Es geht ans Geld: Taxonomy

Dr. Steffen Hundt

11.11.2021

THiNK RE®
Renewable Energy

EDUCATION

PREPARATION

IMPLEMENTATION

DIGITALIZATION

Think RE – Your Renewable Energy Advisor

Track Record

THiNK RE® Renewable Energy

***+ 900 MW** PPA Transactions*

***9 Markets** with large*
Eastern European Stack

***155 signed** Corporate Offtakers*
*on our Platform **RE-WAVE.COM***
***44 GWh** average Load per Offtaker*

Munich RE

DENTONS

TGFS Technologiegründerfonds Sachsen

SPINLAB THE HHL ACCELERATOR

SET Hub

European Emission Policy
Major Frameworks

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Regulatory Framework

EU Taxonomy Directive

Fit for 55

RED II

(Re-) Defined Emission Target

Climate neutral until 2050

55% GHG reduction until 2030 (previous 40%)

40% increase of renewable energy capacity (previous 32%)

Source: Think RE GmbH (2021)

"It'll be nice to have a higher renewables target, but it'll be academic if we don't tackle permitting" (Giles Dickson, CEO WindEurope)

EU Taxonomy Directive

Six Environmental Objectives

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At least one of the six environmental objectives as defined in the proposed regulation, "do no significant harm" to any of the other five environmental objectives as defined in the proposed regulation, and comply with "minimum safeguards.

Source: Think RE (2021)

EU Taxonomy objectives refer to both types of emissions, Scope 1 and Scope 2.

EU Taxonomy Directive

Investors Scheme

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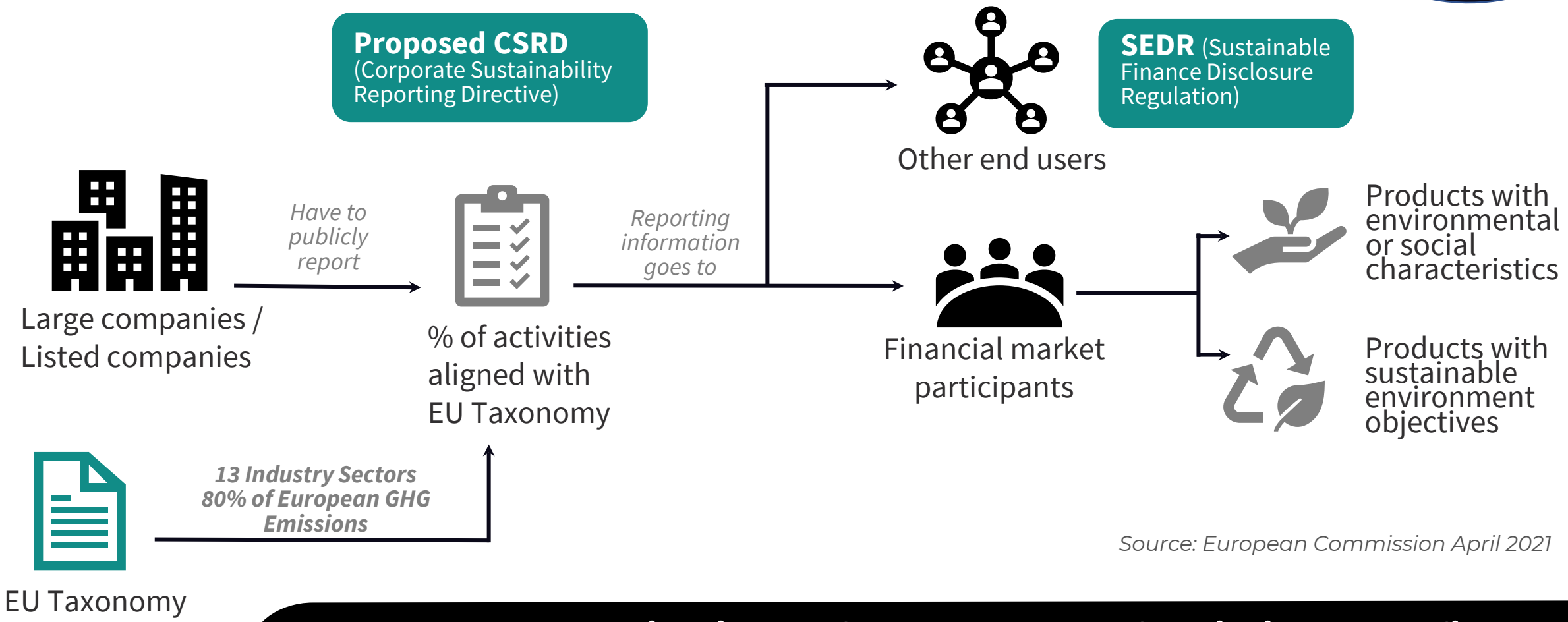

Source: European Commission April 2021

EU Taxonomy objectives refer to all types of emissions. The first two objectives are mainly focused on Scope 1 and Scope 2.

