



AS CLIMATE CHANGE REQUIRES CUTS TO COAL, PRIVATE EQUITY BUYS MORE

DESPITE ECONOMIC AND POLITICAL TRENDS TO REDUCE COAL USAGE, PE FIRMS CONTINUE TO INVEST.

Coal has become less competitive as a power source and is a prime target in efforts to halt climate change. The plunge in demand for electricity due to the global coronavirus pandemic is expected to hasten coal's decline as the fuel becomes even less cost effective and riskier for investors.¹ Despite economic and political trends, private equity firms have made investments in coal mining, processing and coal-fired power generation facilities over the last several years. Many of these coal investments have performed poorly, some even falling into bankruptcy, while also facing criticism and protests over harmful emissions.

Coal declines in US

Coal has been on a trajectory of steep decline over the past decade in the US, with coal consumption dropping by 44% since 2010, according to the Energy Information Administration (EIA).² For the first time, renewable energy will eclipse coal in the US this year and into 2021, EIA data show.³



Riverstone Holdings' Wilhelmshaven coal-fired power plant in Germany

Source: uniper.energy

Yet private equity firms have continued coal acquisitions, and in many cases the investments have fared unfavorably.

In April 2020, **KKR**-owned Longview Power, with a coal power plant in West Virginia, filed for chapter 11 bankruptcy. KKR had acquired the company in 2015 after a previous bankruptcy, together with Centerbridge Capital and other partners.⁴ The plant had been touted by the US Department of Energy as a model for "clean coal."⁵ But KKR's attempts to refinance Longview's debt were inadequate, resulting in the bankruptcy filing with a prepackaged restructuring plan, which was approved by the court in May 2020.⁶ The restructuring plan includes a loan from the federal Paycheck Protection Program. KKR's 40% stake in the company will essentially be wiped out.⁷

The **Blackstone Group** and **ArcLight Capital** have also backed coal, acquiring Lightstone Generation in January 2017.⁸ One of Lightstone's assets includes the General James M. Gavin Plant in Ohio, a coal-fired power plant. After the acquisition, the Gavin coal power plant increased its sulfur dioxide emissions by 9 percent and nitrogen oxide emissions by 3 percent in 2018.⁹ Continued emissions has made it the sixth-largest CO₂ emitting coal plant in the United States.¹⁰

In 2016, PE firm **Yorktown Partners** acquired **Ramaco Resources**, an Appalachian coal mining company. In early 2017 Ramaco held an IPO with Yorktown retaining a majority of the shares. The shares have steadily declined in value since, trading for under \$3 a share in May 2020, an 80% drop from its IPO. As of April 2020, Yorktown funds controlled 48.6% of Ramaco. Another private equity firm, **Energy Capital Partners**, owns an additional 10%.¹¹

With the COVID-19 pandemic dramatically reducing energy consumption by industry and business, Manan Ajuha, a power industry analyst at S&P Global Platts, said,

AS CLIMATE CHANGE REQUIRES CUTS TO COAL, PRIVATE EQUITY BUYS MORE

Blackstone's General James M. Gavin coal plant in Ohio



Source: wikimedia commons

“I wouldn’t be surprised if we do see some companies accelerate their plans to retire more coal plants.” The coal industry could have a much harder time in the years ahead.¹²

ACROSS THE GLOBE, PE INVESTS IN COAL

Globally, coal is expected to be an ongoing major source of pollutants and reducing its usage is critical to meeting the objectives of the Paris Agreement and the 1.5-degree scenario.¹³ Yet private equity firms have approached coal as an investment opportunity worldwide.

