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

June 2024
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 (ETMPTF)**

+ Other ADB-administered Concessional Funds (e.g., CIF, GEAPP)

**IFIs and global climate finance**

Grant, debt, equity, or guarantee

**Direct ADB Transactions**

(Sovereign or nonsovereign)

**Technical Assistance (through grant):**

- Grid, technical, and financial analyses
- Just transition, social and environmental safeguards
- Policy and regulatory support
- Carbon finance (e.g., carbon credit structuring)
- Measurement, reporting, and verification

**Grant and Concessional finance**

**ETM Funding Vehicle (FV)**

Carbon Reduction Facility (CRF)

Clean Energy Facility (CEF)

**Coal retirement transactions (asset level)**

**Clean energy transactions (asset level)**

**Corporate transactions (portfolio level)**

❖ Just transition activities to be supported in line with agreed just transition plan.

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1 ETMPTF has received contributions totaling $81.5 M from the Governments of Japan, Germany, and New Zealand.

2 Commitments from the Monetary Authority of Singapore and GEAPP under the Transition Finance Platform will form part of the ETM FV.

**ADB = Asian Development Bank, CIF = Climate Investment Funds, GEAPP = Global Energy Alliance for People and Planet, ETM = Energy Transition Mechanism, IFI = International Financial Institution.**
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 set up 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.

Commercial Investors

GEAPP (Concessional)

Singapore (Concessional)

ADB Managed Trust Fund (Concessional)

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CIF = Climate Investment Funds

Project Level
CRF transaction models to accelerate retirement/repurposing of coal-fired power plants (CFPPs)

<table>
<thead>
<tr>
<th>01</th>
<th>Acquisition Model (^1) (SPV Level)</th>
<th>02</th>
<th>Synthetic Model (SPV Level)</th>
<th>03</th>
<th>Portfolio Model (Corporate Level)</th>
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</thead>
<tbody>
<tr>
<td>ETM acquires share capital in CFPP</td>
<td>ETM invests senior/junior debt and/or other mezzanine capital to the CFPP</td>
<td>ETM provides funding to the corporate sponsor with CFPPs and greenfield clean energy projects</td>
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<tr>
<td>ETM to take role as owner and operator of the coal plant</td>
<td>Equity ownership and operational responsibility kept with the current asset owner</td>
<td>Sponsor guarantees greenfield clean energy projects will be built and coal plants retired ahead of schedule</td>
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<td>ETM agrees an early termination date with the utility and operates the plant until that date and then closes it or repurposes</td>
<td>Investment conditional on early termination being contractually agreed with owner and utility and appropriate security being provided</td>
<td>Incentives (such as penalty interest) can be used to ensure that the transition occurs</td>
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<tr>
<td>Most suitable for IPP plants with international bankable PPA</td>
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<td>Most suitable for Utilities with a portfolio of plants</td>
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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.

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

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)

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

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

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.