



# Iberdrola's submission to the Talanoa Dialogue



**IBERDROLA**



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# 1. Executive Summary

- Iberdrola is an international power utility whose business strategy is fully aligned with a sustainable energy model. Iberdrola is keen to be actively involved in the Talanoa Dialogue advocating for climate ambition through policy proposals backed by its own business experience.
- The current state of play in terms of commitments and actions (Nationally Determined Contributions) is not enough to meet the *Well below 2°C Scenario* and urgent actions are required to meet climate goals.

## How do we get there?

- By developing **long-term climate strategies**, consistent with the Paris Agreement's goals and the UN Sustainable Development Goals, that include:
  - Legally binding targets to be reached by 2030 and 2050.
  - Transparent and inclusive process in the drafting and revision stages.
  - Regular assessments with upwards revisions.
  - Wide approach to tackle all sectors of the economy.
  - Recognition of the role of public-private partnerships.
  - Recognition of climate change as a risk for the economy and the need for a thorough assessment on the level of exposure of different sectors, from a social, economic and industrial perspective, and the corresponding resiliency strategies and actions.
  - Robust governance framework to ensure proper allocation of responsibilities and effective implementation and disclosure.
- By favouring **robust climate policy frameworks** to ensure effective implementation of the long term climate strategy. Some key elements:
  - A thorough diagnosis that recognizes fossil fuel combustion as the main cause of climate change and acknowledges the key role of electrification based on renewables as means of achieving a sustainable path in the energy sector.
  - Crosscutting policies such as: taxation based on the “polluter pays principle”, elimination of costs not related to supply from electricity prices,<sup>1</sup> removal of fossil fuel subsidies, promotion of information and awareness...
  - Sectoral plans and measures to address barriers to decarbonisation in different fields.
- By approving **stringent implementation guidelines for the Paris Agreement** at COP 24 that send clear signals to investors and ensure environmental integrity.

<sup>1</sup> In the European context, electricity customers are supporting the full economic burden of climate action. From 2008 to 2015, the component of household electricity bills dedicated to policy costs and taxes has gone up by an average of 70% in Europe. Policy costs and taxes represent 38% of the electricity prices for residential consumers, more than 50% in some countries. This level of taxes and levies reduces the competitiveness of clean electricity compared to fossil-fuel energy sources and discourages clean energy investments.

## 2. Iberdrola's commitment to climate action

- Iberdrola is a power utility with presence mainly focused in Spain, the United States, the United Kingdom, Mexico and Brazil, also doing business in Germany, Italy, Hungary and Greece among other countries, which is fully committed to contributing to a sustainable and competitive energy model.
- Nearly two decades ago, Iberdrola decided to strongly back clean energy. Since then, Iberdrola has invested tens of billions of Euros in renewable energy – onshore and offshore wind energy and hydroelectric power – as well as in the grids needed to integrate this renewable energy, and in storage. This pioneering commitment to clean energy has made the company one of the world leaders, with a renewable capacity of almost 30,000 MW (and the number one wind power producer in the world).
- A business strategy committed to climate action has enabled Iberdrola to make its specific emissions 32% lower than the average for the European electricity sector and have two thirds of its installed capacity emission free. To be consistent with this strategy, Iberdrola has closed fifteen coal and fuel oil plants since 2001 all over the world, totalling approximately 7,500 MW, and the company intends to continue this process in an orderly fashion over the coming years. Iberdrola is currently taking the necessary steps for the closure of its two remaining coal plants in Spain (jointly 874 MW).
- Regarding its climate goals and future developments, Iberdrola has publicly announced its targets for 2030 and 2050: to reduce the intensity of its CO<sub>2</sub> emissions to 150 grams per kWh in 2030, a level 50% less than its emissions in 2007, and to be carbon-neutral by the year 2050. In line with these goals, the company has launched an investment programme of 32 billion Euros between today and 2022, which is mainly aimed at electricity transmission and distribution grids, hydro pumped storage, onshore wind, with strong support for offshore wind and PV. It will continue developing business projects that create value for all of our interest groups and seek to maximise our social dividends, as stated in the company by-laws.
- The development of this strategy has also made Iberdrola a world's corporate leader in sustainable and less costly finance with long-term maturities, having raised 7.2 billion Euros in green bonds, loans and hybrids which are being allocated to sustainable and socially responsible projects. Iberdrola has designed, approved and implemented a set of procedures that jointly form the "Iberdrola Framework for Green Financing".
- Iberdrola's business strategy is fully committed to the UN Sustainable Development Goals as part of the "social dividend" concept included in the company by-laws, which requires the company to play a key contribution to social and economic development of the communities in which it operates and to protect the environment.
- Beyond the business strategy, Iberdrola has an active role in the Global Climate Agenda, advocating for climate ambition either directly or through the different organizations in which we are partners such as: World Business Council for Sustainable Development, United Nations Global Compact (Caring for Climate), Carbon Pricing Leadership Coalition, The Prince of Wales's Corporate Leaders Group, World Economic



