A mine too far

In spite of Paris agreement and EU 2030 GHG emissions reduction target Polish state-owned and private companies are pushing on for the development of new open-pit lignite mines. Two companies – Zespół Elektrowni Pątnów-Adamów-Konin (ZE PAK)[1] and Polska Grupa Energetyczne (PGE)[2] – share between themselves the Polish lignite mining market and are trying to get concessions for 7,7 bln tonnes of lignite. That is more than has been extracted and burned in Poland in all its history[3]. With 64 million tonnes of this dirtiest of fossil fuels mined in 2014 and as if the 9 mines that they use were not enough they dream of openning 8-9 more with more lignite reserves than in the mines in operation today. How do those dreams fit with the 186 million tonnes of CO2eq by which Poland is expected to reduce its GHG emissions by 2030 is not clear to anyone including the past and current Polish government highly supportive of the vision of the land in which coal and lignite power the economy well beyond 2050.

The biggest energy utility in Poland – state-owned PGE S.A. has just released its financial results for 2015[4]. Due to the one-off lignite assets write-off (Bełchatów and Turów lignite power plant units) of close to PLN 9 bln (EUR 2 bln) the company has registered a net loss of over PLN 3 bln (EUR 680 mln) and the company is forcasting 2016 to be tough given the decreasing wholesale electricity prices (projected to be 168-170 PLN per MWh in 2016) and the increase in the amount of CO2 emission allowances the company needs to by on the market. The wholesale electricity price in Poland is at the same time still 40% higher than the EUR23 per MWh in Germany or EUR20/MWh on the Scandinavian market thus the prices are expected to drop even further with the integration of the EU electricity market and the pressure from the domestic industry who is at the moment at a disadvantage compared to its compatitors to the west and north of Europe.

PGE will still be receving over 18,96 mln CO2 emission allowances in exchange for the modernisations and upgrades the company would have to do to survive on the market and meet the EU environmental and climate legislation anyway (down by 6 mln from 24,95 mln in 2015) but the uncertainty over the price of the CO2 and the increasing ammount of CO2 that will need to be bought each year until 2020 increase the negative outlook in the mid and long-term for the company[5]. Given all this one would expect to see a drastic change of course in order to avoid faith similar to the RWE and EON suffering strong decrease in profits in the last years. However as much as PLN 3,05 bln (EUR 693 mln) out of the total PLN 9,5 bln (EUR 2,16 bln) CAPEX of PGE in 2015 went for the constuction of two new hard-coal units at Opole power plant (each 900MWe) and a new 450 MWe lignite unit at the Turow power plant. A for Opole power plant PGE needs to spend at least PLN 7.7 bln (EUR 1.75 bln) out of which PLN 3,5 bln (EUR 795 mln) CAPEX is planned for 2016 more until the units are finished. The company is still harrassing the local communities in Lubuskie Voivodship on the boarder with Germany pushing on with the plans to open-up Gubin-Brody lignite deposit holding over 2 bln tonnes of lignite reserves which is more than all the reserves of currently operating lignite mines in Poland combined[6]. What is more there are media statements that the

---

[1] http://coalbanks.org/company#zepak&tab_about

[2] http://coalbanks.org/company#polska_grupa_energetyczna&tab_about

[3] 2,75 bln tonnes in the last 60 years based on M. Wilczynski, Węgiel. Już po zmierzchu… November 2015.
[4] 16th of February 2016 http://pge.tvip.pl/media/pliki/pge_fy'2015_presentation_final_short_(1).pdf and
[5] In 2017 the CO2 emissions allowances handed to PGE S.A. in exchange for modernisation and retrofits will go down to 14,36 mln unit.
[6] M. Wilczynski, Węgiel. Już po zmierzchu… November 2015.

company is planning to develop two other lignite fields in the next 10 years. Almost PLN 3,5 bln was used to keep the hard-coal and lignite units in line with the UE legislation. This is only in line with the Industrial Emissions Directive however, and not with the BAT conclusions that will be require an additional modernisation effort in the years to come.