Main Industries of the EU Taxonomy Directive

GHG Emissions for Sectors considered in the EU Taxonomy

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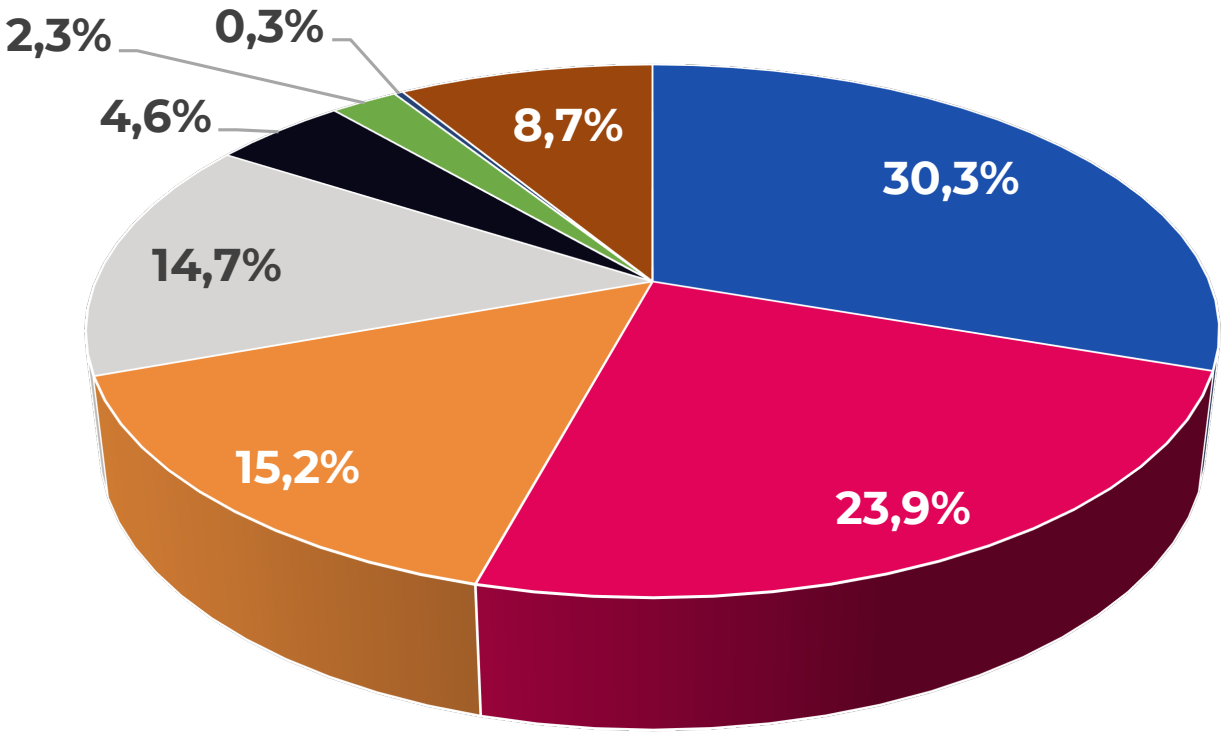

- Electricity, Gas, Steam
- Transportation & Storage
- Water Supply
- Information & Communication
- Manufacturing
- Agriculture, Forestry, Fishing
- Mining & Quarrying
- Others

Source: European Commission April 2021

The EU decided to use the NACE industrial classification system of economic activities in order to define the EU taxonomy technical screening criteria.

Selected Manufacturing Categories

EU Taxonomy Emission Thresholds

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Manufacturing Sector	Taxonomy Threshold in tCO2/t	Company Name	Reporting Year	Total Emission in tCO2/t
Aluminium	1.51	Norsk Hydro	2020	2.24
Hot Metal	1.32	SSAB	2020	1.32
Cement Clinker	0.76	Titan Cement	2020	0.73
Ammonia / Fertilizer	1.30	BASF*)	2020	0.64

Source: European Commission 2021, corporates' sustainability report

**) BASF is operating several other business units coexisting to the ammonia production*

Different pictures across various electricity-intensive industry sectors and the corresponding sample companies.

