



## TXU and Climate: Risky Business

### Texas utility coal-fired power plants will produce super-sized emissions of dangerous greenhouse gases

TXU Corporation [NYSE: TXU], a Dallas, Texas based utility company, is currently seeking \$11 billion in financing to build eleven pulverized coal-fired power plants in Texas producing 9GW of electricity by 2011. The plants have no technology to capture CO<sub>2</sub> emissions. When completed, they will result in 78 million tons of new and additional CO<sub>2</sub> emissions, more than doubling the size of TXU's climate footprint.<sup>1</sup> These plants represent the first phase of a recently announced TXU strategy that also calls for the build out an additional 14GW of similar coal-fired power plants in other parts of the country.<sup>2</sup>

In addition to environmental concerns surrounding coal extraction, and the risks of pollution affecting the health and welfare of nearby communities, the old fashioned coal-fired technology promoted by TXU is widely recognized by regulators and scientists as the most greenhouse gas (GHG) polluting source of electricity, posing particularly severe threats to the global climate system.<sup>3</sup> At the same time that it wants to construct 9 GW of new dirty power plants, TXU is planning to sell off its or lower GHG emission natural gas-fired power plants in Texas that have 10GW of capacity.<sup>4</sup>

TXU's planned power plants will lock in coal power production in Texas for generations to come, at the expense of energy alternatives and with massive annual emissions. Independent analysts have shown that there are viable alternative means for meeting Texas' energy needs, which are faster, cheaper and cleaner than the TXU proposal<sup>5</sup>; however, the fast-track politicization of the process threatens to undermine the public's ability to fully evaluate these alternative sources.

GHG emissions are currently unregulated in Texas and at the federal level in the United States, and Texas already has the nation's highest rate of CO<sub>2</sub> emissions, while the U.S. leads the world in greenhouse gas emissions, which are a leading contributor to climate change. Implementation of TXU's coal power expansion plans will transform TXU into the country's largest single corporate emitter of greenhouse gases.<sup>6</sup>

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<sup>1</sup> Wall St. Journal, July 21, 2006, Page A1. "Burning Debate: As Emissions Restrictions Loom, Texas Utility Bets Big on Coal. Planned TXU plants raise global-warming concerns. Rivals try new technology. Mr. Wilder cites demand", by Rebecca Smith.

<sup>2</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "TXU Envisages 23 GW Coal Empire", November 10, 2006.

<sup>3</sup> <http://www.nrdc.org/media/pressreleases/060929a.asp>

<sup>4</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "Texas Hold 'Em? TXU auction sees delay", August 3, 2006.

<sup>5</sup> <http://www.environmentaldefense.org/article.cfm?contentID=5585&campaign=583>; and [http://www.environmentaldefense.org/documents/5586\\_FactSheet\\_Reserve%20Margin.pdf](http://www.environmentaldefense.org/documents/5586_FactSheet_Reserve%20Margin.pdf)

<sup>6</sup> The top corporate GHG emitter in the US in 2004 released 190Mt of CO<sub>2</sub>. <http://www.ceres.org/pub/publication.php?pid=11> TXU's GHG emissions will top 220Mt/year if all 23GW of coal fired plants are built.

## The TXU Project's Contribution to Climate Change

TXU's greenhouse emissions from its existing electrical generation plants totaled 50 million tons of CO<sub>2</sub> in 2004, according to TXU's submission to the Carbon Disclosure Project.<sup>7</sup>

An additional 78 million tons of CO<sub>2</sub> would be released from TXU's eleven proposed coal power plants in Texas.<sup>8</sup> Seventy-eight million tons of CO<sub>2</sub> is:

- Greater than the total GHG emissions of 21 U.S. states<sup>9</sup>;
- Larger than the total GHG emissions of many countries, including New Zealand, Denmark, Ireland and Sweden;<sup>10</sup>
- Larger than Japan's entire emission reduction commitment under the Kyoto Protocol;<sup>11</sup>
- Twice as large as Canada's entire Kyoto emission reduction commitment;
- Six times larger than the Netherlands' emission reduction commitment;
- More than 80 percent of the UK's emission reduction commitment;
- 2.6 times larger than the GHG benefits of California's groundbreaking greenhouse gas reduction program for cars and trucks;<sup>12</sup>
- Eight times larger than the projected 2018 GHG benefits resulting from the Northeastern States Regional Greenhouse Gas Initiative (RGGI);
- Equivalent to the annual GHG emissions of adding 14 million average new cars to U.S. roads; and,
- Greater than British Petroleum's global GHG emissions.<sup>13</sup>

