

Merger implications for Korean utility Climate Transition Bonds

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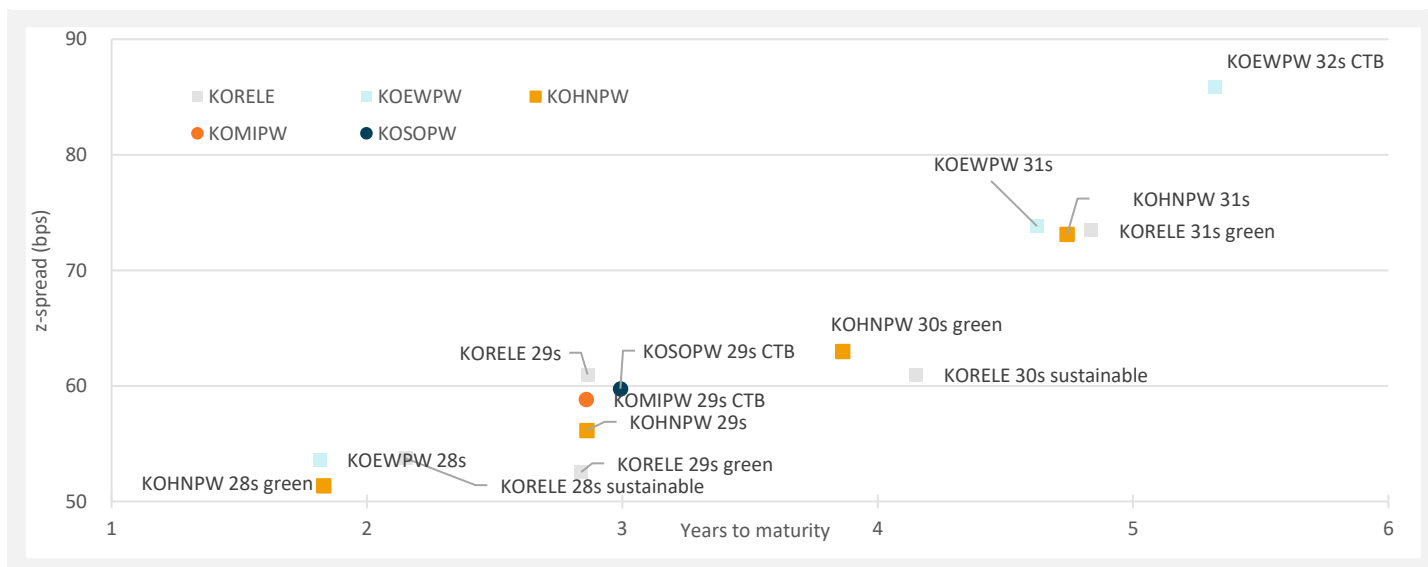
SUMMARY

- **KOEWPW, KOMIPW and KOSOPW raised USD1.1bn through CTBs.**
- **Their proposed merger would combine five power generation companies into Korea Power Generation, a new entity.**
- **Existing and proposed contractual provisions support debt continuity, but post-merger CTB reporting remain unclear.**
- **Korea's coal phaseout timetable remains later than the IEA's 1.5°C-aligned NZE pathway, the advanced economies benchmark.**

On 4 September 2026, the Korean Government announced plans to combine Korea South-East Power (ticker KOSEPW), Korea Midland Power (ticker KOMIPW), Korea Western Power (ticker KOWEPO), Korea Southern Power (ticker KOSOPW) and Korea East-West Power (ticker KOEWPW) into Korea Power Generation, a wholly owned subsidiary of Korea Electric Power Corporation (ticker KORELE). KORELE is 51.1% owned by the Korean government and the state-owned Korea Development Bank. The new entity is scheduled to launch on 1 October 2027.¹ Three of them - KOEWPW, KOMIPW, and KOSOPW – issued USD Climate Transition Bonds (CTBs) in 2026.^{2,3,4}

This paper examines the potential implications of the merger for the three CTBs, including the continuity of the bonds themselves and associated reporting. We also analyse their contribution to the new combined entity's coal portfolio and alignment with a 1.5°C pathway.

