WHAT TO EXPECT FROM POWER UTILITIES TRANSITION PLANS?

A guide for financial actors

RECLAIM Finance

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TABLE OF CONTENTS

CONTEXT

The power sector must transition away from fossil fuels to achieve a rapid decarbonization of our economy. The Net Zero Emissions by 2050 Scenario (NZE)[1] from the International Energy Agency (IEA) relies on a carbon-neutral power sector by 2035 in Europe and OECD countries, and by 2040 in the rest of the world. It entails a rapid and considerable phase-down of fossil fuel power plants and the development of a power system based on renewables. In addition to this, governments committed to triple renewable energy capacity by 2030 at COP28 in 2023.[2] However, the climate strategies of the main European power utilities contain significant shortcomings when it comes to ensuring the transformation of electricity production.[3]

In this context, financiers involved in the power sector bear responsibility for supporting the decarbonization of power generation. Sectoral policies for fossil gas are needed now more than ever from financial institutions to keep ambitious, 1.5°C-aligned climate goals within reach. Moreover, investment and financing targets that contribute to the massive ramp up of sustainable power solutions are also required.

Financial institutions must also take responsibility for engaging power utilities on the adoption of deep emissions reduction pathways by pushing them to set up robust transition plans. The core elements of these transition plans should include a 1.5°C-aligned trajectory, no investment in new fossil gas and coal plants, the phase-out of fossil gas by 2035 and by 2040, and the build-out of significant sustainable capacities and power grids.

Currently, the transition plans of power utilities use heterogeneous assumptions, references, and timelines to set targets, making it difficult for financial institutions to easily assess and compare them. Access to a standardized and independent framework that provides a common basis for analysis is needed.

To this end, we have developed a comprehensive analytical framework which delivers clear insights into the current trajectories of the European power utilities, highlighting the potential loopholes in their approaches. We recommend use of this framework at two levels: firstly, it should be endorsed as a reference frame by all those contributing to the transformation of the power sector – financial institutions, regulators and power utilities, and secondly, it can be used by financial actors to help discern which power utilities are genuinely advancing toward the crucial goal of limiting global warming to 1.5°C, and which are lagging behind.

This reference guide offers a complete framework specifying the components of a comprehensive, robust and coherent power utility transition plan. It gathers the key aspects that financial institutions should expect from any power utility that claims it is transitioning towards a sustainable future. It also presents our recommendations to financial actors for engaging power utilities in adopting efficient and successful decarbonization pathways.

RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

As a primary lever in the transformation of the power generation sector, financial institutions should:

- **Implement a sectoral exclusion policy on fossil gas in power generation** that is aligned with a fossil gas power phase-out by 2035 in Europe and OECD countries, and by 2040 in the rest of the world.
- **Achieve a 6:1 financing ratio[4] in favor of sustainable power[5] supply over fossil fuels** by 2030.

When in dialogue with power utilities, financial institutions should first and foremost require utilities to:

- **Align with a 1.5°C pathway with no or low overshoot** and a limited volume of negative emissions.
- **Commit to carbon neutrality by 2035 in Europe and OECD countries, and by 2040 in the rest of the world.**
- **Commit to fossil gas power phase-out** by 2035 in Europe and OECD countries, and by 2040 in the rest of the world.[6]
- **Set up a plant-by-plant closure plan for fossil gas and coal power plants that excludes sale or conversion** and that is compliant with a coal phase-out by 2030 in Europe and OECD countries, and by 2040 in the rest of the world.
- **Not invest in new fossil gas and coal power plants.**
- **Avoid investments in "false solutions",** some of which depend on the continued use of fossil fuel resources: hydrogen for power, biomethane, biogas, biomass, nuclear.

KEY ELEMENTS OF A ROBUST AND AMBITIOUS TRANSITION PLAN

To assess the transition plans of European power utilities, we have established a comprehensive analytical framework based on both the European Sustainability Reporting Standards (ESRS) requirements[7] and the baseline of "forward-looking indicators" provided in Reclaim Finance's analysis of corporate climate transition plans.[8] Applying these elements to the power generation sector gives the following four main categories for analysis:

- **Emissions reduction plan**
- **Energy planning**
- **CAPEX**
- **Climate planning**

Within these categories, we present the key components of a credible power utility transition plan.