Ironically, Japanese, Canadian, Dutch and UK based banks are among those being asked to finance TXU's projects,<sup>14</sup> which would negate the work that governments, businesses and the public in these countries are investing in to meeting Kyoto Protocol commitments.

Externality costs of CO<sub>2</sub> emissions are not considered in TXU's financial planning, but they are important for evaluating the economy-wide impact of such projects. Using recently released externality cost estimates from the Stern report<sup>15</sup>, **TXU's 78 million tons of new CO<sub>2</sub> emissions from its proposed new coal power plants in Texas will impose negative climate-related externality costs estimated at \$6.6 billion per year.** Extended over the 50 year expected lifetime of these plants, externality costs total \$330 billion. Most of these costs will not be borne by TXU or its customers, but rather will be globally distributed, and many of the world's poorest people are also the most vulnerable to negative impacts and loss of livelihood from climate change. There are also very vocal concerns from local folks, including the mayors of Dallas,

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<sup>7</sup> <http://www.cdproject.net/>

<sup>8</sup> [www.stopTXU.com](http://www.stopTXU.com)

<sup>9</sup> <http://www.environmentaldefense.org/article.cfm?contentID=5404&campaign=583>

<sup>10</sup> Ibid; and calculations from <http://www.davidsuzuki.org/> "Who's meeting their Kyoto targets?", Backgrounder, May 2006 based on National Inventories data submitted by governments to the UN Framework Convention on Climate Change, available at: [http://unfccc.int/national\\_reports/annex\\_i\\_ghg\\_inventories\\_submissions/itmes/2761.php](http://unfccc.int/national_reports/annex_i_ghg_inventories_submissions/itmes/2761.php)

<sup>11</sup> from <http://www.davidsuzuki.org/> "Who's meeting their Kyoto targets?", Backgrounder, May 2006 based on National Inventories data submitted by governments to the UN Framework Convention on Climate Change, available at: [http://unfccc.int/national\\_reports/annex\\_i\\_ghg\\_inventories\\_submissions/itmes/2761.php](http://unfccc.int/national_reports/annex_i_ghg_inventories_submissions/itmes/2761.php)

<sup>12</sup> <http://www.environmentaldefense.org/article.cfm?contentID=5404&campaign=583>

<sup>13</sup> <http://www.cdproject.net/> See submission by BP.

<sup>14</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "TXU Eyes Options For \$11B Plant Financing", by Katy Burne August 11, 2006

<sup>15</sup> [http://www.hm-treasury.gov.uk/media/8AC/F7/Executive\\_Summary.pdf](http://www.hm-treasury.gov.uk/media/8AC/F7/Executive_Summary.pdf) Externality costs are estimated at \$85/ton of CO<sub>2</sub>.

Forth Worth and Houston, about the impacts of mercury and nitrogen oxide pollution from the plants.<sup>16</sup>

### **Coal power plants and the U.S.: Everything's bigger in Texas**

The Energy Department's National Energy Technology Laboratory (NETL) counts 154 new coal plants on the drawing books across the country by 2030 -- with Texas ahead of Illinois as the top state for new capacity and financial investment. The NETL data posted in October 2006 shows that utilities in Texas would spend \$17.8 billion on 17 new coal plants, with 11 of these by TXU. According to NETL, other utilities planning to build power plants in Texas include Sempra Generation, the City Public Service Board of San Antonio and LS Power Development.<sup>17</sup>

In addition to its Texas expansion plans, TXU has also announced its intention to build up to an additional 13 "cookie-cutter" coal-fired plants in other states, so named because they share the same basic design with the plants it proposes to build in Texas.<sup>18</sup> Assuming these cookie cutter coal plants all have similar GHG emission rates, the new plants would emit an additional 92 million tons of new CO2 emissions. In total, this would give TXU a carbon footprint of more than 220 million tons of CO2 emissions per year from its electrical generation alone. TXU's 24 new cookie-cutter coal plants would:

- More than quadruple TXU's GHG emissions;
- Impose social and economic externality costs of \$14.5 billion per year; and,
- Make TXU the largest single corporate source of CO2 emissions in the United States.