Figure 1. Indicative secondary trading levels for CTBs and comparables. Source: Bloomberg Finance L.P., accessed 30 Sep 2026.



¹ "Five State-Owned Power Generation Companies to Merge into 'Korea Power Generation'", Ministry of Climate, Energy and Environment, 7 Sep 2026.

² "Korea East-West Power: new Climate Transition Bond", AFII, 6 Jul 2026.

³ "KOMIPW transition framework maps coal-to-hydrogen pathway", AFII, 21 Jul 2026.

⁴ "Korea Southern Power plans potential Climate Transition Bond", AFII, 1 Sep 2026.

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Issuance performance and secondary pricing

KOEWPW issued the first Korean utility CTB in July 2026, followed by KOMIPW and KOSOPW. The transactions raised USD1.1bn in aggregate and attracted order books several times their respective issue sizes, as shown in Table 1.

Table 1. Korean utilities' USD Climate Transition Bond issuance. Source: Bloomberg Finance L.P., accessed 25 Sep 2026.

	KOEWPW	KOMIPW	KOSOPW
ISIN	HK0001319182	XS3441682534	XS3493264934
Issue size	USD 500m	USD 300m	USD 300m
Maturity	13-Jan-32	28-Jul-29	15-Sept-29
Pricing date	06-Jul-26	21-Jul-26	08-Sep-26
Issue t-spread/ z-spread (bps)	58/84	55/76	50/69
Final order book	>USD2.4bn	>USD1.8bn	>USD2.0bn
Number of accounts	141	87	106

As shown in Figure 1, the shorter-dated KOMIPW and KOSOPW CTBs traded at indicative Z-spreads of approximately 59–60bps, close to selected KEPCO-group bonds with similar maturities (Figure 1). KOEWPW's 2032 CTB traded at approximately 86bps, compared with 73–74bps for selected KOEWPW, KORELE, and KOHNPW bonds maturing in 2031.

These indicative spread comparisons do not establish a distinct pricing effect from the transition label, as there are differences in maturity, bond structure, and liquidity.

Merger and bond continuity

The Korean government proposes special legislation under which Korea Power Generation would succeed to the five powers' rights and obligations. This arrangement would see outstanding debt issued by the original companies continue, although the exact implementation will depend on the final legislation and the requirements of each transaction.

KOEWPW and KOMIPW issued their CTBs before the merger announcement. KOEWPW's terms require a successor to assume payment and covenant obligations, subject to specified conditions.⁵ An equivalent provision was not identified in KOMIPW's documentation.⁶

KOMIPW's terms (but not those of KOWEWP or KOSOPW) include an event of default if direct or indirect Korean government ownership falls below 51%.⁷ The proposed continued ownership through KEPCO does not appear to breach of that threshold, but CTB provisions generally need to be assessed against the final arrangements especially CTB succession and event-of-default provisions.

KOSOPW issued its CTB on 15 September 2026, after the merger announcement. Its 8 September offering circular describes the proposed consolidation and states that the new entity would assume the five power

⁵ Pg 69–70, Condition 3.3, "Consolidation, Merger and Sale of Assets", ["Offering Circular"](#), Korea East-West Power, 06 Jul 2026.

⁶ ["Offering circular and pricing supplement"](#), Korea Midland Power, 09 Jul 2026.

⁷ Pg 114, Condition 13(l), ["Offering circular and pricing supplement"](#), Korea Midland Power, 21 Jul 2026.

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generation companies' assets and liabilities, including the CTB. The terms also require a successor to assume payment and covenant obligations, subject to specified conditions.⁸

No merger-triggered change-of-control put or automatic coupon adjustment was identified in the three transactions reviewed. KOMIPW's government-ownership provision may achieve a similar result but is part of the event-of-default condition rather than a conventional change-of-control put right.

Secondary-market prices and spreads could nevertheless change as investors assess the combined entity's credit profile, government support, financing requirements, and liquidity. Such repricing could occur before the merger completes and would reflect market expectations rather than any contractual adjustment.