The first table below describes the key components to address for each of the four main categories and how they can be used to assess a transition plan. The following tables present how these components should be addressed to support a robust and ambitious transition plan. Any power utility claiming to achieve a robust 1.5°C-aligned transition should outline such a plan.

Each category is illustrated by a case study from a European power utility.[9]

WHICH KEY COMPONENTS SHOULD BE REQUIRED FOR A CREDIBLE TRANSITION PLAN?

Category	Key components of a transition plan	Purpose of these components
Emissions reduction plan	• Mention of a science-based reference scenario • Decarbonization targets: scope (1, 2, 3), perimeter (value chain, greenhouse gases) and timeline • Specific methane target • Level of emissions compensation • Progress against previous targets	Ensure that the company's pathway and targets are coherent and compatible with global warming limited to 1.5°C with no or low overshoot. Ensure that the company's transition plan does not rely on carbon offsetting,[10] strongly limits the use of carbon capture utilization and storage (CCUS),[11] and considers methane emissions specifically.
Energy planning	Coal phase-out • Mention and detail of potential development of new coal plants • Exit date in Europe and OECD countries, and rest of the world • Plant-by-plant exit plan (date and sale, conversion, or closure) Gas phase-out • Mention and detail of potential development of new gas plants • Exit date in Europe and OECD countries, and rest of the world • Plant-by-plant exit plan (date and sale, conversion, or closure) • Mention and detail of potential new liquefied natural gas (LNG) projects Sustainable development and energy mix • Capacity targets for wind and solar by 2030 • Capacity or R&D targets for power grids, storage, batteries by 2030 • Capacity or generation mix by 2030 Other solutions development • Mention and detail of potential development of other solutions: hydrogen for power, biomass, biomethane, biogas, hydropower, nuclear	Analyze the fossil fuel phase-out strategy of the company and check on its compliance with a carbon-neutral power sector by 2035 in Europe and OECD countries, and by 2040 in the rest of the world.
CAPEX (capital expenditure)	• Report on last years' CAPEX • Near-term CAPEX distribution • Granularity of near-term CAPEX on different technologies (coal, oil, gas, bioenergy, hydrogen, wind, solar, hydropower, storage, flexibility, etc.) • Share of CAPEX in fossil fuels • Share of CAPEX in sustainable technologies	Evaluate the coherence between the company's climate strategy and its near-term investments.
Climate planning	• Report on climate-related risks and opportunities • Detail of responsibilities at Board level for the achievement of climate targets (including impact on remunerations) • Detail of leadership responsibilities and accountability mechanisms for climate targets implementation (including impact on remunerations)	Consider if the company has set up robust mechanisms at Board and leadership levels to ensure the implementation of its climate strategy and the achievement of its climate targets.

Table 1: Key components required for a credible power utility transition plan

HOW TO ADDRESS THESE KEY COMPONENTS FOR AN AMBITIOUS TRANSITION PLAN?

a. Emissions reduction plan

Category	Sub-category	Requirements for a robust and ambitious transition plan
Emissions reduction plan	**Targets setting**	Science-based 1.5°C-aligned reference scenario, with no or low overshoot, and a limited volume of negative emissions Company's emissions targets are in line with the scenario (including scopes 1, 2 and 3)
	Timeline	Emissions reduction targets by 2027 and 2030, with a net zero target by 2035 in Europe and OECD countries, and by 2040 in the rest of world
	Perimeter	Emissions reduction targets provide absolute values, address gross emissions, and cover all the entity value chain and activities, all scopes (1, 2 and 3) and all greenhouse gases
	Perimeter - Methane	Specific methane emissions target[12]
	Compensation of emissions	No use of carbon capture, utilization and storage (CCUS) for power generation No use of carbon offsets to reach targets[13]
	Progress against targets	Detail of progress made over the last reporting year outlining and quantifying the actions and factors that led to emissions reduction Detail of progress made on emissions reduction targets since the last target baseline

Table 2: Requirements for a robust and ambitious transition plan – Emissions reduction plan

CASE STUDY: ENGIE'S EMISSION REDUCTION PLAN

ENGIE is not aligned with a science-based 1.5°C scenario, just with a "well below 2°C" scenario. The company's net-zero target is set for 2045 instead of 2035 for Europe and OECD countries, and 2040 for the rest of the world. ENGIE has only committed to a 90% emissions reduction by 2045, and plans to rely on offsets and carbon capture technologies for its remaining emissions.