Do financial institutions and investors really want to be associated with funding massive increases in GHG emissions by a company whose ambition is to become the largest GHG polluter in the United States?

### **Climate Change: An Ecological, Economic and Social Threat**

Jim Hanson, chief climate scientist at NASA, states, "Another decade of business-as-usual carbon emissions will probably make it too late to prevent the ecosystems of the north from triggering runaway climate change."<sup>19</sup> Scientists are also warning that climate change could result in the loss of more than half of the Amazon Basin tropical rainforest.<sup>20</sup> The loss of the Amazon rainforest, which provides critical ecosystem services that regulate global climate, will trigger even more cataclysmic impacts.

The Intergovernmental Panel on Climate Change (IPCC) has stated the need for 60-80 percent reductions in GHG emissions by mid-century to prevent dangerous climate change scenarios, and the IPCC has also emphasized that investments made over the next ten years are crucial.

Similarly, the UK government's recently released report by former World Bank Chief Economist, Sir Nicholas Stern, on the economics of climate change underscores the enormous costs of delaying action to reduce carbon emissions. In considering the threat of continuing with business-as-usual growth in greenhouse gas emissions, the report states:

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<sup>16</sup> <http://www.houstontx.gov/mayor/press/20060831.html>; the coalition also includes county governments, bringing it to 21 municipalities, and the list appears to be growing.

<sup>17</sup> [http://www.eenews.net/features/documents/2006/10/12/document\\_gw\\_03.pdf](http://www.eenews.net/features/documents/2006/10/12/document_gw_03.pdf)

<sup>18</sup> <http://www.time.com/time/insidebiz/article/0,9171,1541270-1,00.html>

<sup>19</sup> <http://www.newscientist.com/article/mg19125713.300-one-degree-and-were-done-for.html>.

<sup>20</sup> One review of recent science can be found at: [http://www.panda.org/news\\_facts/newsroom/index.cfm?uNewsID=64220](http://www.panda.org/news_facts/newsroom/index.cfm?uNewsID=64220); news about the Amazon drought can be found at <http://www.ens-newswire.com/ens/oct2005/2005-10-24-05.asp>.

*“Our actions over the coming few decades could create risks of major disruption to economic and social activity, later in this century and in the next, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century. And it will be difficult or impossible to reverse these changes. Tackling climate change is the pro-growth strategy for the longer term, and it can be done in a way that does not cap the aspirations for growth of rich or poor countries. The earlier effective action is taken, the less costly it will be.”<sup>21</sup>*

Key findings from the Stern report include:

- Climate change is the most massive market failure in human history<sup>22</sup>;
- All countries will be impacted by climate change, but the poorest countries will suffer most;
- 200 million persons may be displaced by climate impacts by mid-century;
- Global warming of only 2 degrees Celsius could threaten 15-40 percent of species with extinction;
- Warming of 4 degrees Celsius will seriously threaten global food production;
- Externality costs are conservatively estimated at \$85 per ton of CO<sub>2</sub> released to the atmosphere;
- Unabated climate change could cost the world 5-20 percent of global GDP each year;
- The cost of inaction is on a scale of the impacts of both World Wars and the Great Depression combined; and,
- The costs of reducing emissions now to prevent dangerous climate change from occurring can be limited to 1 percent of GDP.

