

Canadian financial institutions decarbonizing electric utilities

Research note

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17 June 2024

Introduction

Cleaning up the energy sector is crucial to securing climate stability. The Earth's temperature is rising at an alarming rate, faster than scientists expected. One of the major causes of what some call “global boiling” is the burning of fossil fuels, yet fossil fuel production continues to expand rapidly. The profitability of coal, oil and gas has increased after the war in Ukraine, and many banks and investors are financing expanding fossil fuel companies, despite the planetary risks and risks of stranded assets. At the same time, investments in renewable energy are lagging. The IEA has called for stronger domestic policies and international support for clean energy investment. In Dubai, the Parties agreed to triple global renewable capacity by 2030 compared to 2022 levels. For the first time in 28 years of UN climate talks, countries agreed on the need to ‘transition away’ from fossil fuels.

Financing decisions made by banks and investors today will shape the world for decades to come. The pledges of the industry-led Glasgow Financial Alliance for Net Zero, whose commissioned research shows low-carbon energy investments need to be at least four times higher than fossil fuel investments by 2030 to reach climate goals. But this ratio should be regarded as the bare minimum level needed. Clean energy investment should climb to US\$4 trillion per year by 2030 in the IEA's Net Zero Emissions (NZE) scenario, with clean energy to fossil fuel investment ratio reaching 10 to 1 by the end of the decade. Private finance should contribute US\$ 3 trillion of this clean energy investment needed annually by 2030.

But the big question remains: Are financial institutions like banks, asset managers, insurance companies and pension funds stepping up to the challenge of investing in and financing more clean energy and abandoning the dead end of fossil fuels?

Within this background, Investors for Paris Compliance is working to advance the net-zero grid financing of major Canadian financial institutions.

The objective of this research was to expose the “bad” financing that is still going to fossil fuel utilities and compare it with the “good” financing that is now going to renewable energy utilities.

1 Research methodology

1.1 Selection of Canadian financial institutions

Financial flows to fossil fuel and renewable energy utilities from the following financial institutions were researched:

- **Banks**
 - Royal Bank of Canada
 - TD Bank
 - Scotiabank
 - BMO Financial Group
 - Canadian Imperial Bank of Commerce (CIBC)
 - National Bank of Canada
- **Insurance companies**
 - Manulife
 - Sun Life
- **Asset managers**
 - Power Corporation and its subsidiaries
 - Brookfield
- **Pension funds**
 - Canada Pension Plan (CPP)
 - Caisse de Dépôt et Placement du Québec (CDPQ)
 - Ontario Teachers Pension Plan (OTPP)

1.2 Scope of asset classes

For the selected banks, this research covered corporate lending, bond issuance underwriting services and share issuance underwriting services for the period January 2016 to December 2023, as well as investments in listed equities and corporate bonds at the most recent filing date in April 2024.

For the selected asset managers, insurance companies and pension funds, this research included investments in listed equities and corporate bonds at the most recent filing date in April 2024.

For all four categories of financial institutions, this study also research their private equity investments over the period January 2016 to December 2023.

1.3 Data sources

Data on the financing of utility companies with coal-fired and gas-fired power plants was extracted from two existing datasets prepared by Profundo for partner organizations: *Banking on Climate Chaos (BOCC)* and *Investing in Climate Chaos (IICC)*.

- **Banking on Climate Chaos (BOCC)**

BOCC is a dataset of financing provided by banks in the form of corporate loans and issuance underwriting services to companies engaged in fossil fuels. The selection of companies is based on globally recognized lists of fossil fuel companies – Global Coal Exit List (GCEL) and Global Oil & Gas Exit List (GOGEL) – which are developed and maintained by urgewald. BOCC is developed by a group of partners including Rainforest Action Network, Profundo, Reclaim Finance, and urgewald.

GCEL currently lists more than 1,400 company groups and their subsidiaries engaged in coal-fired power, coal mining, and coal services sector, as well as all companies developing new coal assets. These companies represent more than 90% of global thermal coal production

and global coal-fired capacity. This research used the 2023 version of GCEL, and focused on companies on GCEL for coal-fired power.¹

GOGEL currently lists more than 1,600 company groups and their subsidiaries active in the upstream production of oil and gas, midstream oil and gas, or gas-fired power sectors. Companies listed on GOGEL account for 95% of global oil and gas production. The 2023 version of GOGEL was used for this research, and focused on companies on GOGEL for their gas-fired power.²

Note: BOCC includes non-GCEL and non-GOGEL companies as well. However, to maintain consistency with GCEL and GOGEL, and to utilise fossil fuel indicators from those data sources, only GCEL and GOGEL companies were included.