Forum (WEF) CEO Climate Leaders... Our Chairman and CEO, Ignacio S. Galán, personally supports the climate agenda through his participation in high level events such as the United Nations Private Sector Forum (UN General Assembly in September 2017) and the High-Level Finance Events celebrated under the *Marrakech Partnership Global Climate Action Agenda* at COP23 in Bonn.





# 3. Where are we?

- The fulfilment of the targets included in the Nationally Determined Contributions (NDC) will result in an increase in global temperature above 3°C,<sup>2</sup> which is a long way from the 2°C goal.
- The formal UNFCCC process is making progress but the pace is slow and increased political momentum is needed to adopt an ambitious approach in the design of the Paris Agreement implementation guidelines.
- Civil society is increasingly involved in providing climate solutions aligned with an ambitious approach to meet objectives, particularly through the leadership of the business sector and the financial community. However, it is necessary to improve the working structure to engage the participation of civil society in the process, strengthening the resources of the Marrakech Partnership for Global Climate Action. Special attention should be paid to the following elements:
  - The refurbishment of NAZCA platform.
  - The role of public private partnerships.
  - The development of alliances to join forces between stakeholders with very different backgrounds (e.g. Spanish Green Growth Group).
  - The actions of Climate Champions as key actors to deepen the engagement of civil society.
  - The design of High Level Events at COPs.
  - The contents of the *Yearbook on climate action*.

<sup>2</sup> UNEP Gap Report 2017. UN Environment. Noviembre de 2017.

## 4. Where do we want to go?

- The foundations must be laid for the world to move towards a *Well below 2°C Scenario*.
- All the policy frameworks developed by governments as well as civil society actions (companies, NGOs ...) should be aligned with this scenario.



# 5. How do we get there?

## Long term climate strategies to 2050

- One of the main elements required to meet climate goals will be the development of long-term climate strategies consistent with the Paris Agreement's goals, and the UN Sustainable Development Goals.
- Climate strategies should aim to achieve carbon-neutral economies by 2050, including instruments based on the following guiding principles:
  - Maximise certainty for investors and society as a whole, including legally binding targets to 2030 and 2050.
  - Create a transparent and inclusive process for developing, implementing, reporting on and reviewing the strategy.
  - Develop regular assessments of the strategy by an independent body, with upward revisions to reflect the latest climate science and technological advancements.
  - Take a wide approach that covers all sectors of the economy, addressing economic, social and environmental issues related to the transition to a decarbonized economy.
  - Recognize the role of public-private partnerships in developing and implementing successful climate strategies.
  - Recognize climate change as a risk for the economy as a whole and for the industrial and financial sectors and vulnerable groups in particular. It is important to bear in mind the impacts derived from climate change itself and the risks associated with a late and sudden transition towards a low-carbon economy. In this regard, the strategy should encourage public and private stakeholders to carry out a thorough assessment of the possible risks, inform on the level of exposure to these risks, enhance the disclosure level and develop related hedging strategies.
  - Include within the contents of the strategy: carbon budgets (with targets and milestones), short and long term sectoral plans and a broad description of crosscutting and sectoral instruments to meet climate goals, adaptation guiding principles to develop National Adaptation Plans...
  - Set clear responsibilities on the bodies responsible for delivering the strategy (as well as, sources of funding, timelines...).

## Policies to achieve long-term climate strategy goals efficiently and effectively

- There are already technologies for successfully tackling the decarbonisation of the economy, companies are willing to invest in and consume sustainable energy and the funding resources are also available. What is urgently required is a framework of objectives aligned with Paris and clear and stable policies to achieve them, which will generate opportunities for economic and social development.

### The role of energy sector

- The main cause of climate change is the current energy system (which includes electricity - which has low emissions -, gas and oil) based on fossil fuels (80% of the total), which also results in air pollution, another of the major environmental challenges.
- A solution to climate change therefore requires a change in the energy model which should be based on 1) energy savings and efficiency and 2) the progressive substitution of fossil fuels with emissions-free energy, basically through the use of renewable energy sources.
- The electricity sector has already begun this transition: in the case of Spain, 2/3 of generation no longer emits CO<sub>2</sub>. The goal should be to advance towards a carbon-free system based on renewables by 2050, which poses challenges that need to be tackled. The technology to achieve this goal in this sector is already available.
- The main challenge is the transition towards a carbon-free model in other sectors such as transport and buildings, which continue to be based on fossil fuels (transport depends 90% on fossil fuels to meet its energy needs).