Fit for 55 Package
Implications for PPAs

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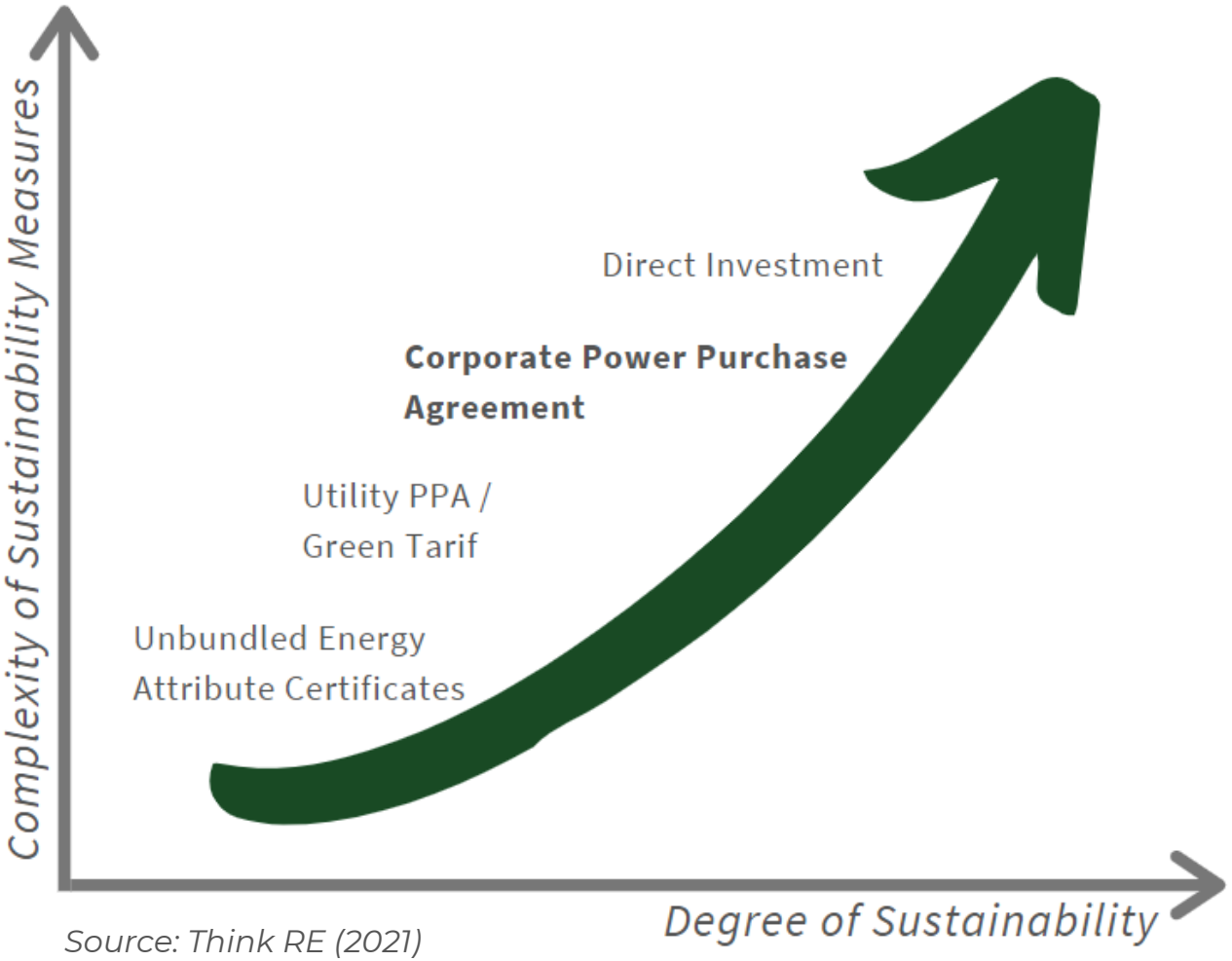
EU Commission Recommendations:

- Integration of PPAs in national legislations
- Guidance on financial support for SMEs
- Use of public credit guarantees to reduce PPA's financial risk
- Issuance of GoOs also for subsidized renewable energy assets

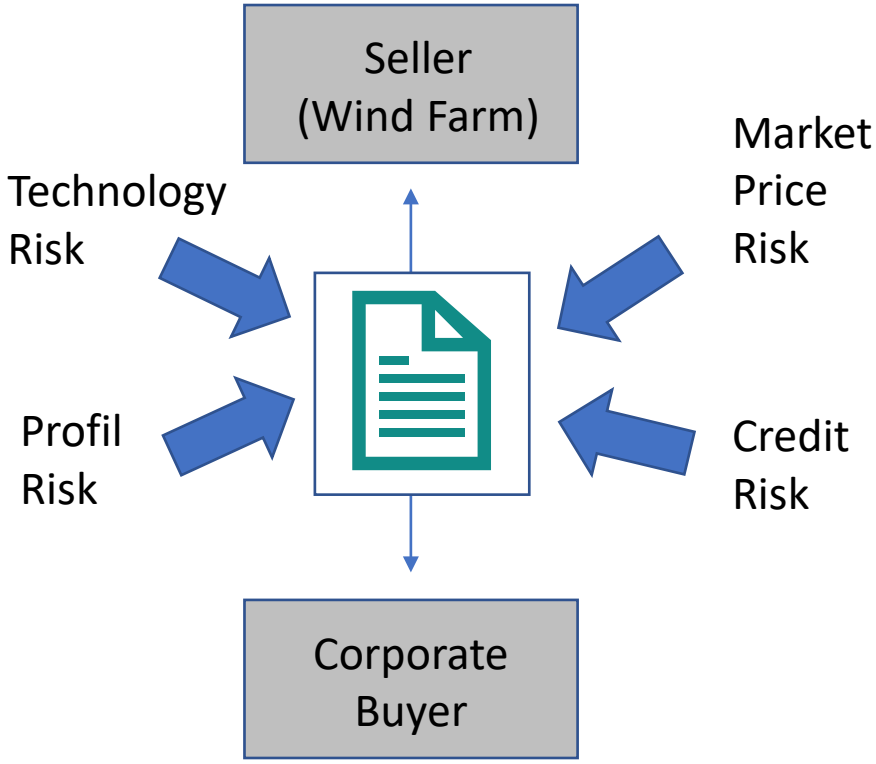
Power Purchase Agreement should play a central role in the new European climate legislation.

