

Who are EPH?

The Blank New Face of European Energy Companies?

April 2016

EPH has just acquired Vattenfall's German lignite assets, subject to approval from the Swedish Government.

But who are EPH? We explain...

EPH has undergone massive expansion, picking up cheap, dirty assets that European utilities are looking to divest. International household banks are providing debt to enable this. EPH are the new energy kids on the block.

EPH is purchasing power stations from the major European utilities

EPH, formed in 2009, started with a small portfolio of only 0.3GWe of coal-fired CHP solely in the Czech Republic¹. Since 2012, EPH has been on a huge spending spree across Europe, mostly of cheap, dirty power stations, financed through over €3 billion of borrowings. Its latest acquisition is a large Slovakian power generator from Enel.

The Vattenfall acquisition will almost double EPH's power generation portfolio. This currently roughly consists of:

- Coal mines, with 1 billion tonnes of coal reserves,
- 5GW of coal power stations,
- 4GW of gas power stations,
- 1GW of nuclear power stations,
- 1GW of hydro power stations.

Their acquisitions have been fast, and are speeding up:

- Aug-2015: EPH in exclusive talks to buy from Enel 66% of Slovenske Elektrarne², which comprises pro rata 1.3GW nuclear, 1.0GW of hydro, 0.7GW coal, in Slovakia (the remaining 34% is Slovak government-owned)³.
- Jan-2015: EPH buy from E.ON 3.5GW of gas power stations, and a 0.6GW of coal stations in Italy⁴.
- Jun-2015: EPH buy from EDF 0.4GW of gas-fired CHP plants in Hungary⁵.
- Nov-2014: EPH buy from Eggborough a 2.0GW coal power station in the UK⁶.
- May-2013: EPH buy 49% of Stredoslovenská Energetika from EDF – an electricity distributor in Slovakia⁷.
- Sep-2013: EPH buy from E.ON 0.4GW coal power station, plus the adjacent coal mine, in Germany⁸.
- Jan-2013: EPH buy from EDF and E.ON, a natural gas supplier in Slovakia (49% EPH, 51% Slovak gov)⁹.

¹ *Energeticky a Průmyslový holding sets up its ownership structure and launches operations.* (2009). Retrieved from <http://www.epholding.cz/en/press/energeticky-a-prumyslový-holding-sets-up-its-ownership-structure-and-launches-operations/#>.

² Za, V. & Jewkes, S. (2015, August 24). *UPDATE 2-Enel picks EPH for exclusive talks on Slovakia sale.* Reuters. Retrieved from <http://www.reuters.com/article/2015/08/24/enel-ma-eph-idUSL5N10Z0ZB20150824>.

³ Enel. Retrieved September 01, 2015 from <http://www.seas.sk/nuclear-power-plants>.

⁴ *EPH has completed the transaction for the purchase of E.On Italia coal and gas generation assets in Italy.* (2015). Retrieved from <http://www.epholding.cz/en/press/eph-has-completed-the-transaction-for-the-purchase-of-e-on-italia-coal-and-gas-generation-assets-in-italy/>.

⁵ *EDF and EP Energy sign definitive agreement for the sale of 95.6% of Budapesti Erőmű.* (2015). Retrieved from <http://www.epholding.cz/en/press/edf-and-ep-energy-sign-definitive-agreement-for-the-sale-of-95-6-of-budapesti-eromu/>.

⁶ *EPH has completed the transaction for the purchase of Eggborough.* (2015). Retrieved from <http://www.epholding.cz/en/press/eph-has-completed-the-transaction-for-the-purchase-of-eggborough/>.

⁷ *EDF and EPH complete the transaction for the sale of 49% of Stredoslovenská Energetika a.s. (SSE) in Slovakia.* (2013). Retrieved from <http://www.epholding.cz/en/press/edf-and-eph-complete-the-transaction-for-the-sale-of-49-of-stredoslovenska-energetika-a-s-sse-in-slovakia/>.

⁸ *EP Energy acquires the Helmstedt mining district including the Buschhaus power plant.* (2013). Retrieved from <http://www.epholding.cz/en/press/ep-energy-acquires-the-helmstedt-mining-district-including-the-buschhaus-power-plant/>.