› To achieve a robust and ambitious transition plan, ENGIE should set a net-zero target by 2035 in Europe and OECD countries, and by 2040 in the rest of the world, and it must not rely on carbon offsets and carbon capture technologies in its power generation.

b. Energy planning

Category	Sub-category	Requirements for a robust and ambitious transition plan
Energy planning	**Fossil fuel phase-out - Coal**	Have no plan to develop new coal power generation (including purchasing existing coal power plants) Commit to phase out coal plants by 2030 in Europe and OECD countries, and by 2040 in the rest of the world Set up a plant-by-plant closure plan for coal power plants without sale or conversion to gas, hydrogen, biogas, biomass Dedicate financing for the dismantling of existing coal plants
	Fossil fuel phase-out - Gas	Have no plan to develop new fossil gas power generation (including purchasing existing gas power plants and coal-to-gas conversions) Commit to phase out fossil gas by 2035 in Europe and OECD countries, and by 2040 in the rest of the world Set up a plant-by-plant closure plan for fossil gas plants without sale or conversion to hydrogen, biogas, biomass Have no LNG infrastructure development project (including purchase of existing infrastructure)
	Sustainable power development	Have strong wind and solar capacity targets in Europe or globally, with a sustainable power[14] capacity higher than 77% of total capacity or 69% of generation mix in 2030[15] Set up battery, storage, flexibility capacity or R&D targets in Europe or globally by 2030 Detail the planned power capacity or generation mix per technology in 2030 (coal, gas, wind, solar, hydropower, geothermal, hydrogen, biogas, biomass, nuclear)
	Other power development	Have no plan for new hydropower in Europe, or biomass and nuclear power globally Have plans to retrofit existing hydropower capacity to increase efficiency

Table 3: Requirements for a robust and ambitious transition plan – Energy planning

CASE STUDY: EPH'S ENERGY PLANNING

EPH announced in its 2022 sustainability report that it plans to be "almost" coal-free by 2025 and coal-free by 2030. But the company does not have a plant-by-plant closure plan for its coal power plants. Furthermore, to achieve this coal exit, EPH is depending on the creation of a new EPH subsidiary, EP Energy Transition, to absorb its coal assets.

› To achieve a robust and ambitious transition plan, EPH should present a detailed plant-by-plant closure plan of its coal power plants, showing its coal phase-out by 2030 in Europe and OECD countries, and by 2040 in the rest of the world. Its coal assets should not be transferred to another entity in order to be excluded from the parent company's balance sheet.

c. CAPEX

Category	Sub-category	Requirements for a robust and ambitious transition plan
CAPEX	**Last reported CAPEX**	Report on last years' CAPEX with sufficient granularity (related to coal, oil, gas, biomass, biogas, wind, solar, hydropower, storage, and flexibility), and how it is aligned with the company's climate strategy
	Near-term CAPEX	Report on near-term CAPEX with sufficient granularity (related to coal, oil, gas, nuclear, green hydrogen, non-green hydrogen, bioenergy, hydropower, geothermal, marine energy, wind, solar, storage, power grids, flexibility, and CCUS), and how it is aligned with the company's climate strategy
	CAPEX distribution	Have no CAPEX in new fossil fuels capacity (including LNG projects) Dedicate more than 86% of CAPEX for sustainable technologies[16] until 2030[17]

Table 4: Requirements for a robust and ambitious transition plan – CAPEX

CASE STUDY: IBERDROLA'S CAPEX

For the period 2023-2025, Iberdrola plans to allocate 90% of its CAPEX to activities supporting the energy transition and leaves 7% earmarked for "Other Energy Production and Customers'', with no further details specified. Given Iberdrola's commitment not to develop new fossil gas plants or LNG terminals, it is likely that this investment will not go to fossil gas infrastructure. However, further details regarding this portion of the company's CAPEX would be welcomed, so that stakeholders can fully assess its investment plan.

