Harnessing sustainable finance for the energy transition

Eurelectric position paper

April 2024

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

WG Sustainable Finance

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KEY MESSAGES

- The EU has adopted a comprehensive framework for sustainable finance during the last legislature, from a Taxonomy for sustainable economic activities to European standards for sustainability reporting. Utilities are devoting substantial resources towards achieving compliance with this new set of rules.

- As stakeholders begin to consider changes to sustainable finance legislation, Eurelectric urges policymakers to give full priority to the cost-effective implementation of the current framework during the next political cycle.

- A focus on the pragmatic and results-oriented implementation of the EU Taxonomy and of the European Sustainability Reporting Standards (ESRS) can provide more added value to utilities in transition and to society at large. As utilities continue to adapt their internal work processes to this new normal, substantial amendments to the EU Taxonomy appear counterproductive.

- Better industry involvement and improved regulatory coherence are equally necessary to safeguard the integrity of the legislative process for upcoming initiatives such as the sector-specific ESRS or a review of the Sustainable Finance Disclosure Regulation (SFDR). Any further reporting obligation under sector-specific standards should be subject to previous cost-benefit analysis. Regulators should also consider dismissing datapoints with low added value and focusing on a reduced set of mandatory datapoints.

- Utilities need a wide range of investment sources to achieve the targets of the energy transition. It is essential to prevent new barriers from restricting their access to finance, and to strengthen the EU's commitment to transition finance in a technology-agnostic way.

As part of the European Green Deal, EU institutions have adopted cross-sectoral legislation to improve investor access to sustainability information, from a Taxonomy for sustainable economic activities to European Sustainability Reporting Standards. This should in turn improve access to finance for the sustainable transition of companies. As the Platform for Sustainable Finance highlighted in its recent report on a compendium of market practices, the power sector stands out as an early adopter of the sustainable finance framework: in 2023, 69 % of utilities' capital expenditure was aligned with the EU Taxonomy.[1]

As the current political cycle ends, EU stakeholders have begun discussing improvements to key legislation of the sustainable finance framework. Yet, certain pieces of the sustainable finance puzzle have only recently been agreed and remain to be implemented in part or in whole. The resulting regulatory uncertainty affects day-to-day operations for companies in the power sector. Utilities are ramping up their efforts to comply with sustainability disclosures and increasingly leverage green finance to pave a credible path to net zero. However, adapting company procedures to these instruments is demanding in terms of resources and time, with limited financial benefits for the time being.[2] For sustainability reporting in particular, different actors in the reporting chain are yet to achieve a common understanding of expected outputs.

As obstacles remain for utilities to access funds for their transition, a stocktake is needed to assess the effectiveness of the sustainable finance framework and improve its usability for the real economy. We therefore outline a series of recommendations for lawmakers to consider ahead of the next political cycle.

Taxonomy framework: focus on implementation and usability

The Taxonomy Regulation is the cornerstone of the EU's sustainable finance framework. From the onset, however, this framework has been difficult to understand and to implement for stakeholders, with many still assuming that the EU Taxonomy is a mandatory tool, when in fact it is voluntary. Therefore, more attention should be paid to the implementation of the Taxonomy and its usability to increase its added value for users. This is necessary to achieve its mainstreaming in the energy sector and to create a shared sense of ownership among stakeholders.

Additionally, reporting obligations under the Taxonomy Regulation have kicked in only recently: energy utilities began reporting on their Taxonomy-alignment in 2023 for the preceding financial year. The coordination and data harvesting required throughout this

[1] Platform on Sustainable Finance: A Compendium of Market Practices, January 2024, p.18. The percentage of Taxonomy-aligned capital expenditure expresses the average for a sample of 75 companies.
[2] Ibid, p.25.

exercise are considerable and bind sizable company resources ahead of the yearly publication of sustainability reports. **As utilities continue to adapt their internal work processes to this new normal, substantial amendments to the Taxonomy appear counterproductive.**

As highlighted by Commission President Ursula von der Leyen in her State of the Union speech[3], a key challenge for EU public policy going forward is to simplify and clarify reporting for companies. This is essential to ensure legal certainty, guarantee greater transparency and comparability, reduce compliance costs, strengthen investor confidence, and improve the credibility and strength of the European sustainable finance framework.

Eurelectric supports the Commission's aim to simplify current reporting obligations, while ensuring that the data reported by companies remains comparable. Simplification can be achieved through more user-friendly tables, but also through a consistent use of terminology and requirements across EU legislation (e.g., alignment with the Water Framework Directive).