### **Climate Change and Stakeholder Opinion**

Public concern towards climate change issues is also dramatically increasing in the U.S. and in countries around the world. Two-thirds of Americans believe that climate change will have negative economic impacts in the U.S. in the next ten years.<sup>23</sup> A majority of U.S. hunters and anglers report that they are already seeing climate changes.<sup>24</sup> Recent polls in Canada show 77 percent of the public wanting its government to meet Canada’s Kyoto commitment by 2012.<sup>25</sup> Two-thirds of Europeans recently surveyed by the Financial Times support restrictions on their lifestyle or purchases to address climate change.<sup>26</sup> In Australia, 86 percent of voters want the government to do more on climate change.<sup>27</sup>

Rapidly growing public concern is increasing expectations for stricter regulation of GHG emissions, not least in the U.S. At the federal level, Democrats, who are generally much more responsive to climate change issues<sup>28</sup>, will be taking over control of both the House and the Senate in January 2007. The new Democratic majority in Washington has already signaled that regulation to curb global warming emissions is a political priority, adding new potential regulatory risk to TXU and other new coal power projects.<sup>29</sup>

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<sup>21</sup> The Stern Report, commissioned by the British government, is available at [http://www.hm-treasury.gov.uk/independent\\_reviews/stern\\_review\\_economics\\_climate\\_change/sternreview\\_index.cfm](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm)

<sup>22</sup> [http://www.hm-treasury.gov.uk/newsroom\\_and\\_speeches/press/2006/press\\_stern\\_06.cfm](http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2006/press_stern_06.cfm)

<sup>23</sup> <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/11-28-2006/0004481644&EDATE=>

<sup>24</sup> <http://www.ksl.com/?nid=148&sid=642762>

<sup>25</sup> <http://www.zmag.org/content/showarticle.cfm?SectionID=57&ItemID=11504>

<sup>26</sup> <http://news.moneycentral.msn.com/provider/providerarticle.aspx?feed=FT&Date=20061119&ID=6210635>

<sup>27</sup> <http://www.abc.net.au/news/newsitems/200611/s1779238.htm>

<sup>28</sup> <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/11-28-2006/0004481644&EDATE=>

<sup>29</sup> <http://www.npr.org/templates/story/story.php?storyId=6464267>

Investors also are taking climate change issues much more seriously. In February 2006, 225 institutional investors with more than \$31 trillion in assets under management sent requests for information to more than 2,100 of the world's largest listed corporations, asking them to disclose their carbon risks and the steps they are taking to address them, as part of the Carbon Disclosure Project (CDP). In TXU's response to the CDP, however, the company failed to disclose their plans to more than double TXU's carbon emissions' footprint.<sup>30</sup>

TXU "fact sheets" typically either obfuscate or ignore the climate risk associated with the new coal plants. TXU's "Carbon Dioxide Overview" from July 2006, for example, audaciously compares the impact of massive GHG emissions from coal power to the fizz from soft drinks. It also states that "CO<sub>2</sub> is not a pollutant" and profiles its modest \$50,000 contribution it made to nine groups to reduce their GHG emissions<sup>31</sup> while avoiding mention of the 50 million tons of GHG emissions from its existing operations<sup>32</sup> or the additional 78 million tons from its planned expansion in Texas.

Not surprisingly for a company undertaking a massive buildup of GHG emissions, TXU's public policy position calls for voluntary, flexible actions by government to control greenhouse gases. Ironically, they also call for a "technology based approach to climate change based on carbon intensity," even as they are aggressively moving forward with old fashioned high carbon intensity pulverized coal power plant expansion plans.<sup>33</sup> TXU's policy position stands in stark contrast to other investor-owned utilities, such as PG&E, Duke Energy and Exelon, which, along with a growing range of big business from other sectors, are all calling for mandatory caps and regulation from the U.S. government.<sup>34</sup>

#### **Meanwhile in Texas....**

Public opinion in Texas is largely against coal. A 2005 Scripps-Howard poll in Texas found wide public support for renewable energies. Seventy-nine percent of Texans surveyed stated their preference for renewable sources of energy to meet growing energy needs, while only six percent stated a preference for coal.<sup>35</sup>

Nonetheless, TXU has done a good job of priming the pump for its coal power project. Governor Rick Perry, who has received more than \$85,000 in campaign contributions from TXU interests, has issued an Executive Order fast tracking TXU's permitting process.<sup>36</sup> The Wall Street Journal reported on the widespread belief that TXU is trying to fast-track construction of their ill-advised coal power plants in order to get their high greenhouse gas emission levels "grandfathered in" before carbon regulations take effect; this is a perverse attempt to circumvent impending federal regulation, and it carries risks for all investors.<sup>37</sup>