› To achieve a robust and ambitious transition plan, Iberdrola should explicitly mention that no new CAPEX will be dedicated to new fossil fuel capacities, and provide more detail on the "Other Energy Production and Customers" category. That said, the company provides sufficient granularity related to its investments in renewables and the development of other solutions: solar, wind (onshore/offshore), hydropower, networks and batteries.

d. Climate planning

Category	Sub-category	Requirements for a robust and ambitious transition plan
Climate planning	**Strategy**	Report on climate-related risks and opportunities Report on targets to increase the company's shares of revenues from activities aligned with its climate plan
	Governance	Provide a detailed plan of the responsibilities established at Board level for the achievement of climate targets (including impact on remunerations) Provide a detailed plan of leadership responsibilities and accountability mechanisms for climate target implementation (including impact on remunerations)

Table 5: Requirements for a robust and ambitious transition plan – Climate planning

CASE STUDY: ENEL'S CLIMATE PLANNING

Enel's CEO is responsible for climate-related issues and reports directly to the company's Board, with incentives structured to boost the achievement of the KPIs (key performance indicators) of its climate transition plan. However, accountability mechanisms are limited to potential financial losses if KPIs are not met.

› To achieve a robust and ambitious transition plan, Enel should implement mechanisms – or give further detail on its existing mechanisms – that ensure its Board members and managers take responsibility for the implementation and achievement of its climate targets, including: assessment KPIs, weight and scope, impact on remunerations.

References

1. International Energy Agency (IEA), Net Zero Emissions by 2050 Scenario, May 2021
2. UNFCCC, Conference of the Parties serving as the meeting of the Parties to the Paris Agreement – First Global Stocktake, December 2023
3. Beyond Fossil Fuels, Power moves and power failures, June 2024
4. Reclaim Finance, 6:1, a ratio to successfully transform our energy system, February 2024
5. Sustainable power technologies are defined as: wind, solar, storage, power grids, geothermal, hydropower (retrofit and upgraded), and ocean power.
   Reclaim Finance, The limits of (not so) clean energy, October 2023
6. By 2035 in Europe and 2040 globally, fossil gas plants should be closed down or strictly limited to use as peaker plants for supplementing baseload sustainable power. Notably, this means the effective phasing out of combined cycle gas turbine (CCGT) plants, which are not viable for peaker use.
7. European Union (EU), European Sustainability Reporting Standards (ESRS) Annex 1, C(2023) 5303 final, supplementing Directive 2013/34/EU, July 2023
8. Reclaim Finance, Corporate climate transition plans: what to look for, January 2024
9. Beyond Fossil Fuels, Power moves and power failures report, June 2024
10. Science Based Targets Initiative (SBTi), SBTi Corporate Net-Zero Standard Criteria: Version 1.2, March 2024, p.18
11. Reclaim Finance, The limits of (not so) clean energy, October 2023
12. In the IEA's NZE, total methane emissions from fossil fuel supply fall by around 75% between 2020 and 2030.
    IEA, Net Zero by 2050: A Roadmap for the Energy Sector, May 2021, p.155
13. Carbon offsets can be used outside of targets as beyond value chain mitigation (BVCM).
14. Wind, solar, storage, power grids, geothermal, hydropower (retrofit and upgrading), green hydrogen (not for power generation), heat (electrification).
15. These targets are based on the IEA's NZE scenario, and consider that renewables and nuclear targets can and should be reached with sustainable solutions. More details in Reclaim Finance's recommendations for banks and the power sector.
    Reclaim Finance, Recommendations – Banks - Power sector, August 2023
    IEA, World Energy Outlook 2024, October 2024, p.311
16. Wind, solar, storage, power grids, geothermal, hydropower (retrofit and upgrading), green hydrogen (not for power generation), heat (electrification).
17. This target is based on the IEA's NZE scenario, and considers that renewables and nuclear targets can and should be reached with sustainable solutions. The remaining 14% are divided between activities related to fossil fuels (11%) and other activities (3%), such as EV chargers, Hydrogen infrasctructure, and Direct Air Capture. More details in Reclaim Finance's recommendations for banks and the power sector.
    Reclaim Finance, Recommendations – Banks - Power sector, August 2023
    IEA, Net Zero by 2050: A Roadmap for the Energy Sector, May 2021, p.155

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Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of financial players, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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