Asian Development Bank
Energy Transition Mechanism
- Scale Up through Funding Vehicle

June 2024
Coal-fired electricity must drop, but remains significant in developing Asia

Share of coal-fired power generation dropped in Europe and the US...

...but remains very high in Asia (2021)

Large-scale solution needed to simultaneously and rapidly decarbonize and build up clean energy in Asian developing countries.

Source (left): Carbon Action Tracker 2022 and calculations based on IEA Data
Author: Donald Kanak (WEF blog “How to accelerate the energy transition in developing economies”)

https://www.weforum.org/agenda/2021/01/how-to-accelerate-the-energy-transition-in-developing-economies
Why speed up the retirement of coal-fired power plants?

Early retirement of existing coal-fired power plants can:
- reduce emissions and improve population health,
- create additional demand for clean energy investments, and
- lower overall generation costs in the long-run.
ADB’s Energy Transition Mechanism: Increasing momentum from Glasgow COP26 to Dubai COP28

2021
- ETM launch
- Japan’s $25M seed financing for ETMPTF

2022
- Indonesia ETM Country Platform launch
- MOU signing for Cirebon 1, the 1st ETM transaction
- Germany’s €30M ETMPTF contribution

2023
- Agreement to retire Cirebon 1 ~7 years earlier (agreements with PLN and MEMR)
- New Zealand’s $25M ETMPTF contribution
- MOU with Singapore and GEAPP on the $2B Transition Finance Platform (ETM FV)

ETM launch at UN Climate Change COP26, Glasgow on 3 Nov. 2021 by ADB with the Governments of Indonesia and the Philippines.

Indonesia ETM Country Platform launch on 14 Nov. 2022 during the Bali G20 by ADB and Indonesia’s Ministry of Finance, with World Bank and Islamic Development Bank.

MOU signing between ADB, Monetary Authority of Singapore (MAS), and the Global Energy Alliance for People and Planet (GEAPP) for the Transition Finance Platform at Dubai COP28 on 5 Dec. 2023.

INTERNAL. This information is accessible to ADB Management and staff. It may be shared outside ADB with appropriate permission.
The ETM Program Overview

- **Accelerate the retirement or repurposing** of coal-fired power plants using public and private finance through refinancing, acquisition, or sustainability-linked corporate loans
- **Scale up investment** in clean energy and energy storage
- **Aim to achieve just and affordable transition**, addressing impacts of coal retirement on people and communities

**Governments and Philanthropies**
- Grants and highly concessional funding*

**ETM Partnership Trust Fund**
- + Other ADB-administered Concessional Funds\(^1\)
  - (e.g. CIF, GEAPP)

**Grant and Concessional finance**\(^**\)

**IFIs and global climate finance**

**International and local investors and lenders**
- Grant, debt, equity, or guarantee

**ETM Funding Vehicle**
- **Carbon Reduction Facility (CRF)**
  - **Clean Energy Facility (CEF)**

**Direct ADB Transactions**
  - (Sovereign or nonsovereign sectors with potential IFIs cofinancing)

**Technical Assistance (through grant):**
- Grid, technical, and financial analyses
- Just Transition (e.g., skills and livelihood development) and social/environmental safeguards
- Policy and regulatory support
- Carbon finance (e.g., carbon credit structuring)
- Measurement, reporting, and verification

\(^1\) ETMPTF has received contributions from the Governments of Japan ($25 M), Germany (€30 M) and New Zealand ($25 M). CIF = Climate Investment Funds. GEAPP = Global Energy Alliance for People and Planet.

\(^**\) Concessional finance may include concessional loans, evergreen debts, junior equities, and guarantees.
ETM Funding Vehicle (ETM FV): Partnership Platform
A replicable and scalable market-based platform to help accelerate the transition from carbon-based to clean power

- ADB, in partnership with Singapore Government and GEAPP is exploring the setup of the ETM FV Co., with long-term capital raised upfront and an identified pipeline.

- Other Investors, with different risk profile, risk appetite, and other requirements can participate through different forms of capital.

- ETM FV Co is managed or delegates management to the Investment Manager.

- ETM FV Co makes investments in CRF (all debt / synthetic) and CEF (mostly debt) transactions.

CIF = Climate Investment Funds
### CRF transaction models to accelerate retirement/repurposing of coal-fired power plants (CFPPs)

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Acquisition Model</strong></td>
<td>ETM acquires share capital in CFPP. ETM to take role as owner and operator of the coal plant. ETM agrees an early termination date with the utility and operates the plant until that date and then closes it or repurposes. Most suitable for IPP plants with international bankable PPA. &lt;br&gt;While multiple transaction options exist, ETM will seek commitments from: • current project investors not to develop any new coal; and • host country commitment to energy transition as a pre-condition for any deal.</td>
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<tr>
<td><strong>Synthetic Model</strong></td>
<td>ETM invests senior/junior debt and/or other mezzanine capital to the CFPP. Equity ownership and operational responsibility kept with the current asset owner. Most suitable for IPP plants with international bankable PPA.</td>
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<tr>
<td><strong>Portfolio Model</strong></td>
<td>ETM provides funding to the corporate sponsor with CFPPs and greenfield clean energy projects. Sponsor guarantees greenfield clean energy projects will be built and coal plants retired ahead of schedule. Most suitable for Utilities with a portfolio of plants.</td>
</tr>
</tbody>
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1. Acquisition Model to be utilized only in exceptional scenarios.
CRF Transaction Structure: ETM will re-leverage CFPPs with low-cost capital while existing owners remain involved as equity owners and operator

ETM CRF Transaction Structure – Synthetic Model

1. **ETM invests in debt-like instrument** into the project company and receives repayment based on sculpted cash flow (% of CFADS) over the investment horizon.

2. **Proceeds from ETM investment are paid to existing shareholders as a special dividend** as a form of equity return. Existing shareholders continue to receive equity dividends (but at a lower level than without CRF).

3. **Existing shareholders remain as 100% common shareholders** until the end of the shortened PPA tenure.

4. **Transaction to be structured for existing financing arrangement to remain** (e.g. pari-pasu with CRF) **or fully exit**.

5. **Shortening of PPA tenure to be contractually agreed with the Utility**; major project agreements (O&M, Fuel) to remain as is but with shorter tenor.
CEF Value Proposition: ETM will support project preparation to generate pipeline and will provide stapled financing for clean energy projects

Project Development
- ETM will work with the government to develop renewable energy master plans and identify renewable project pipelines
- ETM will support project preparation of specific clean energy projects or grid enhancements, incl. preparation of FS, due diligence, project structuring and development of bankable project documents
- ETM can also provide tender assistance, if applicable

Financing Close
- ETM would provide attractive stapled financing attached to the project when it goes to the market for private sector sponsor participation through tenders or other means.
  - could include both commercial capital (subject to being competitive with market rates) alongside concessional funding
  - concessional funding can be used to de-risk project and/or address viability gaps
- The private sponsor would use ETM debt attached to the project for part of its funding needs.

ETM CEF is being considered as a mostly debt vehicle but we are possibly open to ideas of taking non senior debt positions on a limited basis.