Interview with Enel

How is Enel responding to ESG Capital Market developments?

- Over the years, Enel has been a leading player in sustainable finance, and has led a series of key innovations;
- Enel was an early issuer of green bonds, starting from 2017, and was amongst the largest corporate issuers of green bonds at the time;
- Nevertheless, as a company whose strategy and business model are clearly sustainable, Enel decided to issue in 2019 an innovative general corporate purpose financing product which creates financial incentives for the company to fulfil its sustainable business in order to progress the evolution of sustainable capital markets. The approach consisted in linking the sustainability strategy of Enel to the terms of general corporate purposes debt, incentivising the achievement of pre-determined Sustainability Performance Targets (SPTs) within a pre-determined timeline;
- Enel’s SDG-Linked bond issued in September 2019 marked the beginning of the Sustainability-Linked bond market, and was followed by the issuance of Sustainability-Linked bonds by a variety of borrowers globally;
- It is also important to note that in June 2020 the ICMA published the Sustainability-Linked Bond Principles (SLBP) that were crucial to provide market guidance in the context of this new tool;

Furthermore, starting from January 2021, bonds with coupon structures linked to certain sustainability performance targets have been considered as eligible by the European Central Bank as collateral for Eurosystem credit operations and also for outright purchases in Eurosystem monetary policy operations

- In order to foster best market practices, in 2020 Enel decided to establish a Sustainability-Linked Financing Framework, presenting a unified and coherent suite of Sustainability-Linked Financing instruments to the market and to the subsidised and development financing space. Enel’s instruments under this framework are focused on contributing to SDG 7 (ensure access to affordable, reliable, sustainable and modern energy for all) and SDG 13 (take urgent action to combat climate change and its impacts). The framework covers Sustainability-Linked bonds, Sustainability-Linked loans and Revolving Credit Facilities, SDG Commercial Paper Programmes, Sustainability-Linked Foreign Exchange and Rates Derivatives and Guarantees;
As of today, sustainable finance sources already represent more than 50% of Enel’s gross debt. In the upcoming years, this ratio is expected to increase to c.65% by 2024 and more than 70% by 2030.

How is the goal to achieve the 1.5°C commitment perceived at Enel, and what changes has Enel adopted?

- In November 2021, Enel presented its new strategic plan and announced an even more ambitious target in terms of GHG emissions reduction by bringing forward to 2040 its Net Zero target covering its whole carbon footprint. Moreover, the Group committed to reach Zero emissions, without resorting to any offsetting measures, such as carbon removal technology or nature-based solutions, for direct emissions and for indirect emissions related to power retail and gas retail. Concerning the roadmap to 2040, the Group confirmed that it targets an 80% reduction in direct GHG (Scope 1) emissions in 2030 versus 2017 levels, in line with the 1.5°C pathway as already certified by the Science-Based Targets initiative (SBTi);

- As soon as practicable, Enel will be asking the SBTi to certify all of its Net Zero targets across all scopes as aligned to the 1.5° degrees scenario according to the SBTi’s Net-Zero Standard released in the last quarter of 2021;

The strategic milestones to become Net Zero across all Scopes by 2040 are:

- The deployment of new renewable capacity to have a 100% renewable fleet by 2040;
- The exit from coal-based generation by 2027 and from gas-based generation by 2040;
- The exit from the gas retail business by 2040 and the achievement of 100% electricity sold to customers from renewable energy by 2040;
- The roll out of a capex plan in full alignment with the 2040 Net Zero Targets;
- As part of these new announcements, the Group expects to mobilise investments of €210 billion in the 2021-2030 period, boosting decarbonisation, electrification of consumption and platforms to create sustainable shared value for all stakeholders and profitability over the medium and long term.
- We expect the acceleration of our net zero targets to 2040 to have an overall positive financial impact for Enel, as the profitability of renewables will be higher than the profitability of the current thermal fleet that will be replaced.
What needs to happen for the sophistication of ESG investment strategies to keep improving?

We believe the ultimate step related to the sophistication of ESG investing (in fixed income) will hover around the evolution of credit rating agencies’ methodologies towards transparently and exhaustively detailing how ESG-related adjustments are incorporated into their scores, whereas we believe businesses with the most credible ESG strategies, are also to become industry leaders, and stronger business profiles;

As we accompany this transition, ESG rating methodology standardisation, SPO scoring sophistication and overall investors’ development of ESG due diligence are fast evolving and standardising. This trend will continue and we believe it will be extremely beneficial to ESG investing, and ultimately, to incentivise companies to “ESG future proof” their business strategies.

What topics are you especially curious about in the future of the sustainability debt market?

- As Enel we have contributed to the rise of the new-born Sustainability-Linked bond market, issuing the world’s first transaction of this kind back in September 2019 and now counting on a total portfolio of Sustainability-Linked debt instruments equal to €51 billion, as of January 2022, all linked to our SDG 7 and SDG 13 targets;

- The global market for Sustainability-Linked bonds alone already reached a total of $138 billion equivalent, an asset class recognised and used not only by industrial companies and financial institutions belonging to different sectors and geographies, but soon also by public institutions and governments, thus concretely stimulating the achievement of ambitious objectives related to climate (e.g. decarbonisation targets) and sustainability improvements;

- The European regulation on sustainable finance can further facilitate the deployment of capital in favour of sustainable investments, also through the recognition of the complementarity between the so-called “use-of-proceeds” instruments (i.e. green bonds linked to specific projects) and general purpose sustainability-linked instruments;

- To further catalyse capital towards sustainable investments, the adoption by Multilateral Development Banks and Development Finance Institutions of general purpose Sustainability-Linked financing solutions should also be encouraged, thus further enriching the portfolio of sustainable finance tools available for their clients, with Sustainability-Linked loans tied to the sustainability performance of the borrower.