Fast tracking allows a given project to go forward without undergoing normally mandatory consideration of alternative energy options. This is unfortunate in a state with abundant wind and solar potential. A new study by Environmental Defense shows that the TXU power plants are not

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<sup>30</sup> [http://www.cdproject.net/response\\_list.asp?id=4&letter=A](http://www.cdproject.net/response_list.asp?id=4&letter=A)

<sup>31</sup> TXU, July 2006, "Carbon Dioxide Overview". PDF document, on file, RAN.

<sup>31</sup> Ibid

<sup>32</sup> [http://www.cdproject.net/response\\_list.asp?id=4&letter=A](http://www.cdproject.net/response_list.asp?id=4&letter=A)

<sup>33</sup> TXU, July 2006, "Carbon Dioxide Overview". PDF document, on file, RAN.

<sup>34</sup> <http://www.grist.org/news/muck/2006/04/06/griscom-little/index.html?source=weekly>; and <http://www.washingtonpost.com/wp-dyn/content/article/2006/11/24/AR2006112401361.html?nav=hcmodule>

<sup>35</sup> <http://www.citizen.org/documents/final%20poll%20with%20demographics.pdf>

<sup>36</sup> <http://www.dallasnews.com/sharedcontent/dws/news/elections/2006/stories/101406dnmetperry.332d4d1.html>

<sup>37</sup> Wall St. Journal, July 21, 2006, Page A1. "Burning Debate: As Emissions Restrictions Loom, Texas Utility Bets Big on Coal. Planned TXU plants raise global-warming concerns. Rivals try new technology. Mr. Wilder cites demand", by Rebecca Smith.

the appropriate answer to Texas' power needs; the report shows that investments in energy efficiency and peak demand management will outperform the new coal-fired power plants, saving time, money and resources, while protecting public health and improving the strength of Texas businesses.<sup>38</sup> A lawsuit on this issue has been filed against the Texas environmental agency, contending that the state is breaking its own rules in issuing permits for TXU's coal power expansion project.<sup>39</sup>

Opposition is growing in other quarters as well. A coalition of 21 Texas municipalities, including the mayors of Texas' three largest cities, Dallas, Fort Worth and Houston, have formed "The Texas Cities for Clean Air Coalition" to oppose the TXU expansion plan and have put together a \$500,000 war chest to hire counsel and pursue legal strategies.<sup>40</sup> Among the reasons for their opposition is that these urban areas already suffer from bad air quality, with public health impacts that include elevated asthma rates among children. The new power plants will further degrade air quality in surrounding communities. Dallas is already at risk of failing to meet federal clean air standards set for 2010, and if the region does not comply, the EPA could cut off federal highway funds and restrict new industrial development.<sup>41</sup>

Nor does it help that TXU has been implicated for manipulating electricity market prices in Texas in 2005. Like the situation provoked by Enron's role<sup>42</sup> in manipulating California's electricity markets for massive profit in 2001, which led to California's much-publicized rolling blackouts, the Texas Public Utility Commission will now be conducting investigations into TXU's manipulation of price spikes in Texas.<sup>43</sup> Brownouts and the rising cost of electricity have been used by the TXU-supported governor as a rationale for fast-tracking TXU's coal power project in 2005. More recently, Texas legislators slammed TXU for its record profits and high rates in recent hearings and are concerned that TXU is taking unfair advantage of deregulation.<sup>44</sup> Indeed, recent studies by the Texas Coalition of Cities for Utility Issues confirm that prices are going up under the Texas deregulation scheme, much to the anger of rate payers.<sup>45</sup>

A diverse set of civil society and religious groups are also stepping up grassroots opposition to the coal plants, with activities including hunger strikes and prayer vigils.<sup>46</sup> As CNN Money has reported, growing opposition ranges from mayors to ranchers to environmental groups – including Rainforest Action Network, Public Citizen, the SEED Coalition, the Natural Resources Defense Council, Environmental Defense and the Sierra Club – to investor groups such as CERES.<sup>47</sup>