Sustainability reporting: implementation first

Sustainability reporting is undergoing important changes with the entry into force of the revised Corporate Sustainability Reporting Directive (CSRD) and the introduction of European Sustainability Reporting Standards (ESRS). While the European Commission and EFRAG have already set their sights on additional sector-specific standards, we urge policymakers to focus first on the implementation of adopted reporting obligations. Indeed, the magnitude and complexity of reporting requirements under the ESRS is challenging, with 176 mandatory datapoints and 647 datapoints subject to companies' materiality assessment.[4] The introduction of double materiality is a welcome step in the direction of tailor-made reporting and will ensure that information disclosed by companies is relevant to their end-users. Yet its implementation is challenging, and the achievement of comparable and consistent reporting practices between companies will likely take years. **In the course of implementation, regulators should consider dismissing datapoints with low added value and focusing on a reduced set of mandatory datapoints.**

A further proliferation of mandatory disclosures is not an end in itself. **For this reason, any further reporting obligation under sector-specific standards should be subject to previous cost-benefit analysis.** They should also be grounded in feedback from the implementation of the first set of ESRS. If adopted, the sector-specific standards need to provide for a sufficient implementation period to allow companies to prepare for them.

Improve industry involvement

Industry involvement in policymaking is key to ensure that new legislation, obligations, and standards are relevant and implementable. However, the structured processes leading to the

[3] European Commission: 2023 State of the Union Address by President von der Leyen, 13 September 2023.
[4] EFRAG: Draft EFRAG IG 3: List of ESRS datapoints. Eplanatory note, December 2023.

adoption of new obligations have at times lacked transparency and predictability. In particular, **the industry should be closely involved in the amendment of Taxonomy Technical Screening Criteria to avoid excessive reliance on corrective instruments such as guidance**. In the context of the Taxonomy Regulation, guidance documents and FAQs can result in more confusion instead of eliminating ambiguities. The industry should also be involved in the development of the sector-specific reporting standards – they need to be developed by EFRAG in close cooperation with stakeholders.

The accountability of consultative bodies involved in the development of such legislation, obligations and standards is key in the context of Better Regulation. The different work streams and activities of the Platform for Sustainable Finance for example would benefit from improving transparency and collaboration with stakeholders.

Ensure a consistent policy framework

The development of new policy initiatives needs to ensure coherence with existing legislation. Double-reporting and overlapping obligations in the ESRS, the CSDDD[5] and the SFDR[6] are counterproductive and breed confusion, particularly in relation to value chain monitoring.

New legislation should also prioritise consistency with the overall objectives of EU energy policy. In particular, a review of the SFDR must not make access to finance for companies engaged in their transition towards low-carbon production more difficult. However, stronger alignment of different investment fund categories with clear criteria such as transition strategies or Taxonomy alignment can be considered to improve comparability between different investment bodies.

As regards the Taxonomy, it is essential to include the entire supply chain of a given activity to ensure optimum coherence, a global vision and understanding of sustainable practices. **Funding mechanisms such as EIB loans, the Innovation Fund, state aid guidelines and Important Projects of Common European Interest (IPCEI) should also be considered in the light of the Taxonomy and other sustainable finance texts to enhance their positive impact on the transition to a sustainable economy**. Finally, regulatory frameworks that provide long-term certainty and support innovative and sustainable investments, including flexible financing instruments for risk sharing, should be developed.

Accelerate the financing of the sustainable transition

While the stated objective of the sustainable finance framework is to facilitate the access to finance for the green transition, companies are facing increasingly difficult funding conditions due to a high interest rate environment, value chain disruptions and regulatory uncertainty.

[5] Corporate Sustainability Due Diligence Directive.
[6] Sustainable Finance Disclosure Regulation.

In addition, electricity utilities with assets in polluting technologies face increasing scrutiny from investors who refuse investing in high emitters irrespective of their planned investments. This trend affects both project finance and the procurement of funds for general expenditure. In this context, the current sustainable finance framework risks acting as a bottleneck rather than as an enabler.

It is therefore essential to prevent new barriers to finance from upending companies' transition to low-carbon business models. In this effort, transition plans have an important role to play. They provide reliable information about the investment plans underpinning companies' climate commitments and can help organising and structuring the transition, both for business entities and the economy. By raising the general awareness about transition plans' role in long-term corporate planning, the EU could help bridge gaps between utilities and investors.

Considering the enabling role of the energy sector in Europe's transition towards climate neutrality, **utilities also need a wide range of financial instruments and investment sources to achieve a deployment of green energy sources compatible with Europe's climate objectives. To achieve this, it is imperative for forthcoming regulatory initiatives to reflect a technology-agnostic approach to low-carbon technologies**, as presented in the European Commission's recent communication on the 2040 climate targets.[7]

[7] "All zero and low carbon energy solutions (including renewables, nuclear, energy efficiency, storage, CCS, CCU, carbon removals, geothermal and hydro-energy, and all other current and future net-zero energy technologies) are necessary to decarbonise the energy system by 2040." European Commission: Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society, Communication, 06 February 2024.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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