Ways to reduce become Taxonomy-compliant

Transaction Complexity vs. Credibility of Measures



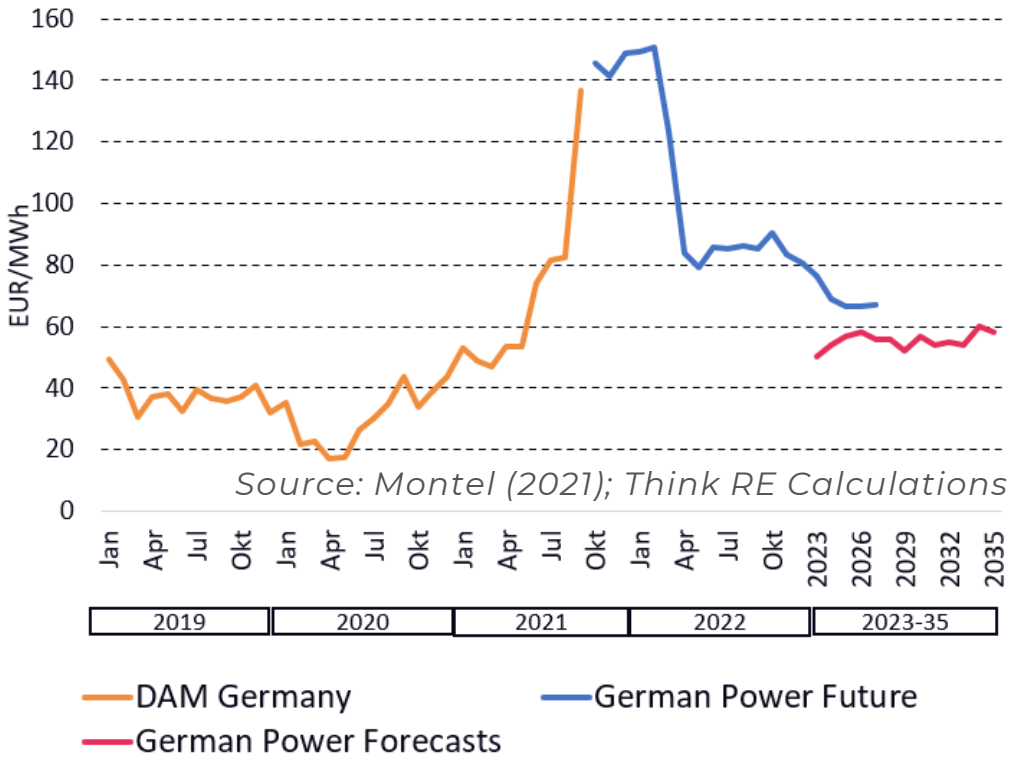
Source: Think RE (2021)



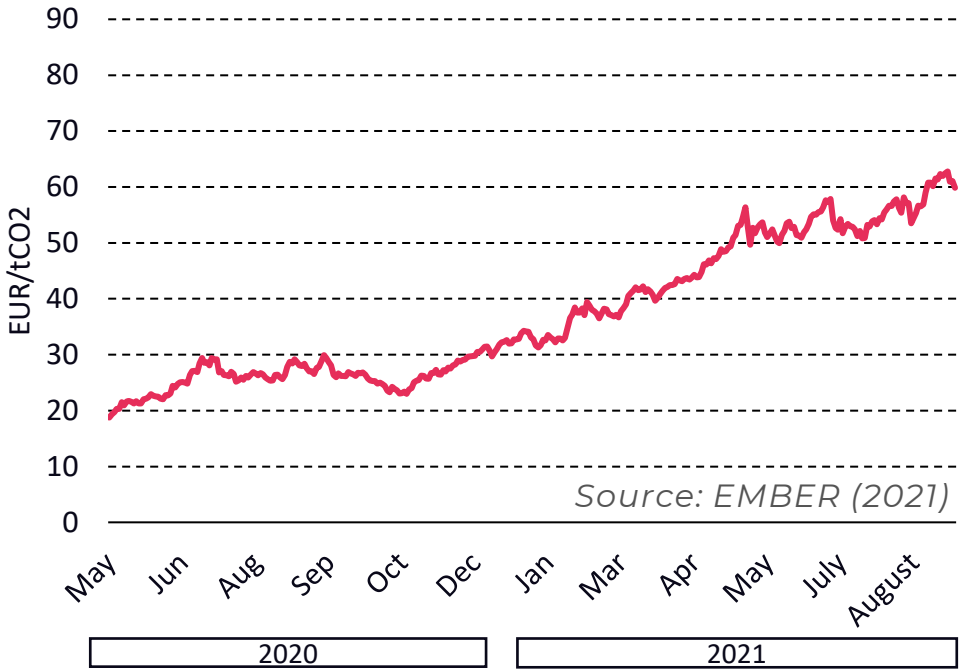
Power Purchase Agreements are the most sustainable and credible way to source green electricity without being forced to directly invest in renewable energy assets.

Power Purchase Agreements for German Corporates

Market Price Developments



Source: Montel (2021); Think RE Calculations



Source: EMBER (2021)

WIRTSCHAFT KOSTEN DER KLIMAPOLITIK

„Dramatischer Anstieg" der Strompreise stürzt deutsche Firmen in Sorge

Veröffentlicht am 29.06.2021 | Lesedauer: 2 Minuten

Source: Die Welt (2021)

Power Prices are expected to increase which is driven by a rising EAC price. German Future Prices show a clear upward sloping tendency.