Energy news from Poland tend to be repetivive – a veto to the some climate-related document here, a bitter fight with heavy lobbying for a derogation protection for the Polish coal industry, a way out of coal dependence via unconventional fossil fuels development (read fracking) and protests and indignation with every attempt by Brussels or the rest of the Member States to bring the European economy in line with what must be done to survive the onslought of the human-made catastrophe – climate change. Of course PGE is also heavily engaged in lobbying the EU institutions and the Council via different fora it is part of and via the Polish government to extend the derogations for the Polish energy system and keep handling out free CO2 emission allowances after 2020. No surprise for a company who generated 57% of its EBITDA from conventional energy sources in 2015 and producing 70% of its electricity on the basis of the most emmitting of fossil fuels – lignite (38,98 TWh in 2015) and 90% of its electricity on the basis of coal and lignite combined[7]

It is only part of the story however as more and more communities, local authorities and regions in Poland are taking action of various form to keep the geological lignite reserves permamently in the ground. As recently as on the 25th of January 2016 the regional parliament of Wielkopolska (Greater Poland) Voivodship adopted a resoultion to prevent over 5 bln tonnes of lignite close to Poznan – Wielkopolska capital of 550 000 inhabitants and southern Wielkopolska in the ground. The reasons were many – among other that those reseves would cut off fresh water delivered to over 70% of Poznan citizens and that there is a strong and organised opposition to the plans to resettle thousands and destroy one of the most fertile agricultural lands in Poland to satisfy the greed of one small private company. Wielkopolska farmers have weathered over 120 years of German occupation with periods of Russian rule maintaining their tradition not to give in to a whim of a few officials from the central government and a company which most likely won't be there any more in 10 if not 5 years. Some things just cannont be translated to money and devotion to land and generations passing down knowledge from father to son are among them. As they like to day – traditions of upraising in the region are still fresh.

In fact Wielkopolska has not been the first one to reject the possibility to extract short-term profit from what central government in Poland it trying to sell as black gold leaving behind much longer-term costs. In February 2013 Dolnośląskie (Lower Silesia) Voivodship has voted on a regional spatial development plan that prohibits development of lignite with open-pit mining. That followed as much as 8 gminas (the lowest level of Polish administrative division) to reject new open-pit mines in legally binding referenda in 2009. In June 2015 gmina Babiak from Wielkopolska raised that numer to 9 and more are likely to follow in the next years.

The tide is changing visibly in the financial sector. Norwegian Sovereign Wealth Fund has taken a decision to divest from the most carbon-dependent companies and has already sold shares in both ZE PAK and PGE S.A. Allianz Polska managing one of 10 biggest pension funds in Poland as far as assest are concerned will have fully divested from ZE PAK by the end of May 2016 (2,47% of ZE PAK shares) and ING Bank Slaski Energy sector managing director – Kazimierz Rajczyk - has recently announced in the media that project finance financing for new coal projects in Poland is not

[7] 51.32 TWh out of 55,58 TWh on total in 2015 http://pge.tvip.pl/media/pliki/fy_2015_analyst_kit_17022016.pdf p. 2

possible[8]. Yet at the same time the pension fund owned by Nationale Niderlanden – the biggest by far in Poland – was still holding 9,97% of shares of ZE PAK and 3,06% of shares of PGE at the end of December 2015. Pension funds are the biggest players on the Warsaw Stock Exchange and to a great degree determine what direction the market goes.

However what keeps those companies running are loans from the biggeest European banks incidentaly also found among the biggest founders of coal worldwide[9]. Commerzbank Polish subsidiaries mBank and BRE bank, Banco Santander subsidiary BZ WBK, Banco Comercial Portugues subsidiary Millenium and UniCredit subsidiary Bank Pekao S.A. are among the biggest lenders to ZE PAK still holding outstanding loans with those whose maturity is shorter than 5 months worth just PLN 23 mln (EUR 5,2 mln) than the company's total cash and cash equivalents in cash flow statement as of 30.09.2016. Not what one could call a secure bet for trusting that the company will manage to resettle thousands of people and recultivate thousands of hectars of land. One has to add that the deposit that has been the condition for granting the concession for Tomisławice open-pit mine which is due to operate until 2030 is PLN 4 mln (EUR 0,9 mln) and could hardly cover any substantial damage or claim not to mention the costs of filling the lake that has to cover the pit after the mine closes which is to be filled with water for 23 years.