### Crosscutting policies

- Launching an Environmental Tax Reform based on the “polluter pays” principle is essential, introducing a price for CO<sub>2</sub> and other externalities (pollutants) applicable to all sectors. This will eliminate current distortions and provide efficient signals for investment and consumption as well as providing funding to finance the energy transition. Subsidies that make this transition difficult must be removed and a thorough revision of the current energy and environmental taxation system must be tackled to be aligned it with the “polluter pays” principle. This tax scheme should be applied to all form of energy consumption, not only electricity.
- Removing policy costs which are not related to supply from electricity bills, with a transparent analysis of all costs, will contribute to increase in the deployment of renewable energy. It will also ensure that the reduction of greenhouse gas emissions is not related to increases in the price of electricity. Failing to do so distorts the creation of a level playing field among energy sources that not too long ago would not be able compete (e.g. Electric vehicles vs ICE vehicles).
- Furthermore, there is a vital need for policies on standards, particularly for transport, and demands for information disclosure for financial entities and businesses on risks and climate opportunities.
- Another key issue is the implementation of policies on communication and social awareness (explaining the benefits of the solution, and the health risks associated if measures are not carried out ) so they are understood and accepted by all sectors of society.

## Sectoral instruments

- Barriers to decarbonisation in different sectors should be assessed as an initial stage, taking into account distinctive elements of each sector under a technical, economic and social point of view.
- Once barriers have been clearly identified, detailed programs should be developed for each sector. Some guiding elements are included below:

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### Electricity sector

- Design and implementation of efficient and effective renewable energy programs to give renewable energy a leading role in the electricity mix (consistent with climate objectives).
- Urgent and effective measures to replace coal with less emitting energies.
- Adjustment in the wholesale market design so that it provides the appropriate signals, not only for operation, but also for investment.
- Recognition of the role of firm and flexible energy, essential to support the massive penetration of renewable energies.
- Strengthening of networks, which will be of vital importance due to their contribution to the penetration of renewable energies, electric mobility and better use of energy, as well as to incorporate demand management, and energy storage.
- Elimination of non-supply cost concepts from electricity tariffs to overcome price distortions that currently artificially promote fossil fuel consumption artificially.

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### Transport

- Transport is the main emitting sector of CO<sub>2</sub> and other pollutants and reducing its emissions should be a priority. Electric mobility will play a key role in this process, due to its growing competitiveness and other benefits (air quality and health). To successfully overcome barriers that jeopardize this process, robust policy frameworks should be put in place:
  - Transversal signals through environmental taxation, restrictions on the sale and traffic of polluting vehicles, etc.; the role of cities is key due to their agility and freedom in legislating.
  - In passenger transport, direct support schemes to electric vehicles should be deployed until they are fully cost competitive, and ambitious plans on charging infrastructure should be developed.
  - In freight transport, an investment plan for the promotion of railways as well as deployment of electricity systems for the energy requirements of ships docked in ports would contribute decisively to achieving a sustainable path in this field.

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### Buildings

- Heating & Cooling: sustainability plays a key role in decarbonising buildings. In this field, plans to encourage the deployment of electric heat pumps will have an important contribution to the increase of energy efficiency and the introduction of renewable energy in this sector. Building technical codes will have a very important role to promote energy efficiency improvements.

## Industry

Industry is a complex and heterogeneous sector. Due to this, it is necessary to carry out, in an initial stage, an analysis of the decarbonisation potential in different sectors, supporting the most efficient measures and analyzing the impact of the transition in mitigating competitiveness concerns.

# Implementation guidelines for the Paris Agreement

- In relation to the UNFCCC process to design the implementation guidelines of the Paris Agreement, Iberdrola advocates for the development of a detailed “rulebook” that provides the tools to meet climate goals, sending clear signals to investors and ensuring environmental integrity.
- Reflections on some of the main items in the agenda of the next Climate Change Conference (April 2018) are included below:

## NDCs design should promote transparency, collaboration and ambition

- Nationally Determined Contributions should be designed in a transparent and comparable manner (common time frames, scope, sectors, indicators,...) to provide visibility to governments and investors.
- Sufficient information should be provided by parties to facilitate clarity, transparency and understanding of nationally determined contributions.
- The *NDC public registry* should include tools to allow Parties, non-Party actors and other stakeholders to have access to download, view, search and read the NDC. Some specific elements should be included to allow them to make a transparent assessment on NDC ambition in different countries and their alignment with global goals.
- Each party should develop an ambitious Long Term Climate Strategy which should be consistent with NDC.