COVID-19 Effects on PPA Demand of C&Is

Think RE Green Energy Scoring – Identifying qualified RE Projects & Buyers

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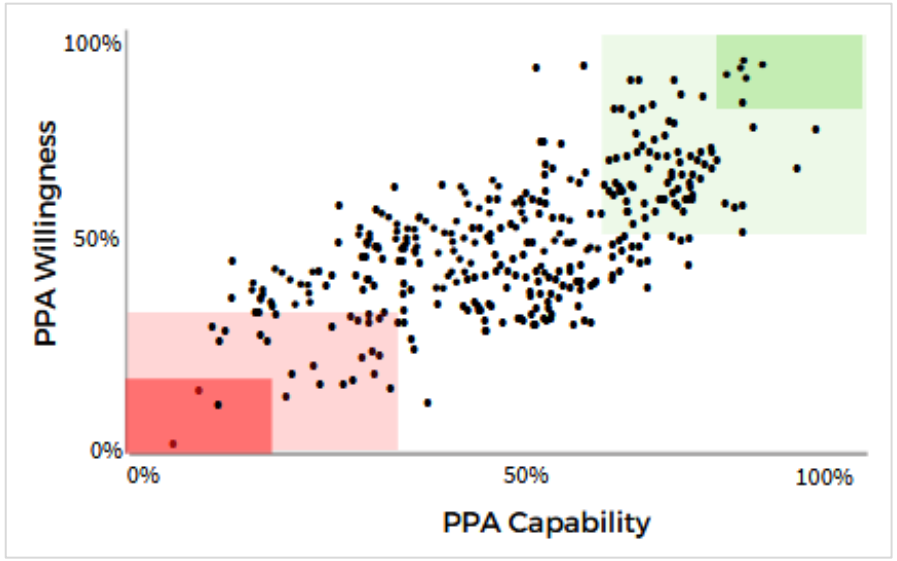
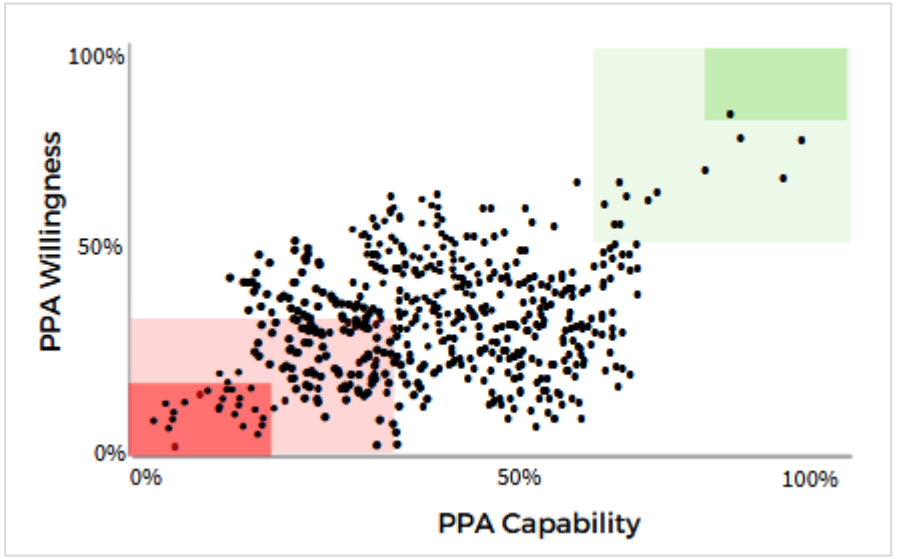
Development during the year 2019



Development during the year 2020



RE Champion

RE Influencer

RE Supporter

RE Motivator

Source: Think RE Green Energy Scoring (n=185)

Energy Fundamentals

Sustainability Commitment

Financial Feasibility

RE WAVE – PPA & Sustainability Platform

Providing qualitative Off-take Solutions

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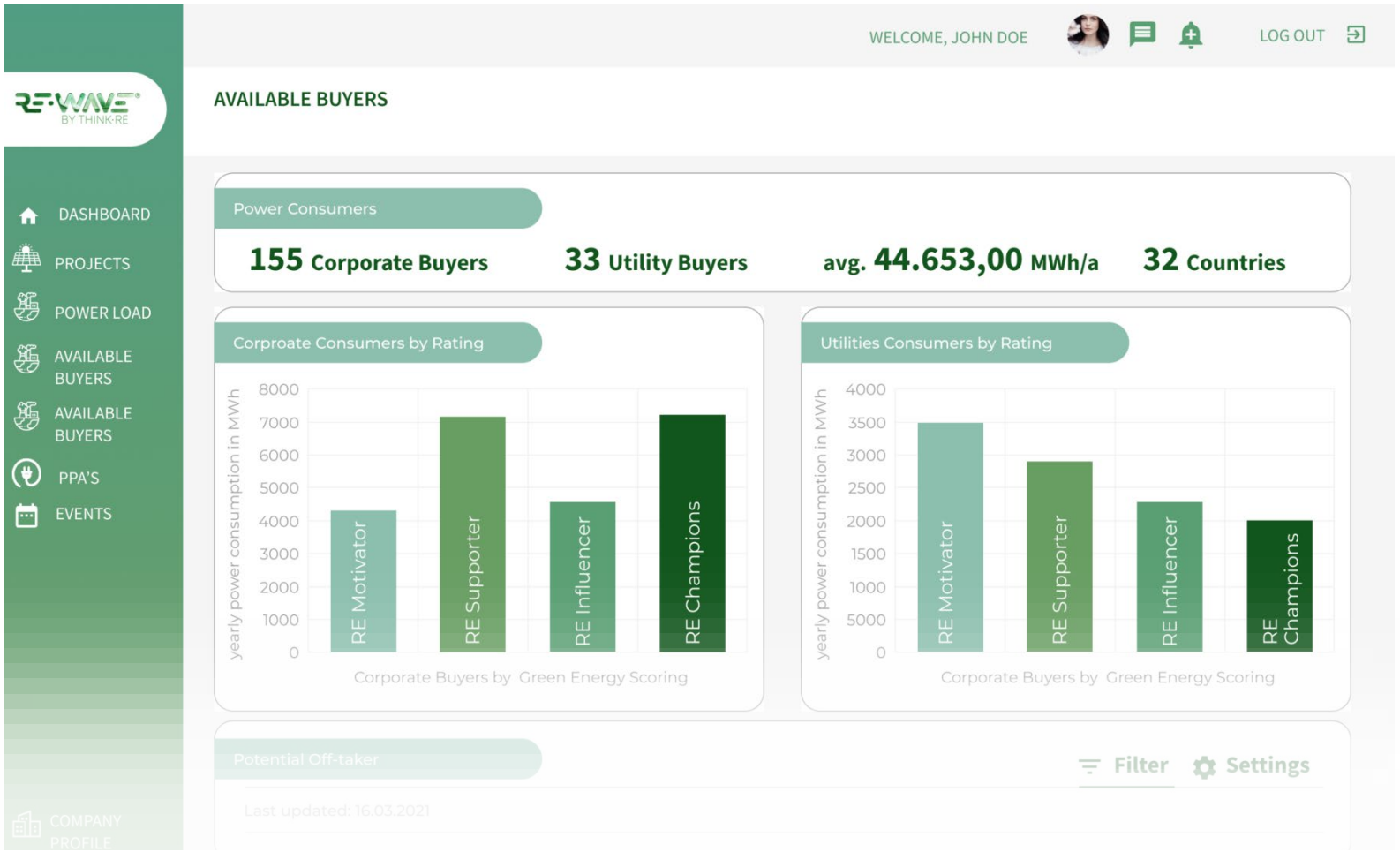