For transition investors, debt continuity raises a separate concern: whether the merged entity will remain accountable to the pre-existing CTB frameworks. Investors need clarity on what entity or entities are responsible for proceeds allocation, impact reporting, and external review following the combination. These commitments should be assessed framework by framework. For example, KOEWPW's framework provides for annual allocation and impact reporting until full allocation, alongside disclosure of material developments. Continued reporting on project delivery beyond full allocation would provide additional visibility.

A consolidated transition plan could complement reporting under the legacy frameworks by showing how the CTB-financed projects contribute to coal retirement and emissions reductions across the combined fleet. It could also detail the operating assumptions and pathways away from unabated LNG for replacement gas-fired assets. Table 2 summarises the implications of the proposed merger.

Table 2. Implications of the proposed merger for bondholders and transition investors. Source: MCEE, issuers' offering circulars, AFII analysis.

Area	Implication
Debt continuity	Proposed legislation envisages succession to existing obligations. Implementation depends on the final legislation and transaction-specific requirements.
Contractual protections	KOEWPW and KOSOPW have express successor provisions. KOMIPW does not.
Contractual terms and market pricing	No merger-triggered put or automatic coupon adjustment was identified. Market spreads may respond to changes in perceived credit quality, government support, and liquidity.
Legacy CTB reporting	Clarify responsibility for allocation tracking, impact reporting, and external review under each existing framework.
Combined transition strategy	A consolidated plan showing how the legacy projects could contribute to retirement schedules and emissions reductions across the merged portfolio.

⁸ Pg 73, Condition 9, "Merger and Consolidation", "[Offering circular](#)", Korea Southern Power, 08 Sep 2026.

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Merger creates a larger transition portfolio

The five thermal power generation companies proposed to form Korea Power Generation have around 53GW of installed capacity, equivalent to roughly one-third of Korea's 156.6GW power-generation fleet, as shown in Figure 2.

The merger could support more coordinated investment in renewable generation and replacement capacity across the five portfolios. The government's proposed regional renewable-energy headquarters provides one mechanism for redirecting organisational resources towards such an expansion.

The Korea Power Generation's combined portfolio is heavily thermal. Coal accounts for approximately 32.1GW, or around 61% of the combined capacity, with LNG making up most of the balance and only a relatively small share coming from other sources including renewables, as shown in Figure 3.⁹

Figure 2. Korea Power Generation's indicative share of Korea's installed generation capacity. Source: Issuers' disclosures, AFII calculations.