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<sup>38</sup> <http://www.environmentaldefense.org/article.cfm?contentID=5585&campaign=583>; and [http://www.environmentaldefense.org/documents/5586\\_FactSheet\\_Reserve%20Margin.pdf](http://www.environmentaldefense.org/documents/5586_FactSheet_Reserve%20Margin.pdf)

<sup>39</sup> [http://www.dallasnews.com/sharedcontent/dws/news/texasouthwest/stories/DN-coal\\_20tex.ART.State.Edition1.3e30a91.html](http://www.dallasnews.com/sharedcontent/dws/news/texasouthwest/stories/DN-coal_20tex.ART.State.Edition1.3e30a91.html)

<sup>40</sup> <http://www.dallasnews.com/sharedcontent/dws/bus/stories/111206dnmetcoal.3336ed4.html> ; and <http://www.dallasnews.com/sharedcontent/dws/dn/latestnews/stories/090106dnmetcoalition.53a60b1c.html>

<sup>41</sup> [http://www.environmentaldefense.org/documents/5431\\_TXU\\_FactSheet\\_QandA.pdf](http://www.environmentaldefense.org/documents/5431_TXU_FactSheet_QandA.pdf) and [http://www.stopthecoalplant.org/downloads/TXU\\_shareholders\\_sheet.pdf](http://www.stopthecoalplant.org/downloads/TXU_shareholders_sheet.pdf)

<sup>42</sup> <http://www.cbsnews.com/stories/2004/06/02/eveningnews/main620795.shtml>

<sup>43</sup> <http://www.environmentaldefense.org/article.cfm?contentID=5572&campaign=583>

<sup>44</sup> <http://www.dallasnews.com/sharedcontent/dws/dn/latestnews/stories/111006dnbustxu.4f7cb9d.html>

<sup>45</sup> <http://www.dfv.com/mld/dfv/business/16139606.htm>

<sup>46</sup> <http://www.stopthecoalplant.org/media.php>

<sup>47</sup> [http://money.cnn.com/2006/11/08/magazines/fortune/pluggedin\\_gunther\\_TXU.fortune/?postversion=2006110909](http://money.cnn.com/2006/11/08/magazines/fortune/pluggedin_gunther_TXU.fortune/?postversion=2006110909)



## Finance Sector and the TXU Project:

TXU secured a significant commitment in June 2006 by three major banks to arrange \$11 billion in project financing, with **Morgan Stanley** and **Citigroup** named as TXU's financial advisors<sup>48</sup>, and **Merrill Lynch** reportedly set to play a significant advisory role.<sup>49</sup> Initially, banks will be looking for equity investors willing to foot up to 49 percent of the cost of construction. Morgan Stanley is working with TXU to identify prospective partners, and they hope to move to phase two of bidding by the end of 2006. TXU then hopes to select a "winner" in the first quarter of 2007.<sup>50</sup>

For debt financing, TXU is working with its advisors Citigroup, Morgan Stanley and Merrill Lynch to determine whether to complete its financing in one mega deal or on a plant-by-plant basis. In addition to the advising banks, **Barclays Capital** and **Caylon** have been named as second-tier lenders on the financing, and between 18 and 20 other banks have been approached to join the syndicate of lenders, including **Société Générale**, **Mizuho**, **Bank of Tokyo-Mitsubishi**, **HypoVereinsbank**, **Scotiabank**, **ABN AMRO**, **Wachovia** and **HSBC**.<sup>51</sup> Other banks that TXU might ask to join the syndicate include **JP Morgan Chase**, **Deutsche Bank**, **Bank of America**, **UBS**, **Credit Suisse** and **Mellon Bank**.<sup>52</sup>

The entire project will be housed under a newly created subsidiary holding company, TXU Generation Development Company.