In 2019, the French multinational utility Engie sold off four European coal-fired power plants as part of its commitment to dispose of coal assets and transition to renewables. However, the four plants were acquired by US-based private equity firm **Riverstone Holdings** for \$66 million.¹⁴ The resulting company was renamed Onyx Power and continues to operate the plants, located in the Netherlands and Germany.¹⁵

In India, the world’s second largest consumer of coal after China,¹⁶ private equity firms have sought coal assets. In 2015, Australia-based firm **Macquarie Infrastructure** acquired Ind-Barath Energy (Utkal) in a \$122 million deal. But by 2018, the company had defaulted and entered into bankruptcy proceedings through Indian courts.¹⁷ Macquarie has pursued coal in India before, acquiring Adhunik Power & Natural Resources in 2010 which operates thermal coal plants. As of April 2019, Macquarie retained a stake.¹⁸

Warburg Pincus has also invested in coal in India. In 2011, it took a 25% stake in Diliigent power,¹⁹ which at the time of the sale was advancing plans to construct two new coal plants despite community opposition.²⁰ The construction lasted several years, with the first power plant operating in 2015²¹ while the second becoming operational around 2017.²² An attempted exit by investors in 2017 fell apart when buyers declined

Globally, coal is expected to be an ongoing major source of pollutants and reducing its usage is critical to meeting the objectives of the Paris Agreement and the 1.5-degree scenario.¹¹

AS CLIMATE CHANGE REQUIRES CUTS TO COAL, PRIVATE EQUITY BUYS MORE



Yorktown Partners' Ramaco Resources Coal Mine in West Virginia

Source: ramacoresources.com

to proceed with the buyout.²³ An earlier Warburg Pincus coal investment in India also had a bumpy path to exit; ACB, a coal washery and power generator, tried to hold an IPO on three different occasions, as Warburg Pincus attempted to sell off segments of its shares after its 2006 acquisition, but public offerings were repeatedly canceled -- in 2011, 2013 and 2015.²⁴ Warburg Pincus has reportedly exited.²⁵

The Philippine government continues to expand coal for electricity generation, despite community resistance to the negative environmental and health impacts.²⁶ The **Blackstone Group** invested in the Mariveles Coal Plant which started operations in 2013 generating 600 megawatts of power. Blackstone acquired the plant through its 2005 majority stake in Sithe Global Power, and proceeded with a phased expansion that will triple the capacity to 1800 megawatts when completed,²⁷ despite objections from local environmental movements.²⁸ Blackstone's Sithe Global oversaw the planning for the Diginin expansion while operating the adjacent Mariveles coal plant, but sold off its stake in both in 2016.²⁹

Macquarie Infrastructure was a minority partner in the Mariveles and Diganin coal plants in the Philippines. Its company, GNPow, also owns a coal plant in Kauswagan in Mindanao.³⁰ The 552-megawatt (MW) coal-fired power plant began operation in August 2019.³¹

WHAT COMES NEXT?

Both in the US and across the globe, utilities and large technology companies, major consumers of electricity, are increasingly turning to renewables.³² Since 2010, the cost of building wind farms has declined more than 40 percent,³³ while solar costs have dropped more than 80 percent.³⁴

While private equity has invested in coal, large power companies, including Duke Energy in the Southeast and Xcel Energy in the Midwest, are planning to retire at least four dozen large coal plants by 2025. No utility is currently planning to build a new coal facility in the US.³⁵

As countries design their recovery packages to prod economies out of the COVID-induced contraction, their choices of energy sources to fuel economic activity will have long-lasting consequences. With the UN opting to delay the COP26 climate conference until 2021, cheap coal could threaten progress on greenhouse gas reductions. While Europe has proposed a Just Transition plan that incentivizes moves away from coal, the US is cutting regulations on emissions and China is green-lighting new coal plants, a worrying sign for climate change.³⁶

- Will private equity continue to pursue coal-related acquisitions?
- What will private equity firms do with coal assets they currently hold?
- Will firms pivot toward renewables?