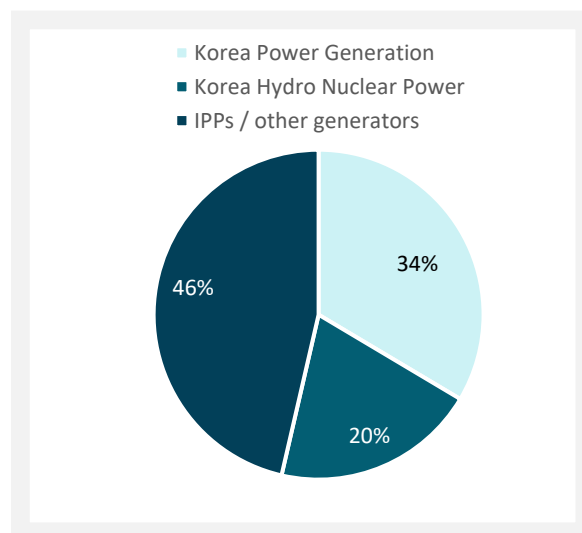
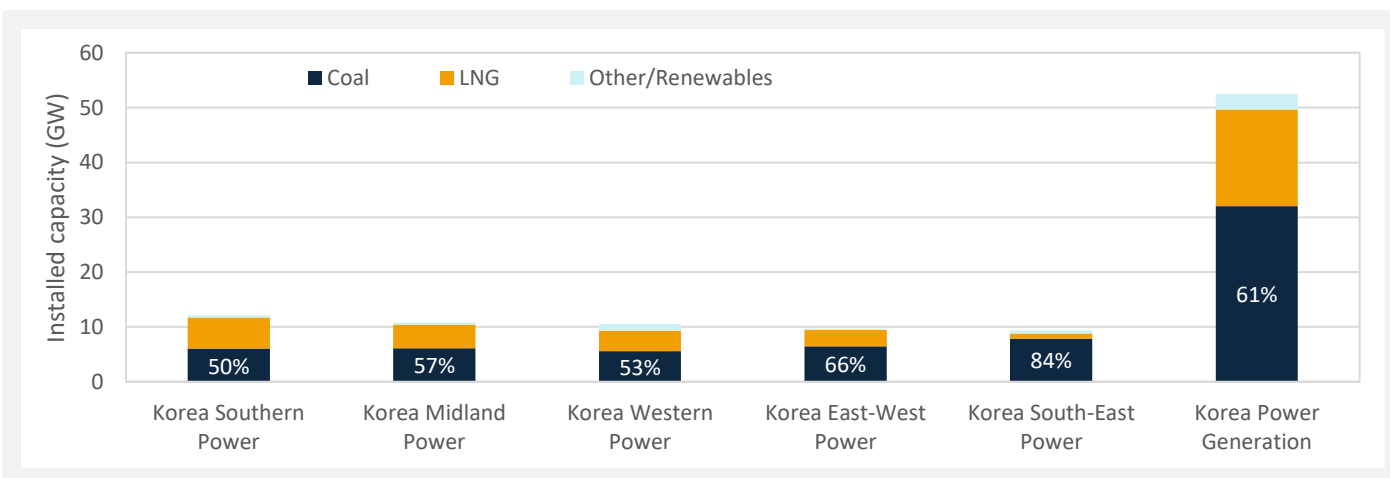


Figure 3. Installed generation capacity of the five power generation companies by energy source. Source: Issuers' disclosures, AFII calculations.



The merger will take place as the national power system undergoes rapid change. The 11th Basic Plan's baseline electricity-demand projection rises from 566.1TWh in 2025 to 735.1TWh in 2038, an increase of approximately 30%.¹⁰ Against this backdrop, the government's May 2026 policy announcement targets an expansion of installed renewable capacity from around 39GW to 100GW by 2030, more than doubling the baseline, and an increase in renewables' share of electricity generation from approximately 13% to more than 30% by 2035.¹¹ Figure 4 shows the capacity and generation shares, although its 'new and renewable energy' capacity category and broader 'new and renewable energy and other' generation category are not directly comparable.

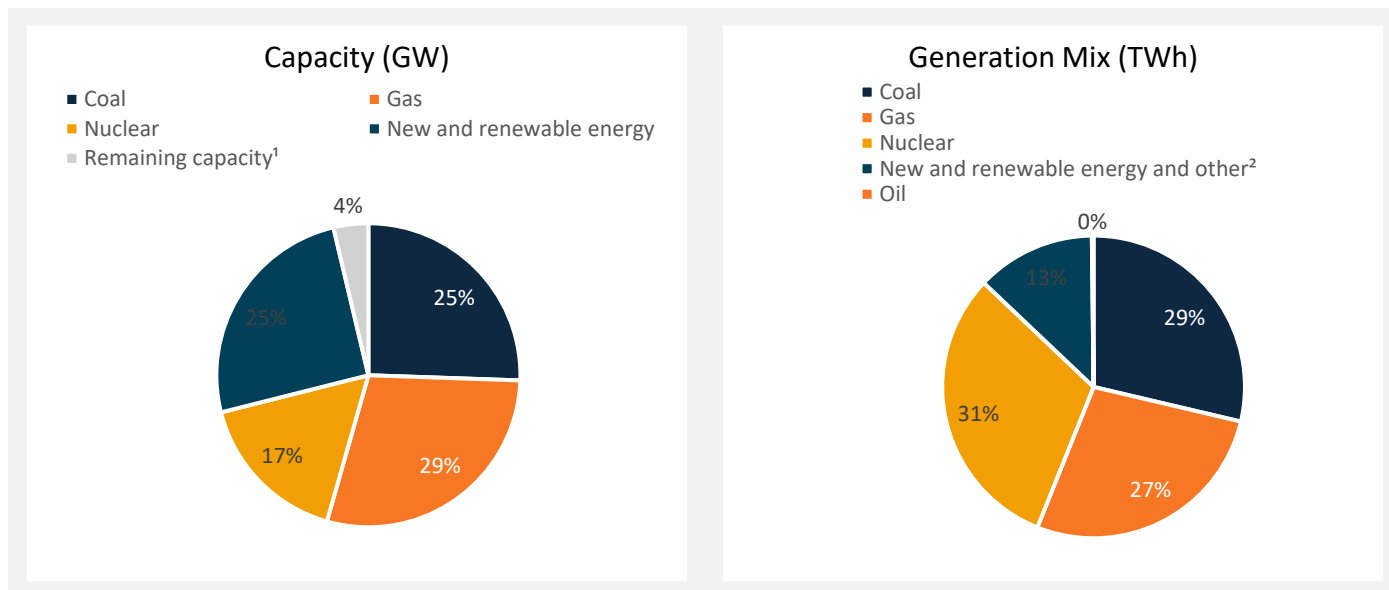
⁹ AFII calculations using the company capacity disclosures underlying Figure 3. Coal capacity totals approximately 32.1GW against combined installed capacity of approximately 52.5GW. The figures are indicative because the underlying disclosures have different reference dates.