⁹ *EPH acquires a 49% stake and management control in Slovenský Plynárenský Priemysel a.s. (SPP).* (2013). Retrieved from <http://www.epholding.cz/en/press/eph-acquires-a-49-stake-and-management-control-in-slovensky-plynarensky-priemysel-a-s-spp/>.

- Jul-2012: EPH buy from NRG 0.4GW coal power station in Germany¹⁰.
- Jun-2012: EPH buy from CEZ 0.2GW of coal stations, and coal mines with reserves of 500mt in Germany¹¹.
- Dec-2010: EPH buy from Kompania Weglowa a coal mine with reserves of 500mt in Poland¹².

These opportunities have come about because major European utilities are unwinding their own acquisitions from the last decade, and divesting huge amounts of assets as they shift focus and recast their businesses for the longer term. Here are just a few examples:

- EON had divested €20 billion of assets by 2013, and is planning to divest all remaining thermal and nuclear assets to a spin-off company called Uniper.
- RWE announced their plan in 2011 to divest €11 billion of assets by 2013.
- Vattenfall had divested €4 billion of assets in 2011 and 2012 alone.
- ENEL divested €4 billion in 2014 alone.
- Iberdrola is still in the process of divesting €2.5 billion of assets from 2012 to 2016.

EPH's spending spree is also only possible because banks are willing to lend. Over €3 billion was lent to EPH in 3 transactions alone from 2012 to 2014. Many major international, German and eastern European banks were involved in arranging these facilities. Here are details of these transactions:

- In 2012, a €1 billion, 6-year senior facility agreement¹³:
 - Co-ordinated by Unicredit
 - Arranged by Česká spořitelna, ČSOB, ING, Komerční banka and UniCredit.
 - Supported by Citibank, Commerzbank, HSBC, Raiffeisenbank, RBS and Volksbank
- In 2013, a €1.5 billion syndicated loan package¹⁴:
 - Arranged by Citi, JP Morgan, SocGen, RBS and Unicredit.
 - Other participants included Erste Group Bank AG, ING Bank N.V., Tatra Banka and Raiffeisen Bank, Sberbank, VTB Bank (Deutschland) AG, HSBC, Siemens, Oberbank.
- In 2014, a €0.5 billion, 6-year senior note issuance. No details of bank involvement was published¹⁵.

Whilst the major European utilities are getting smaller, new lesser-known players like EPH are getting larger.

Compared to the major utilities, EPH is faceless.

There is **no brand** – the major utilities had retail customers and if they had a problem, then their customers could hold them to account by moving their business elsewhere; EPH sell their electricity to the wholesale market, and do not have any customers of their own to consider.

There are **no shareholders** – EPH is owned privately. No part of EPH is publically-listed therefore it is not accountable to shareholders. EPH is 2/3rds owned by Daniel Křetínský (a Czech businessman), and Patrik Tkáč (a Slovakian businessman), and the remaining 1/3rd is owned by investment company J&T which is also founded by Patrik Tkáč. Much of the acquisitions are paid for by over €3 billion of debt issuances since 2012. However, the debt – like the electricity – is traded on the wholesale market, with no reporting of ownership.

¹⁰ EP Energy buys a stake in the Schkopau power plant. (2012). Retrieved from <http://www.epholding.cz/en/press/ep-energy-buys-a-stake-in-the-schkopau-power-plant/>.

¹¹ EP Energy completes the acquisition of the Mibrag. (2012). Retrieved from <http://www.epholding.cz/en/press/ep-energy-completes-the-acquisition-of-the-mibrag/>.

¹² Energetický a Průmyslový Holding takes over the Silesia mine in Poland. (2010). Retrieved from <http://www.epholding.cz/en/press/energeticky-a-prumyslový-holding-takes-over-the-silesia-mine-in-poland/>.

¹³ EP Energy signed EUR 1.0 billion banking financing. (2012). <http://www.epholding.cz/en/press/ep-energy-signed-eur-1-0-billion-banking-financing/>.