Potential investors are reportedly raising serious questions about the considerable risks to potential partners as the deal is structured. This is echoed by wider investor concerns over TXU's approach, with industry players reported to be warning of risks that TXU will not be able to access fresh capital to complete its 23GW build-out, as well as possible commodities shocks mid-build, and the potential of coal emissions legislation. Michael Peavy, President of the California Public Utilities Commission, is quoted, "Be very cautious if you go down the road of pulverized coal, the consequences could be very serious."<sup>53</sup>

TXU analysts are also expressing doubt over TXU's assumptions underlying its aggressive build-out strategy, including expression of serious "investor skepticism of TXU's ability to complete its construction program on the proposed budget and schedule, as well as its ability to raise non-recourse financing for the expansion."<sup>54</sup> Already, CEOs from Duke Energy, NRG and Allegheny Energy have announced that costs to build new coal power plants are rising significantly.<sup>55</sup>

As public concern over climate change continues to mount, banks need to consider reputational risk issues if they choose to finance this project. Rainforest Action Network, CERES, Environmental Defense and others have been contacting potential financing banks in North America, Europe and Japan, raising very serious concerns and warning them against support for this project due to its massive greenhouse gas emissions and failure to meet basic principles of common sense when it comes to climate change.

Financing for this one project would completely negate by factors of 100X and more the significant efforts by some banks to reduce the climate impacts of their internal operations. For all banks, the TXU project highlights the need for a new generation of bank climate policies that set

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<sup>48</sup> <http://www.txucorp.com/media/newsrel/detail.aspx?prid=956>

<sup>49</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "TXU Eyes Options For \$11B Plant Financing", by Katy Burne August 11, 2006

<sup>50</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "TXU maps out partner selection process for \$11B buildout", Mark DeCambre, October 20, 2006.

<sup>51</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "TXU eyes options for \$11B plant financing", by Katy Burne, August 11, 2006.

<sup>52</sup> <http://www.secinfo.com/d14D5a.z5738.d.htm>

<sup>53</sup> [www.iipower.com](http://www.iipower.com) Power Finance and Risk, "TXU envisages 23GW coal empire", November 10, 2006.

<sup>54</sup> "TXU: What does NRG's repowering program tell us about TXU's expansion plan?", Hugh Wynne, Bernstein Research, June 22, 2006.

<sup>55</sup> [www.marketwatch.com](http://www.marketwatch.com) "Duke CEO says cost to build coal power plants is rising", November 16, 2005.

serious targets to reduce the GHG emissions associated with financing for the energy and utilities sector, and other GHG-intensive sector portfolios.<sup>56</sup>

## **Conclusion and Recommendations**

The TXU project is an important test case of the changing role that investors must play if society is to successfully confront global warming.

There are many reasons why lending to, arranging financing for, or investing in the TXU coal project would be a bad decision for banks:

- Growing public controversy surrounding the TXU project makes it a significant target for negative publicity, which will spill over to both commercial risk and reputational risk for the lead arrangers of financing for this project as well as potential syndicate participants;
- Confronting climate change requires that financing flows shift to low emission energy sector investments in energy efficiency, renewable energy and greenhouse gas emissions reductions, and out of greenhouse gas intensive investments such as TXU's pulverized coal plants;
- The political and regulatory environment in the U.S. is changing quickly, with support for legally binding emission caps coming from many of the major utility companies themselves (but not TXU); and,
- Banks have a broader fiduciary duty, financial capacity and interest to start integrating negative impacts that are currently imposed as externality costs of climate change on the global economy.

RAN offers the following recommendations:

- Arranging and advisory banks that are involved in the TXU coal-fired power plant project should develop an exit strategy and withdraw their support;
- Other banks that are invited to finance TXU's project should decline to support this ill-advised investment;
- To help minimize and avoid climate risks, all banks should set GHG reduction targets that cover not only their operations but also their financial services, including arranging and advisory relationships, investments, investment banking, underwriting and lending; and
- Banks should develop policies and programs that prefigure the strictest global climate regulation targets consistent with scientific recommendations of the Intergovernmental Panel on Climate Change, and help their clients move quickly to adapt to a carbon-constrained economy.

Websites for more information:

[www.ran.org](http://www.ran.org)

[www.stoptxu.org](http://www.stoptxu.org)

[www.stopthecoalplant.org](http://www.stopthecoalplant.org)

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<sup>56</sup> <http://www.banktrack.org/?show=138&visitor=1>