¹⁰ "11th Basic Plan for Electricity Supply and Demand (2024–2038)", Ministry of Trade, Industry and Energy, 2025.

¹¹ "Achieving 100GW of renewable energy by 2030", Ministry of Climate, Energy and Environment, 19 May 2026.

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Figure 4. Korea's end-2025 installed capacity (LHS) and electricity generation in 2025 (RHS). Source: KEEl, Monthly Korea Energy Trends, AFII calculations.



Note 1: Calculated as total capacity less the four reported categories.

Note 2: KEEl's aggregate includes pumped-storage generation and other sources, including waste.

Korea Power Generation will therefore inherit a predominantly thermal portfolio at a time when the system must accommodate rising electricity demand and rapidly expanded renewable generation, which will require coal capacity to be retired.

The forthcoming 12th Basic Plan for Electricity Supply and Demand, which the government plans to prepare by October 2026, will add further detail to Korea's power-sector transition pathway, including renewable expansion, coal phaseout, and the future power mix through 2040.¹² This will give investors more details against which to assess whether the coal-replacement and post-LNG pathways set out by KOSOPW, KOMIPW, and KOEWPW remain consistent with Korea's evolving power-sector transition.

Korea's Green Transformation (K-GX) initiative provides a broader policy context, linking implementation of the country's 2035 emissions target with industrial transformation.¹³ A consolidated transition plan should explain how Korea Power Generation's investment priorities and fleet transition pathway support these objectives.

¹² "Power demand forecast revised to reflect three megaprojects", Yonhap News Agency, 15 Aug 2026.