RE-WAVE.COM currently aggregates the buy-side potential to enter into PPAs.

Challenges of the EU Taxonomy

Standardization – A Key Challenge to overcome

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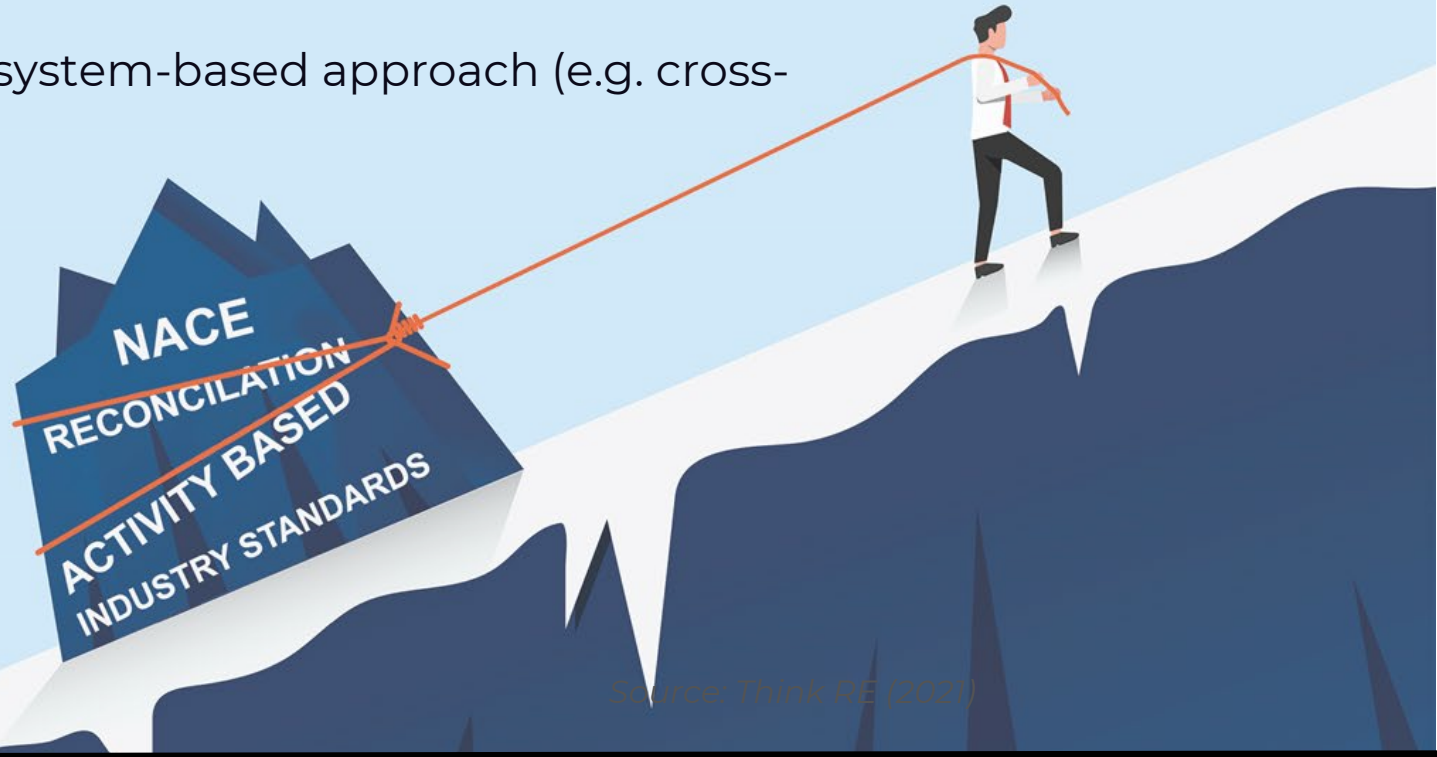
- NACE codes- based taxonomy is not obviously reconcilable with other classification systems widely used by private financial markets participants to analyse their data, such as the GICS (Global Industrial Classification System)
- Activity-based approach instead of using a system-based approach (e.g. cross-border value chains)
- Incomplete list of emission-intensive industries (e.g. mining, paper industry)
- Financing activities on capital markets are mostly done by holding companies which are normally listed in the NACE category “Finance” which is not a critical industry in the Taxonomy directive



Source: Think RE (2021)

NACE Standard is widely used within the European Union, but less compatible with standards used outside the EU.