¹⁴ EPH closes a €1.5bn loan, financing the acquisition of 49% stake in Slovenský Plynárenský Priemysel a.s. (spp). (2013) Retrieved from <http://www.epholding.cz/en/press/eph-closes-a-e1-5bn-loan-financing-the-acquisition-of-49-stake-in-slovensky-plynarensky-priemysel-a-s-spp/>.

¹⁵ CE Energy announces launch of offering of senior notes. (2014). Retrieved from <http://www.epholding.cz/en/press/ce-energy-announces-launch-of-offering-of-senior-notes/>.

There is **no government influence**. Major utilities in Europe are in many cases partly or fully owned by the government. And even when this is not the case, the government often has influence because of the historical dominance of the company in that country. Governments have no such affiliation with EPH.

Why does this matter?

It is likely EPH will fight harder to keep power stations open for longer, than would have been the case for a major utility...

No concern for CO2 emissions:

Already, EPH is a huge polluter – we estimate that they will account for 2.5% of all European power sector CO2 emissions in 2015¹⁶; if you include CO2 emissions from the coal they mine, this rises to 6%. Their published coal reserves of 1 billion tonnes are equivalent to more than one year's total EU ETS emissions.

Ironically, whilst Vattenfall is looking to divest its lignite assets to reduce their CO2 emissions¹⁷, they will only handover control to a company for which CO2 emissions play no role in decision-making, which would most likely mean the lignite power stations would be generating longer than if Vattenfall owned them. Even the German economy and energy minister is warning Vattenfall of the irony, and encouraging them not to sell, fearing for a less-organised transition out of coal¹⁸.

Another example is the 2GW Eggborough coal power station in the UK – the purchase by EPH was seen as a “lifeline”, enabling it to stay open for longer than it would ordinarily¹⁹. Prior to EPH ownership, Eggborough was due to close in 2015, but EPH extended the closure to March 2016, although even now, the coal power station is not fully closed – 2 out of 4 units will be available to run in Winter 2016/17, following a contract with National Grid’s Supplemental Balancing Reserve (SBR).

EPH has coal reserves of over 1 billion tonnes (half at each MIBRAG²⁰ and Silesia²¹), so not only is coal production increasing, but it can continue for a long time.

More aggressive lobbying:

EPH has a strategy of targeting Italy based on the hope of capacity market payments to keep thermal power stations open. EPH say “we are joining a changed market arrangement known as the capacity model. The UK and Italian markets are the main markets that are in this situation and our interest focuses on them.²². It will be interesting to see how aggressively they lobby to try to make this happen. If they were successful, then power stations would again stay open for longer than they would have.

¹⁶ This assumes direct CO2 emissions of 26mt in 2015 which include Eggborough and the E.ON Italia assets, compared to predicted power sector emissions of 1059mt.

¹⁷ Nienaber, M. & Chambers, M. (2014, November 11). UPDATE 1-Germany wants to dissuade Vattenfall from selling lignite assets. *Reuters*. Retrieved from <http://www.reuters.com/article/2014/11/11/germany-sweden-vattenfall-idUSL6N0T112620141111>.

¹⁸ Ibidem.

¹⁹ ITV News. (2014). *Eggborough Power Station sold European energy group*. Retrieved from <http://www.itv.com/news/calendar/story/2014-11-05/eggborough-power-station-sold-european-energy-group/>.

²⁰ EP Energy completes the acquisition of the MIBRAG. Retrieved from <http://www.epholding.cz/en/press/ep-energy-completes-the-acquisition-of-the-mibrag/>.

²¹ Energetický a Průmyslový holding takes over the Silesia mine in Poland. Retrieved from <http://www.epholding.cz/en/press/energeticky-a-prumyslovy-holding-takes-over-the-silesia-mine-in-poland/>.

²² EPH has completed the transaction for the purchase of E.ON Italia coal and gas generation assets in Italy. Retrieved from <http://www.epholding.cz/en/press/eph-has-completed-the-transaction-for-the-purchase-of-e-on-italia-coal-and-gas-generation-assets-in-italy/>

It is possible that they have a similar expectation of a capacity mechanism in Germany, which Angela Merkel has so far rejected²³, putting EPH on a collision course with the German government.