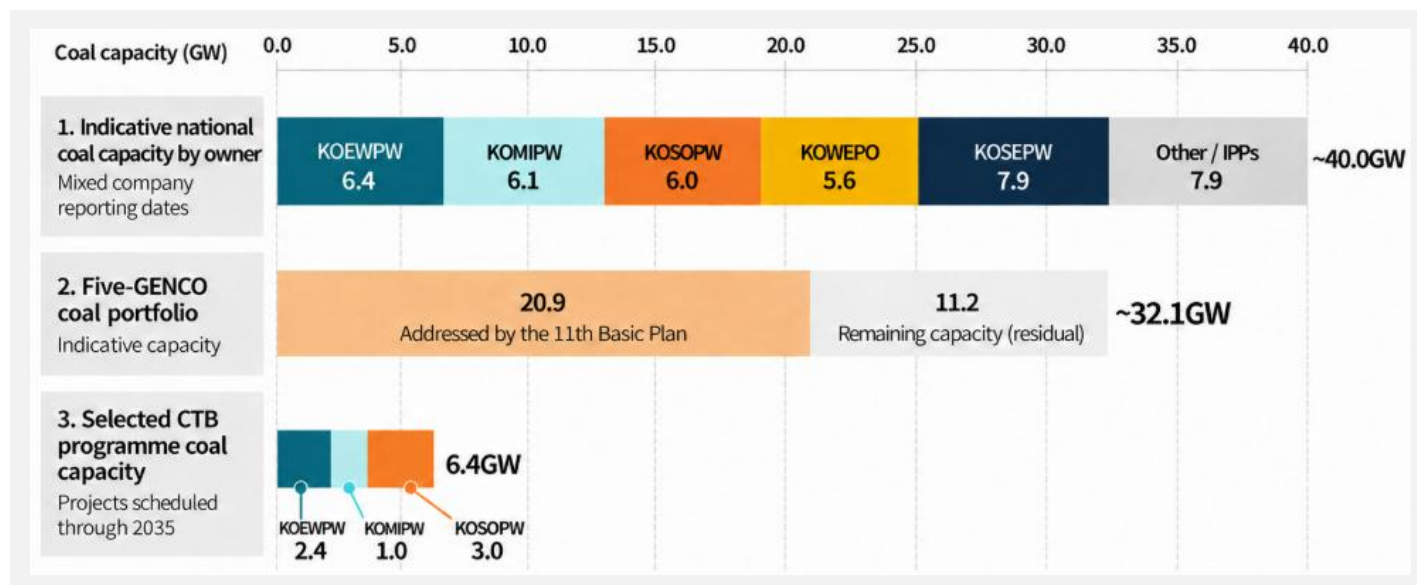
¹³ "2026 second-half Ministry of Climate, Energy and Environment work report", Ministry of Climate, Energy and Environment, 05 Aug 2026.

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National coal retirement and CTB coverage

Korea Power Generation would inherit most of the country's coal fleet. As shown in Figure 5, the five power generation companies account for approximately 32.1GW of Korea's roughly 40GW of coal capacity.

Figure 5. Coal capacity across Korea's national fleet, the five power generation companies and identified CTB programmes. Source: Issuers' disclosures, Ministry of Trade, Industry and Energy, AFII calculations.



Note: Reporting dates differ and totals are rounded. Plan coverage includes co-firing as well as retirement. CTB coverage excludes KOEWPW's 1.0GW scheduled for 2036.

Under the 11th Basic Plan, around 20.9GW across 40 units within this portfolio is identified for retirement or transition measures, including ammonia co-firing, equivalent to approximately 65% of the combined coal capacity, according to AFII calculations.¹⁴ These measures have different emissions implications: capacity addressed by the plan should not be interpreted as capacity fully retired. The merged entity will therefore be central to implementing Korea's coal-transition programme, and investors will need to be able to distinguish plant closures from measures that allow continued coal use.

Korea's accession to the Powering Past Coal Alliance at COP30 in November 2025 reinforced the country's commitment to phase out unabated coal. At accession, the announcement identified 40 of the country's 61 coal plants for phaseout by 2040, while leaving the timetable for the remaining 21 to subsequent assessment and public consultation.¹⁵ These national figures cover a different population of assets from the five power generation companies portfolio assessed here. **For Korea Power Generation, the outstanding question is how subsequent policy decisions will translate into retirement dates for the remaining inherited coal assets.**

The selected coal-replacement projects scheduled through 2035 address approximately 6.4GW: 2.4GW at KOEWPW, 1.0GW at KOMIPW, and 3.0GW at KOSOPW.^{16, 17, 18} The 6.4GW calculation excludes KOEWPW's

¹⁴ Pg 43, "11th Basic Plan for Electricity Supply and Demand (2024–2038)", Ministry of Trade, Industry and Energy, 2025.

¹⁵ "Republic of Korea and Bahrain join the Powering Past Coal Alliance at COP30", Powering Past Coal Alliance, 17 Nov 2025.

¹⁶ "Green and Transition Finance Framework", Korea Southern Power, 27 Aug 2026.

¹⁷ "2026 Green and Climate Transition Finance Framework", Korea East-West Power, Jun 2026.