## Matters relating to Article 6 (cooperative approaches)

- The design of the cooperative approaches under Article 6.2 (*Internationally Transferred Mitigation Outcomes –ITMOs–*) should be guided by environmental integrity:
  - Corresponding adjustments to implement an overall mitigation of global emissions aligned with Paris Agreement goals (e.g. avoid double accounting of emissions).
  - High quality of ITMOs through:
    - Evidence that activities behind ITMOs fosters transition to a low carbon economy (avoiding technical lock in) and promotes sustainable development.
    - Evidence that ITMOs are real, permanent, additional and verified.
  - Limits on use towards NDC (stringent limits on the percentage of the NDC compliance that can be achieved through the use of ITMOs).
  - Development of consistent inventories to track acquisition and use of ITMOs towards NDCs.
- The mechanism included in Art 6.4 of Paris Agreement aimed at contributing to the mitigation of GHG and support sustainable development should be guided by environmental integrity and aligned with the achievement of sustainable development goals:
  - Rigorous guidance principles on reporting, certifying and additionality.



- A comprehensive accounting between Art. 6.2 and Art. 6.4 should be developed.
- Within the non-market approaches, taxation measures should play a key role. The development of environmental tax reforms based on the “polluter pays” principle and the removal of fossil fuel subsidies will promote cost-effective mitigation actions, bearing in mind the different circumstances of developed and developing countries.

### Business participation is essential to reaching global climate goals

- The *Talanoa Dialogue* constitutes a solid basis to streamline business participation in the global climate action process. However, further work is required to develop strict guidelines which give structure to, quantify and monitor all the private contributions presented.
- The transparency and comparability of the targets set is crucial in emphasising the climate ambition of agents that have embraced the fight against climate change as an integral part of their business strategy.<sup>3</sup>

### Adaptation

- Adaptation challenges should play an important role in the features included in NDC.
- Either NDC or Long Term Climate Strategy should include goals, policy proposals and indicators on adaptation. National Adaptation Plans should be based on these goals and measures to achieve them efficiently and effectively.
- Instruments under the UNFCCC framework should be strengthened to help Least Developed countries to undertake effective adaptation strategies (capacity building, financing...).
- It will be especially important to continue working on: methodologies and metrics for reviewing the adequacy and effectiveness of adaptation and support.

### Gender and climate change

- An ambitious approach should be followed to implement the Gender Action Plan approved at COP 23.
- A Gender-responsive climate policy should be adopted in all activities concerning adaptation, mitigation and related means of implementation (finance, technology development and transfer, and capacity-building) as well as decision-making on the implementation of climate policies.

### Climate finance

- Transparency, accuracy, consistency and comparability in the field of climate finance are key to understand the challenges to meet Paris Agreement goals. In this regard, rigorous modalities for the accounting of financial resources are required.
- Sustainable financing, mainly from the private sector, will be key in tackling this challenge and, in particular, to achieving the \$100 billion climate finance roadmap for 2020, set by the Paris Agreement.
- Governments have an important role to play to leverage the necessary financing resources through adopting ambitious goals and setting policy frameworks that reduce capital cost through bringing down risks, paying important attention to regulatory risk.

<sup>3</sup> Within the reporting and monitoring field, it would be especially relevant for companies and organizations to properly assess the level of exposure to climate change in order to improve the disclosure process and contribute to developing the respective hedging strategies. The implementation of the recommendations of the Task Force on Climate – Related Financial Disclosure (FSB) is very relevant to this process.



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### Enhancing the implementation of education, training, public awareness, public participation and public access to information

- Information, education, and public awareness should be an important feature included in each Long Term Climate Strategy.

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### Global stocktake referred to in Article 14 of the Paris Agreement

- A thorough stocktake of the state of climate action will require adequate sources of information and open modalities of dialogue to promote an inclusive assessment.
- An increasing share of the business community has set ambitious climate goals and aligned its strategy with a low carbon economy. The *Marrakech Partnership for Global Climate Action* should improve the role of NAZCA with the aim of successfully tackling this global assessment in the following direction:
  - Improvements in goals benchmarking.
  - More frequent updates.
  - Increase of interaction with stakeholders.

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### Climate Action and Sustainable Development Agenda

- Climate change is one of the most important challenges for sustainability since it involves risks across all sectors of economy and society. It is a crosscutting element that, if not properly tackled, could have negative impacts on infrastructures, systems, value chains, health, security... Successful climate strategies are crucial to meet the goals of the Sustainable Agenda.