For PGE S.A. a giant compared to ZE PAK the situation is very different as the company owns a subsidiary producing renewable energy and a electricity distribution company which have no problems with obtaining loans. The EBRD is currently considering providing PLN 500 mln (EUR 113,63) for the distribution subsidiary investment program[10] while the EIB has provided almost PLN 2 bln (EUR 475 mln) as recently as October 2015[11] with the maturity of 2033 or later[12]. Nordic Investment Bank investment loan of PLN 597 mln to finance construction of 858 MW power unit in Power Plant Bełchatów and the investment facility from Nordic Investment Bank and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Power Plant Turów of PLN162 million (EUR 36,8 mln) are being repayed. Additionally PGE distribution subsidiary obtained PLN 76 mln (EUR 17,3 mln) in the 2007-2013 EU supported Infrastructure and Environemnt Operational Programme. PGE also obtained an investment facility from state-owned Bank Gospodarstwa Krajowego (BGK) worth PLN 1 bln (EUR 237,5 mln) in December 2014 with maturity until 31 of December 2027[13] and used PLN 500 mln (EUR 113, 63 mln) in 2015[14]. Additionally on December 4, 2015 PGE concluded a loan agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego with the maturity date of December 31, 2028. As PGE CEO Marek Woszczyk boasted the company obtained PLN 8 bln (EUR 1.8 bln) in new loans in 2015 alone.

Where the public banks go private banks follow in bulk. On September 7, 2015 PGE S.A. concluded a long-term loan agreement with a syndicate of banks composed of:

BNP Paribas S.A.,

Société Générale S.A.,

Bank Handlowy w Warszawie S.A. (owned by Citi Bank),

---

8 http://energetyka.wnp.pl/kazimierz-rajczyk-ing-w-polskiej-energetyce-bedzie-coraz-mniej-wegla,266963_1_0_0.html
9 http://coalbanks.org/bank#orderranking
10 http://www.ebrd.com/work-with-us/projects/psd/pge-grid-enhancement-for-renewables.html
11 http://www.eib.org/infocentre/press/releases/all/2015/2015-242-eib-supports-pges-investment-in-polish-energy-sector-with-pln-2-billion-loan.htm
12 Depending on when the last tranche is paid out to PGE S.A.
13 http://www.gkpge.pl/media/pdf/PGE_CG_consolidated_Financial_Statements_2015.pdf p. 70.
14 http://www.gkpge.pl/biuro-prasowe/komunikaty-prasowe/korporacyjne/500-mln-dla-pge-od-bgk

ING Bank Śląski S.A.,

Bank Zachodni WBK S.A. (owned by Banco Santander),

mBank S.A. (owned by Commerzbank),

Powszechna Kasa Oszczędności Bank Polski S.A. (owned by UniCredit)

and Bank Polska Kasa Opieki S.A., granting a loan in two parts, i.e. term loan facility of up to PLN 3,630 million (EUR 825 mln) and revolving loan facility of up to PLN 1,870 million (EUR 425 mln). Final repayment date of the revolving loan facility falls on April 30, 2019 and final repayment date of the term loan facility falls on September 30, 2023[15].

On top of that as of December 31, 2015 the value of available overdraft facilities of the significant PGE Group's members amounted to PLN 2,354 million (EUR 535 mln). Maturity dates of overdraft facilities of the main PGE Group's entities fall to December 2019.

Bonds issued:

The bond issue program for the amount of PLN 5 billion (EUR1,13 bln) directed towards investors from the Polish capital market. The first issue was in June 2013 for PLN 1 billion and the maturity of the bonds is June 27, 2018.

The medium term Eurobonds Issue Program of EUR 2 billion established on May 22, 2014 by PGE S.A. together with PGE Sweden AB (publ), a 100% subsidiary of PGE S.A. Under the Program, PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. On June 9, 2014, PGE Sweden AB (publ) issued Eurobonds in total

amount of EUR 500 million and a five year maturity and on August, 1 2014 it has issued bonds in the amount of EUR 138 million and fifteen year maturity.

PGE Capital Group through its 100% owned Swedish subsidiary launched a eurobond programme from which is has obtained EUR 638 mln. The total ammount underwritten by the arranging banks is for up to EUR 2 bln with the programme ending in 2019. The bond issue managers for different issues were BNP Paribas, Bank Pekao (owned by UniCredit), ING Bank Slaski, PKO BP with bookrunners Bank Pekao and ING Bank Slaski, BNP Paribas, Citigroup and Societe Generale. The maturity of the bonds is 2029.

[15] http://www.gkpge.pl/media/pdf/PGE_CG_consolidated_Financial_Statements_2015.pdf p. 70.