AS CLIMATE CHANGE REQUIRES CUTS TO COAL, PRIVATE EQUITY BUYS MORE

PRIVATE EQUITY INVESTMENTS IN COAL

PRIVATE EQUITY FIRM	COMPANY	TYPE	ACQUISITION DATE	LOCATION
Riverstone Holdings	Onyx Power – 4 coal plants	Power Generation	April 2019	Netherlands, Germany
Energy Capital Partners	Triton Power	Power Generation	October 2017	UK
Blackstone with ArcLight Capital	Lightstone Generation Coal & Gas Plants	Power Generation	January 2017	Ohio, Indiana
Riverstone Holdings	Talen Energy	Power Generation	December 2016	US
Yorktown Partners	Ramaco Resources (NAS: METC)	Mining	August 2016	US
Global Infrastructure Partners	Caithness Energy	Power generation, Renewable Power	March 2016	US
Riverstone Holdings	Fitzroy Australia Resources	Mining	January 2016	Australia
Macquarie Infrastructure & Real Assets	Ind-Barath Energy (Utkal)	Power Generation	July 2015	India
Global Infrastructure Partners	Empresa Eléctrica Guacolda	Power Generation	May 2014	Chile
KKR	Longview Power	Power Generation	March 2014	Pennsylvania
Carlyle	Cogentrix Energy Power Management	Power Generation	June 2013	US
EIG Global Energy Partners	Coalspur Mines	Upstream	April 2013	Canada
Apollo Global Management	NRI Management Group	Mining	January 2013	Virginia (& global)
Riverstone Holdings	Raven Power	Power Generation	August 2012	Maryland
Warburg Pincus	Diligent Power	Power Generation	May 2011	India
Macquarie Infrastructure & Real Assets	Adhunik Power & Natural Resources	Power Generation	August 2010	India
Macquarie Infrastructure & Real Assets	GNPower	Power Generation	January 2010	Philippines
Warburg Pincus	ACB (India)	Power Generation	March 2006	India

