

## SUSTAINABLE BUSINESS

# Planned Sale of Emerging-Market Coal Plants Is Test Case for Phaseout Plans

South Korean state-owned power company's plan to unload assets could spell opportunity for investors seeking to close plants ahead of schedule



Coal being loaded onto a truck in West Java, Indonesia. Southeast Asia's power generation has almost tripled since 2000, with the largest increase coming from coal, according to the International Energy Agency.

PHOTO: DIMAS ARDIAN/BLOOMBERG NEWS

By *Ed Ballard*

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The next front in the fight over the future of coal could be a portfolio of power plants up for sale in Southeast Asia.

South Korea's majority-state-owned power company said in May that it would sell all its overseas coal assets, part of a sweeping cost-cutting plan. The proposal raises a recurring question: What should happen to coal plants that contribute to climate change but still have decades of operational life ahead of them? The dilemma is playing out in Australia, where a technology billionaire wants to shut down coal plants decades ahead of schedule, and in tensions over who should fund South Africa's energy transition.

Korea Electric Power Corp., known as Kepco, owns energy assets around the world including a 200-megawatt coal plant in the Philippines, stakes in two 1.2-gigawatt plants in Vietnam, one of which is being built, and a stake in a 2-gigawatt plant in Indonesia, also in development.

A Kepco spokeswoman said the company plans to sell the Philippines plant this year but it could take until 2030 to sell all the assets. Buyers haven't been identified, she said. Climate change will be a factor in the process, she added, saying Kepco "follows the Korean government's carbon-neutrality policy" but declining to elaborate. Legislation passed last year commits South Korea to be carbon-neutral by 2050 and cut emissions by 30% from 2018 levels by 2035.

Experts on Southeast Asia's energy transition said the assets are a bellwether. They could be sold to conventional buyers seeking to maximize returns from burning coal. They could also be targets for new investment initiatives that want to retire coal plants early. The proposed sale "could be a good chance for multilateral development banks and national development finance institutions to jump in," said Joojin Kim, managing director of Solutions for Our Climate, a Seoul-based advocacy group.

At last year's COP26 climate summit, the Asian Development Bank, a lender owned by governments from Asia, the U.S. and elsewhere, launched a project seeking to retire coal plants in Indonesia, the Philippines and Vietnam. Called the Energy Transition Mechanism, the project plans to provide coal plants with low-cost financing from the ADB and private firms on the condition that they wind down a decade or more earlier than they would have done otherwise. It also wants to facilitate funding for clean energy.

David Elzinga, a senior energy specialist at ADB who is working on the Energy Transition Mechanism, said Kepco's assets could be suitable targets for the initiative, although it is too early to say how the process will pan out. "We see this as an opportunity to engage in the sales in a way that can accelerate the retirement of the coal plants," he said.

Mr. Elzinga said the Energy Transition Mechanism is working toward its first transactions, with the biggest push involving privately and publicly owned power plants in Indonesia. It hopes to announce deals by the November Group of 20 summit in Indonesia, where the energy transition will be a focus of the gathering, and close them next year. The group originally considered buying plants outright but now wants to

structure deals so that current equity owners retain a diminished equity stake, Mr. Elzinga added.

The ADB isn't the only group working on financing the coal phaseout. The Climate Investment Funds, another multilateral lender, launched a separate platform looking at the same puzzle, while a coalition of nonprofit organizations with philanthropic backing from the IKEA Foundation and others is working on another effort. The projects were announced late last year but haven't announced deals.

Such transactions would be complicated. Power plants often have multiple owners. Financial firms, under pressure to divest fossil-fuel assets, may decline to participate. To benefit the climate, the plans would have to be combined with efforts to add cleaner energy. The financial engineers would also have to determine that the plants would really have continued emitting if the deal hadn't happened.

Mr. Elzinga said power-plant operators typically benefit from long-term power-purchase agreements that guarantee them a buyer for their power for decades, making it easier to know when they will stop operating. "Those plants are locked in," he said.

Despite efforts to cut emissions, coal-fired power generation is rising. Southeast Asia's power generation has almost tripled since 2000, with the largest increase coming from coal, according to the International Energy Agency. Countries across the region announced more ambitious climate targets last year, but they aren't on track to reduce emissions in line with the goals of the 2015 Paris climate accord, the IEA said in a recent report.

Kepeco's planned sale is part of a broader effort to raise 6 trillion Korean won, equivalent to roughly \$4.8 billion, through asset sales and cost-cutting. It was announced after Kepeco reported a record quarterly operating loss of 7.8 trillion won for the first quarter, driven by rising energy prices that the state-owned company couldn't pass on to customers.

BlackRock Inc. and other investors have criticized Kepeco over its coal stance. Mr. Kim at Solutions for Our Climate said the company's current woes present an opportunity to force it to accelerate its shift toward clean energy. He said the state-owned Korea Development Bank, one of Kepeco's shareholders, is another potential buyer for the overseas assets that could help engineer an early shutdown. The bank didn't respond to requests for comment.

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