZK on mining expansion, up from 15 billion CZK in the period 2018 to 2022. Recently added mining operations, such as the Bilina open-pit lignite mine, could put the company in the coal extraction business as far out as 2045. This timeline is unacceptable. These coal reserves need to remain in the ground if a 2030 coal phase-out is to be achieved, as the scientific community tells us it must.

ČEZ Group Dominates Czech Coal Extraction²

2019	ČEZ Group	Others
Lignite mined in the Czech Republic (millions tons; parentheses: share of total)	20.4 (55%)	17.0 (45%)

*2: CEZ Group investor report: Ready for Decentralized Energy Future. (April 2020). Slide 4.
<https://www.cez.cz/edee/content/file/investori/2020-04-investment-story-published.pdf>*

Finally, EBC is concerned about ČEZ's investments in so-called plant modernisation, which would prolong the company's coal dependence. At the moment, modernisation efforts include the construction of new capacity at the Melnik coal power plant. ČEZ's argument that modernisation efforts are intended to reduce emissions intensity is not valid because the addition of new capacity will result in extended plant life, in this case well beyond the 2030 coal phase-out target.



This paper was issued by the Europe Beyond Coal campaign in May 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>

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