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EPH is betting on climate policy failure: Stop bankrolling their business

Since its foundation in 2009, EPH, through its subsidiaries EP Energy and EP infrastructure, has been buying up fossil fuel assets that other companies are keen to divest. In doing this, the company is going against current market trends, as well as the overall direction of climate policy in Europe. It takes an unsustainable – or at least highly risky – business model to make this viable.

EPH's acquisitions amount to close to 14 GW in coal power capacity, including the recently approved deal with Vattenfall, as well as the purchase of two Slovak coal power plants from ENEL which is yet to be concluded. Almost 75% of that capacity consists of lignite power plants. EPH has expanded massively into old fossil fuel assets in Slovakia, the United Kingdom, Germany, Italy and the Czech Republic. Despite having existed as a company for only seven years, it is now set to become Europe's third-most polluting utility, with close to 82 million tons in annual CO₂ emissions (based on 2015 data).

EPH now also owns, or is in the process of buying, lignite mines with approximately 2.5 billion tons of coal in reserves and is planning to develop two new mines in Eastern Germany which Vattenfall had already said might not need to be developed. The company is clearly not done acquiring coal assets, as it has now reportedly placed a bid to acquire the 1.7 GW Rybnik coal power plant in Poland from EDF.¹

¹ <http://www.intellinews.com/czech-based-eph-reportedly-files-bid-for-edf-s-polish-power-plant-98063/>

This massive expansion into Europe's ageing coal plant fleet was made possible by generous lending by major European and American banks, including the Royal Bank of Scotland. In particular, three big loan packages were given to EPH in the period of 2012-2014. Some of the loans, totalling over 3 billion Euros, were underwritten and coordinated by the Royal Bank of Scotland.²

Over the coming months, many utilities are expected to sell off further fossil fuel assets, and EPH is expected to be an eager contender to purchase them. EPH has over 1 billion Euros in loans maturing in 2018. The company will likely look for fresh loans to refinance those obligations. We ask that, this time around, you do not help them. Continuing to support EPH would go against the spirit of the Royal Bank of Scotland's recent commitment to "reducing exposure to thermal coal year-on-year."

As the Royal Bank of Scotland is one of many institutions that have supported this trend, we are aware that you cannot stop it on your own. However, we ask you to at least stop bankrolling EPH by:

- **Blacklisting EPH, as well as all their subsidiaries, for any further transactions, in particular for any further loans, underwriting, buying of bonds or through advisory mandate**
- **Not refinancing existing obligations resulting from the purchase of fossil fuel assets**

EPH's business strategy is clearly geared towards prolonging and intensifying coal power generation and mining in Europe, which will inevitably lead to increased CO₂ emissions. A recent report by Greenpeace Sweden highlights additional concerns relating to the company's obscure business practices and structure, which relies on letterbox companies in tax havens, as well as their radical cost-cutting and complete lack of environmental and sustainability policies.³ All this casts doubt on the company's willingness to be a constructive partner in the inevitable process of closing these mines and power plants. It is crucial that this happens in a socially and environmentally responsible manner to avoid a socialisation of large parts of the costs.

An accelerated coal phase-out is the next step in Europe's low-carbon transition. According to the IEA's 450 scenario, coal power plants need to close at roughly three times the current rate to meet the EU's climate targets. This scenario notably only aims at limiting global warming to 2°C. Aiming for 1.5°C, as envisaged in the Paris Agreement, would require even steeper cuts. It takes a special kind of company to still buy massively into lignite in this situation.

In its most recent consolidated financial statement⁴, EPH subsidiary JTSD identifies the expansion of renewable energy installations, as well as energy efficiency measures, as problems to the profitability of its coal and gas power plants. The company also states its intention to only start accumulating "considerable cash reserves" for land reclamation related to their German lignite mines after 2030. Given the unfavourable outlook for lignite, this would be far too late to be effective.

It seems that, at best, EPH is betting on collecting taxpayer subsidies through capacity markets or similar schemes to make their investments pay off. At worst, they could be looking to actively undermine emissions reduction efforts to keep their coal investments profitable, without any intention of paying the very high land reclamation costs related to lignite mining. In any event, EPH will strive to keep the power plants they recently acquired open as long as possible to generate

² <http://www.ephholding.cz/en/press/eph-closes-a-e1-5bn-loan-financing-the-acquisition-of-49-stake-in-slovensky-plynarensky-priemysel-a-s-spp/>, <http://www.epholding.cz/en/press/ep-energy-signed-eur-1-0-billion-banking-financing/>

³ <https://blog.campact.de/wp-content/uploads/2016/06/Nice-and-Clean-Final-report-Eng.pdf>

⁴ <https://www.greenpeace.de/sites/www.greenpeace.de/files/publications/bundesanzeiger-jtsd2014konzern.pdf>

maximum return on their investments. By bankrolling EPH, the Royal Bank of Scotland is actively undermining Europe's effort to fight climate change – whether intended or not.

We look forward to your answer. Please do not hesitate to get in touch should you have any questions.

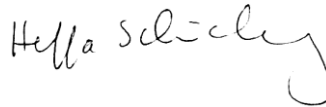
Yours sincerely,



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