¹⁸ "KOMIPO 2026 Green and Climate Transition Finance Framework", Korea Midland Power, Jul 2026.

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additional 1.0GW of replacements scheduled for 2036. This represents approximately 20% of the estimated Korea Power Generation's coal portfolio and 31% of the capacity addressed by the 11th Basic Plan.

These percentages describe the scope of the identified programmes; they do not imply that bond proceeds finance the full cost of replacing that capacity.

Korea's 2035 Nationally Determined Contribution provides a further benchmark for assessing the merged portfolio's emissions trajectory.¹⁹ Coal-retirement capacity alone will not establish alignment with this. The assessment also depends on the utilisation and emissions of the remaining coal plants, the contribution of renewable generation, and the operating and fuel-conversion pathways of replacement LNG assets.

A consolidated transition plan would clarify how future transition financing addresses assets outside the current programmes.

Portfolio transition alignment: a 1.5°C benchmark

The Korean Green Taxonomy, or K-Taxonomy, is a classification framework specifying the conditions under which economic activities qualify as green or transition-related.²⁰ For example, it specifies eligibility conditions for certain combined-cycle gas turbine (CCGT) projects. However, eligibility under that framework does not by itself establish that an issuer's overall generation portfolio follows a 1.5°C-aligned pathway.

Korea's 2035 NDC explicitly seeks alignment with the 1.5°C temperature goal.²¹ The IEA's Net Zero Emissions by 2050 roadmap provides one benchmark for assessing the pace of transition.²² Its roadmap calls for unabated coal generation in advanced economies to end by 2030, while the updated NZE has advanced-economy electricity reaching net zero around 2035.²³ The pathway also requires a rapid reduction in unabated fossil-fuel generation as plants are retired, operated less, fitted with Carbon Capture Utilisation and Storage (CCUS), or converted to low-emissions fuels. This is a scenario benchmark rather than a Korea-specific policy requirement.

Figure 6 illustrates the national coal retirement milestones discussed above and how they extend beyond the IEA's 2021 benchmark timeline. This raises questions about the pace of transition, although retirement dates alone cannot establish the 1.5°C alignment of the CTBs or the merged issuer. Such an assessment also requires projected generation and emissions over time, including the utilisation and operating lives of replacement LNG plants and credible plans to reduce their emissions.

For CTB investors, the analysis therefore operates at two levels. At bond level, the focus remains on delivery of the coal retirements and replacement projects identified in the existing frameworks, and their expected emissions outcomes. At issuer level, the merger broadens the assessment to the full Korea Power Generation fleet, including assets outside those frameworks. A consolidated transition plan would help investors assess whether the combined portfolio's projected emissions decline is consistent with the selected benchmark.

¹⁹ "[2035 Nationally Determined Contribution](#)", Office for Government Policy Coordination, accessed 1 Sep 2026.

²⁰ "[K-Taxonomy Guidelines](#)", Ministry of Climate, Energy and Environment, 31 Dec 2025.