- **Investing in Climate Chaos (IICC)**

IICC is a dataset of investments in bonds and shares issued by companies engaged in fossil fuels in April/May 2024. The selection of companies is based on globally recognized lists of fossil fuel companies – GCEL and GOGEL. IICC is developed by a group of partners including urgewald, Profundo and Reclaim Finance.

This research only extracted Canadian financing, and only utility companies listed on GCEL and GOGEL.

Data on financing for renewable energy utilities was retrieved using screeners in the Refinitiv financial database. For corporate lending and issuance underwriting services, deals were screened for the participation of the selected banks by the sector activity of the borrower/issuer. For investments in listed equities and corporate bonds, the portfolios of the selected financial institutions were screened using Refinitiv for investments in borrowers/issuers engaged the relevant sector activities. Table 1 shows which The Refinitiv Business Classification (TRBC) sector activities were considered within the scope of renewable energy utilities.

Table 1 TRBC business activities included in renewable energy

Issuer/Borrower TRBC Business Sector	Issuer/Borrower TRBC Industry Group	Issuer/Borrower TRBC Industry	Issuer/Borrower TRBC Activity
Renewable Energy	Renewable Energy	Renewable Energy Equipment & Services	Photovoltaic Solar Systems & Equipment Renewable Energy Equipment & Services (NEC) Renewable Energy Services Stationary Fuel Cells Wind Systems & Equipment
		Renewable Fuels	Biomass & Biogas Fuels Ethanol Fuels Hydrogen Fuel Pyrolytic & Synthetic Fuels Renewable Fuels (NEC)
Utilities	Electric Utilities & IPPs	Electric Utilities	Biomass & Waste to Energy Electric Utilities Hydroelectric & Tidal Utilities Solar Electric Utilities Wind Electric Utilities

¹ Urgewald (n.d.), “Global Coal Exit List 2023”, online: <https://www.coalexit.org/>, viewed in May 2024.

² Urgewald (n.d.), “Global Oil & Gas Exit List”, online: <https://gogel.org/>, viewed in May 2024.

Issuer/Borrower TRBC Business Sector	Issuer/Borrower TRBC Industry Group	Issuer/Borrower TRBC Industry Independent Power Producers	Issuer/Borrower TRBC Activity Renewable IPPs
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Data on loans and issuance underwriting services and bond and shareholdings from these three sources were combined into two separate datasheets for creditor and investor data respectively.

Private equity data was retrieved from private equity data source PitchBook. The investment portfolios of all selected Canadian financial institutions were screened for investments in fossil fuel utilities and renewable energy utilities.

1.4 Fossil fuel & renewable energy utility adjusters

As many of the utility companies from these sources have a diverse portfolio of power generation capacity not all financing to these companies can reasonably be attributed to fossil fuel utilities or renewable energy utilities. In fact, most utility companies have both fossil fuel power plants and renewable energy power plants. In order to more reasonably attribute financing to these companies, segment adjusters were calculated. The segment adjusters were then used to attribute financing to fossil fuels and/or renewable energy.

Segment adjusters were developed using the most recent reporting for borrowers/issuers identified to have a financial relationship with the selected Canadian financial institutions. Where possible, adjusters were based on net power generation over the most recent year. This is in line with the methodology also applied by Urgewald in GCEL and is often used by financial institutions with policies on the financing of utility companies.

Details on the calculation of adjusters for specific companies can be provided upon request.

Transmission and distribution companies were not considered in the scope of analysis.

Fossil fuel power plants include coal-fired power, gas-fired power, diesel power, and similar fossil fuel feedstocks.

Renewable energy power plants include wind, solar, geothermal, hydropower, and biofuels.

Nuclear energy was excluded from the analysis and adjusters.

Note From Profundo on Revolving Credit Facilities

Regarding revolving credit facilities, we count these once at each renewal. This is because of the nature of revolving credit facilities. RCFs can be drawn down in part or in full, once or multiple times in the period that they are available to a company. They can also not be drawn down. A US\$ 100 mln RCF available for 2 years, could for example, be used three times in full, and therefore be equal to US\$ 300 mln in funding to the company. It could also be drawn down once, or not at all. Since the banks don't publish this information, and companies very rarely disclose this information, we find it reasonable to count each RCF once at each renewal.