Contact

GET IN TOUCH WITH US

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PPA Willingness

Protecting Liquidity vs. fast Decarbonization

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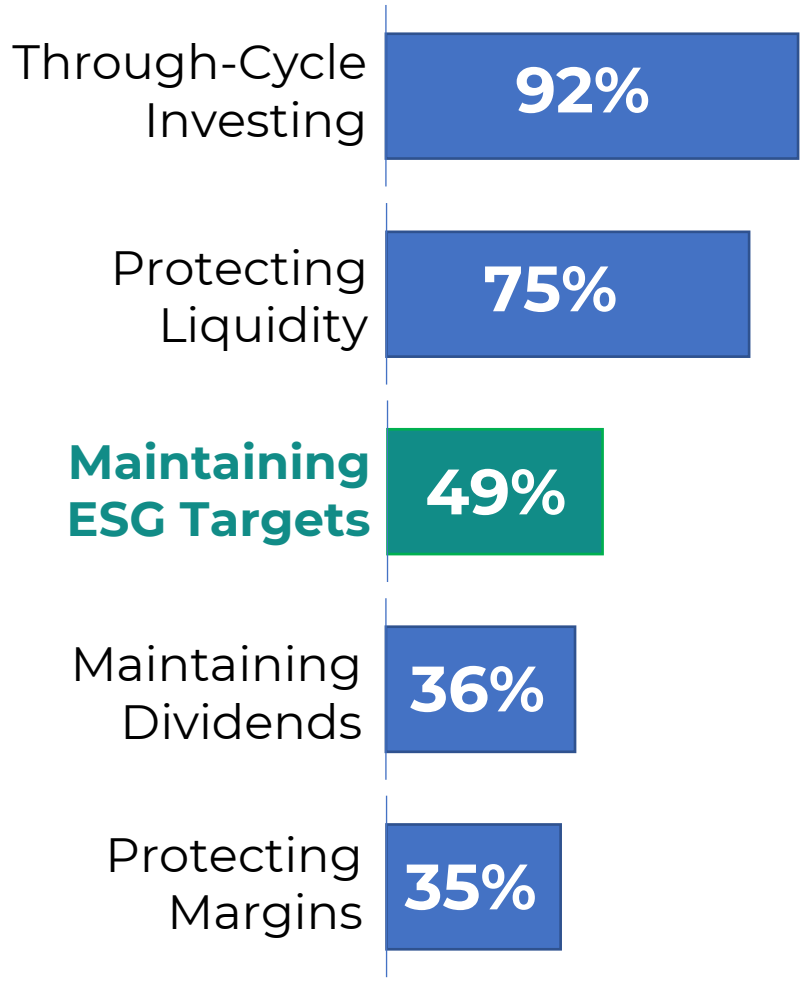
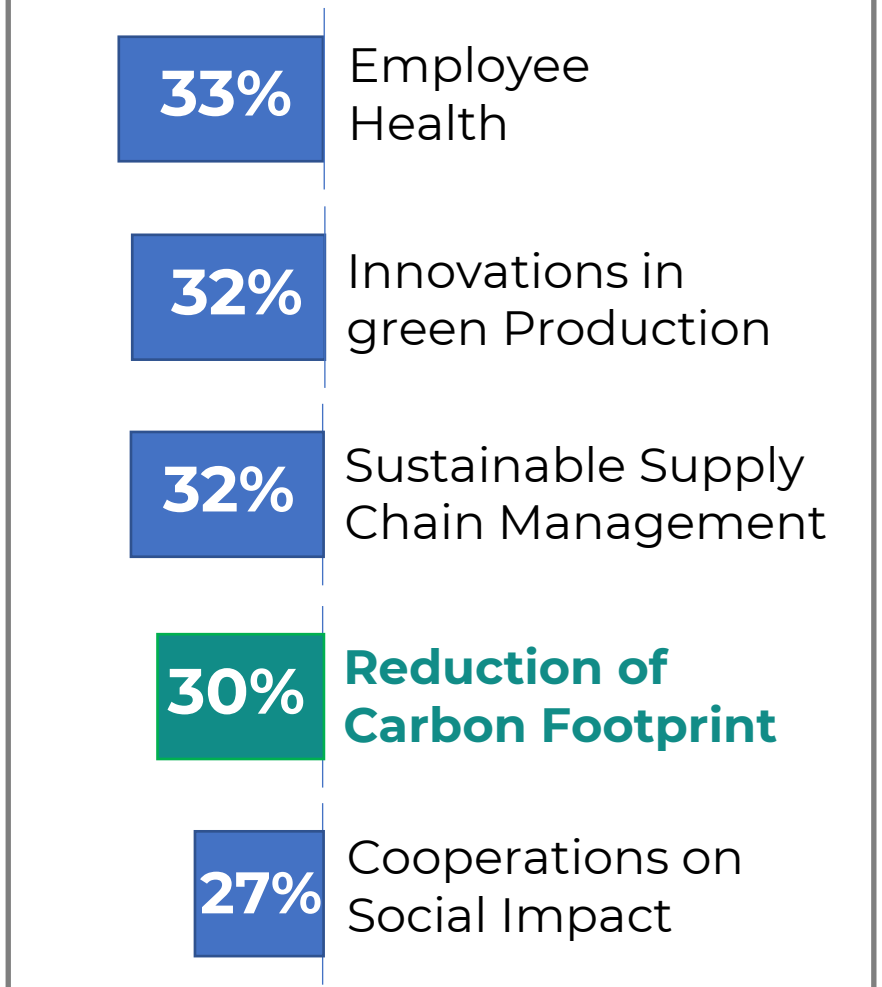
Investors‘ Perspectives on Corporate Priorities *)