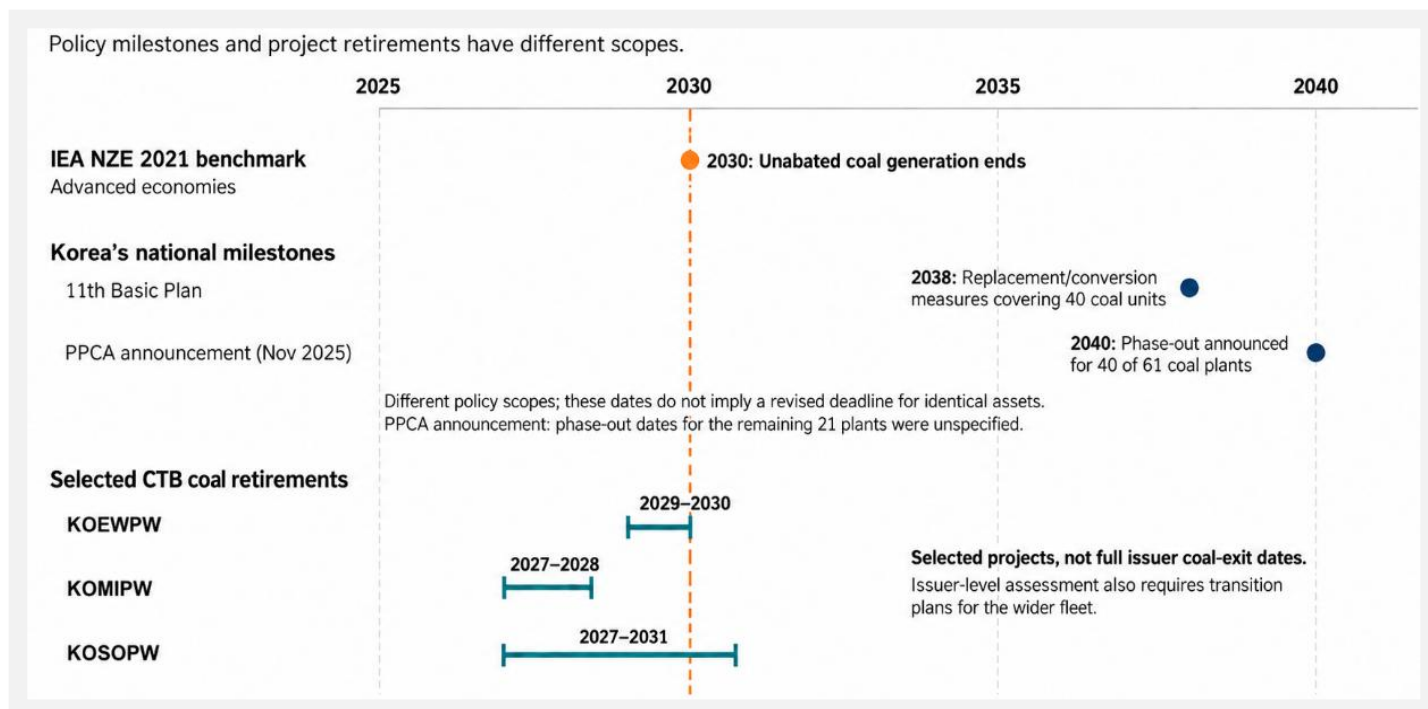
²¹ "[The Republic of Korea's 2035 Nationally Determined Contribution \(NDC\)](#)", Republic of Korea, 2025.

²² "[Net Zero by 2050: A Roadmap for the Global Energy Sector](#)", International Energy Agency, 2021.

²³ "[World Energy Outlook 2023](#)", International Energy Agency, 2023.

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Figure 6. Korea's policy milestones and CTB programme timelines compared with the IEA NZE benchmark. Source: IEA, Ministry of Trade, Industry and Energy, issuers' transition-finance frameworks. AFII analysis.



Conclusions

The merger shifts the transition question from the three individual entities with outstanding CTBs to a single, much larger, combined generation portfolio. Combining the five power generation companies could improve coordination of investment in renewables and coal retirement, provided that the merged entity establishes a consolidated investment and transition plan. Korea Power Generation will inherit most of the country's coal capacity at a time when Korea must accommodate rising electricity demand, rapidly expand renewable generation, and phase out unabated coal.

Recent CTB issuance has attracted strong investor demand, but the financing needs associated with the broader transition of the combined portfolio are likely to be significantly larger than those addressed by the three existing programmes. Maintaining investor support as transition financing expands will therefore depend increasingly on how future programmes address the broader portfolio, including differences across the existing CTBs in project scope, transition assumptions, and reporting.

Programme design will be particularly important for replacement CCGTs. Clearer coal-retirement dates, operating horizons for replacement gas assets, and pathways away from unabated LNG would help investors assess whether future financing supports a portfolio transition consistent with Korea's policy commitments and a 1.5°C-aligned benchmark. A more coherent portfolio-level framework could therefore strengthen the credibility of future transition financing as the scale of Korea's power-sector transition increases.

Investors will therefore need both continued reporting on the legacy CTB programmes and a consolidated transition plan to have confidence in the combined entity's ongoing decarbonisation.

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