More aggressive cost-cutting:

Already, EPH have begun to make cost reductions for both operational and capital costs. In their Q1 2015 report, they say: "We continue our operating expenses and capital expenditure cuts program. The first impacts materialized already in 2014 results with expected savings up to EUR 20 million per year ramping up based on particular deployment of specific savings and optimization measures"²⁴ In times like now of very low profit margins, aggressive cost-cutting will ensure that the power station will stay open for longer.

So as EPH continues to expand, it reinforces concerns that old coal power stations, in particular, will shut down at a slower rate than they would have in the hands of major utilities.

In addition, EPH is itself mired in controversy: there have been links drawn between one of EPH's owner, J&T, and the Slovak government, where J&T were reported to meet with the Slovakian Finance Minister on a yacht²⁵. Perhaps linked to their company "Wonderful Yacht Company", which was exposed in the Panama Papers as having been used to purchase a yacht via a company based in the British Virgin Islands²⁶.

Our Conclusion

It is ironic that these dirty power stations, which are being divested by major utilities due to stakeholder pressure to clean up their portfolios, may now end up staying open longer than they otherwise would have.

The rise of faceless, unaccountable energy companies like EPH is down to a number of factors:

- Access to capital that is happy to continue investing in incumbent technologies as long as they return a profit,
- Their ability to cut costs, including through (e.g.) reductions in employee remuneration
- Deploying focused lobbying strategies to avoid regulations or secure support payments.

However, it is also possible because high carbon assets continue to fail to pay the real price for their impact on climate change and human health. At some point we should expect companies like EPH to run out of road, as carbon constraints tighten, and for them to be forced to clean up their portfolio. Tighter caps on emissions are necessary for this to happen as currently the low price of both coal and carbon makes EPH's strategy look very attractive in the short term.

Lenders should also be put under more pressure to invest for the longer term. Making billions available to facilitate dirty asset sweating keeping emissions high is not a responsible approach to managing down the risk of climate change.

Policy makers should be watching these developments carefully – for the rise of EPH is a clear sign of the flaws in the EU's faltering 2020 climate and energy package.

²³ Clean Energy Wire (2015) <https://www.cleanenergywire.org/news/merkels-capacity-market-scepticism-seen-signal-reform-debate>

²⁴ EP Energy. (2015). *Report on the first quarter of the year 2015 for EP Energy, a.s.* Retrieved from http://www.epenergy.cz/wp-content/uploads/EPE_report_1Q2015.pdf.

²⁵ See "Sharks still thrive in Slovak waters" <http://spectator.sme.sk/c/20029835/sharks-still-thrive-in-slovak-waters.html>

²⁶ See Climate Change News (2016). <http://www.climatechangenews.com/2016/04/08/czech-buyers-of-german-coal-plants-linked-to-panama-papers/>. Retrieved 18-Apr 2016.

Comment

Dave Jones, Sandbag's Carbon & Power analyst commented on [today's decision](#) by Vattenfall to sell their German lignite assets to EPH:

"This is a lose-lose-lose situation.

It's a lose for the climate, because EPH are unlikely to implement a just phase-out that Vattenfall could have implemented, meaning the lignite plants are likely to stay open longer than they would have otherwise.

It's a lose for the Swedish government, because it is very likely that the sale price to EPH is so low, that it might even be negative when you take into account liabilities left in Vattenfall. Keeping the assets, and phasing-out generation would arguably be more profitable.

It's a lose for German workers. EPH has a track record in rapidly and aggressively cutting jobs at the plants it acquires, rather than the measured phase-out Vattenfall could implement, aided by German government transition funding for green jobs in Lusatia.

Handing these assets at a cut-price, or even a negative price, to a faceless organization is big gamble. EPH have no public shareholders to be responsible to, no electricity customers to be responsible to, and no ownership from regional or national government to be responsible to. With electricity prices so low and lignite so unprofitable, EPH ownership leaves Lusatia's lignite industry in a precarious position, with the possibility it could collapse at any time, with devastating consequences to the local community."



About this briefing

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