Corporates‘ Sustainability Priorities **)



Source:

**) Boston Consulting (2020), n=150 April – May 2020*

***) ING Survey (2021), n=450 throughout the year 2020*

EU Taxonomy Directive

What It Is And What It Isn't

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IT IS ...

- A list of economic activities and relevant criteria
- Flexible to adapt to different investment styles and strategies
- Based on latest scientific and industry experience
- Dynamic, responding to changes in technology, science, new activities and data

IT IS NOT...

- A taring of good or bad companies
- A mandatory list to invest in
- Making a judgement on the financial performance of an investment – only the environmental performance
- Flexible or static

PPA Capability
A Case by Case Decision

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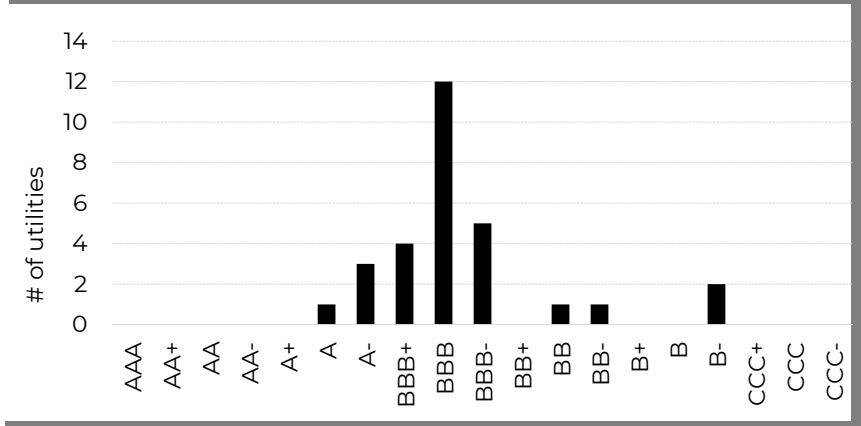
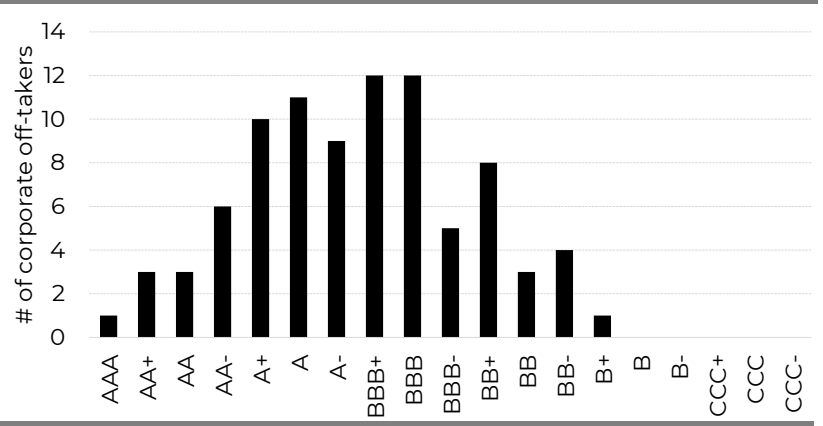
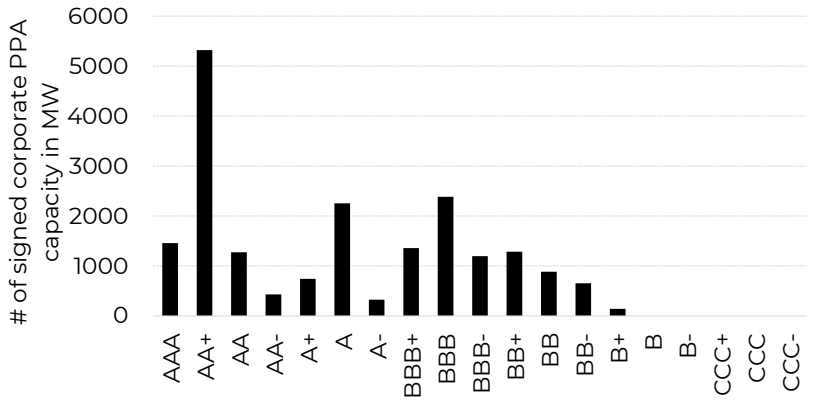
Credit Rating of Utilities



Credit Rating of C&I Corporates



PPA Capacity per Rating Class



Summarized View

< 20%

of C&Is shows Investment Grade Rating (or equivalent)

Credit Risk distribution provides a higher selection potential in the Corporate / C&I sector. However, only a limited number of corporates is qualified to absorb price risk.

Source:
Hundt et al. (2021), Journal of Structured Finance