AS CLIMATE CHANGE REQUIRES CUTS TO COAL, PRIVATE EQUITY BUYS MORE

Endnotes

- ¹ <https://www.theguardian.com/environment/2020/may/17/coal-industry-will-never-recover-after-coronavirus-pandemic-say-experts>
- ² https://www.eia.gov/outlooks/steo/data/browser/#?v=18&f=A&s=&start=1997&end=2021&id=&maptype=0&ctype=linechart&linechart=CLPRPUS_TON
- ³ <https://www.eia.gov/outlooks/steo/> and <https://www.nytimes.com/2020/05/13/climate/coronavirus-coal-electricity-renewables.html>
- ⁴ https://electricenergyonline.com/social/bzhu/article/energy/article/_/0/559218/Longview-Power-plant-strives-to-prevail.htm
- ⁵ <https://electricenergyonline.com/article/organization/29706/712342/With-Perry-s-backing-W-Va-power-plant-aims-to-prove-clean-coal-isn-t-a-myth-Exclusive.htm>
- ⁶ <https://www.prnewswire.com/news-releases/bankruptcy-court-confirms-longview-power-plan-of-reorganization-301065282.html>
- ⁷ <https://www.wsj.com/articles/kkr-backed-power-company-files-for-bankruptcy-after-tapping-stimulus-funds-11586891236>
- ⁸ <https://www.pehub.com/aep-sells-four-power-plants-to-blackstones-and-arlights-lightstone-generation/>
- ⁹ <https://www.eenews.net/stories/1061172075>
- ¹⁰ <https://www.eenews.net/stories/1063101975>
- ¹¹ <https://www.sec.gov/Archives/edgar/data/1687187/000155837020004628/tmb-20200626xdef14a.htm>
- ¹² <https://www.nytimes.com/2020/05/13/climate/coronavirus-coal-electricity-renewables.html>
- ¹³ <https://climateanalytics.org/briefings/coal-phase-out/>
- ¹⁴ <https://www.riverstonerel.com/portfolio/onyx-power/>
- ¹⁵ <https://www.riverstonerel.com/portfolio/onyx-power/>
- ¹⁶ <http://energyatlas.iea.org/#!/tellmap/2020991907/3>
- ¹⁷ <https://www.thehindubusinessline.com/economy/nclt-orders-insolvency-proceedings-against-ind-bharat-energy-appoints-irp/article24823376.ece>
- ¹⁸ http://www.sec.gov/ph/wp-content/uploads/2019/05/2019CGFD_20190412-Philippines-SEC-Conference_Final-KANNA-MIHARA.pdf
- ¹⁹ <https://www.wsj.com/articles/SB10001424052748703864204576318400991076230>
- ²⁰ <https://timesofindia.indiatimes.com/india/Coal-mine-threatens-to-eat-up-town/articleshow/7606818.cms#ixzz1FT3TgLeI>
- ²¹ <https://economictimes.indiatimes.com/industry/energy/power/idfc-pe-buys-15-stake-in-diligent-power-project/articleshow/45973227.cms?from=mdr>
- ²² https://www.pppinindia.gov.in/infrastructureindia/web/guest/project-list?p_p_id=projectlist_WAR_Projectportlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-1&p_p_col_count=1&_projectlist_WAR_Projectportlet_jspPage=%2Fhtml%2Fprojectlist%2Fview.jsp&_projectlist_WAR_Projectportlet_searchName=&_projectlist_WAR_Projectportlet_searchType=Private+Sector+Infrastructure+Projects&_projectlist_WAR_Projectportlet_id=&_projectlist_WAR_Projectportlet_projectType-ids=&_projectlist_WAR_Projectportlet_authorityName=&_projectlist_WAR_Projectportlet_isShowAllTerminatedProjects=false&_projectlist_WAR_Projectportlet_key-ids=&_projectlist_WAR_Projectportlet_advancedSearch=false&_projectlist_WAR_Projectportlet_andOperator=true&_projectlist_WAR_Projectportlet_orderBy-Col=totalProjectCost&_projectlist_WAR_Projectportlet_orderByType=desc&_projectlist_WAR_Projectportlet_resetCur=false&_projectlist_WAR_Projectportlet_delta=75
- ²³ <https://www.livemint.com/Companies/eCROUuTHaqlnlf86jJlVj7M/Tata-PowerCDPQ-platform-in-talks-to-buy-DB-Power-assets.html> and Pitchbook
- ²⁴ Per pitchbook and <https://www.reuters.com/article/coal-washery-firm-acb-re-files-for-ipo-w/coal-washery-firm-acb-re-files-for-ipo-warburg-pincus-to-part-exit-idINDEE95P04P20130626>
- ²⁵ Per pitchbook
- ²⁶ <https://news.mongabay.com/2019/10/coal-power-plants-flourish-in-the-philippines-despite-climate-emergency/>
- ²⁷ <https://www.philstar.com/business/2015/10/13/1510339/gn-power-raising-1-b-bataan-coal-power-plant>
- ²⁸ <https://businessmirror.com.ph/2017/10/05/activists-protest-financing-of-coal-projects/>
- ²⁹ <https://www.reuters.com/article/aboitiz-power-ma-idUSL3N1CA17W> and <https://www.philstar.com/business/2019/05/03/1914445/aboitizpower-completes-acquisition-ac-energy>
- ³⁰ http://www.sec.gov/ph/wp-content/uploads/2019/05/2019CGFD_20190412-Philippines-SEC-Conference_Final-KANNA-MIHARA.pdf
- ³¹ <https://businessmirror.com.ph/2020/02/04/gnpk-power-plant-gets-ercs-approval/>
- ³² <https://www.nytimes.com/2020/05/13/climate/coronavirus-coal-electricity-renewables.html>
- ³³ <https://newscenter.lbl.gov/2019/08/26/report-confirms-wind-technology-advancements-continue-to-drive-down-the-cost-of-wind-energy/>
- ³⁴ <https://www.nrel.gov/docs/fy19osti/72399.pdf>
- ³⁵ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/so-far-covid-19-fallout-not-altering-plans-to-retire-us-coal-fired-plants-58433432>
- ³⁶ <https://www.theguardian.com/environment/2020/may/28/eu-pledges-coronavirus-recovery-plan-will-not-harm-climate-goals> and <https://www.politico.com/newsletters/morning-energy/2020/05/29/un-climate-conference-gets-new-date-787981>