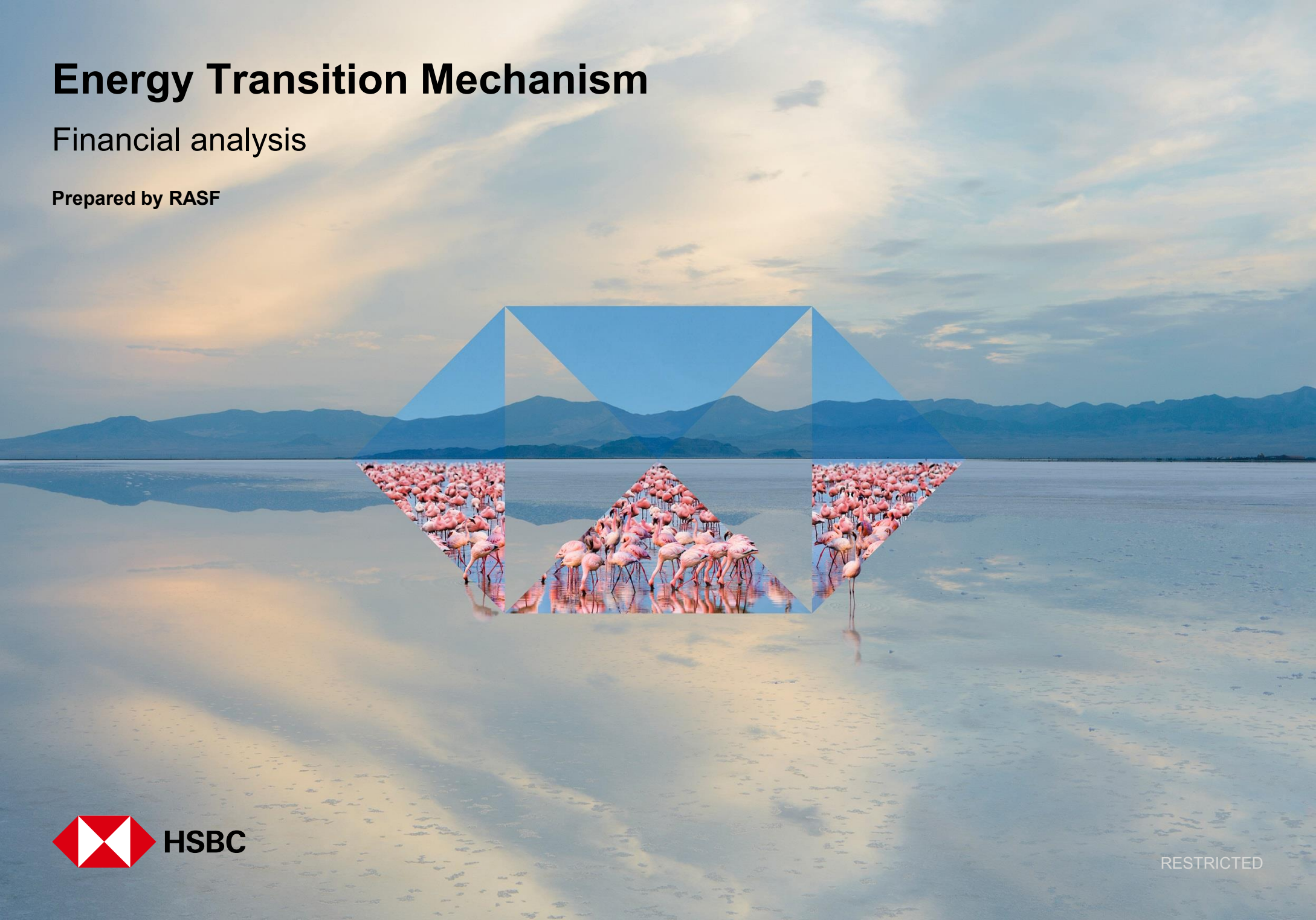
Energy Transition Mechanism

Financial analysis

Prepared by RASF



HSBC

RESTRICTED

Approach

ETM analysis

Target asset

- Using the example of a 2,000 MW CFPP IPP
- Assuming an initial 25 year PPA
  - Plant has been operating for 15 years, hence leaving a residual PPA life of 10 years
  - Assume a post-PPA residual life of 15 years (wholesale or new PPA)

ETM role

- ETM buys the plant assuming a remaining residual life of 25 years (based on technical state of the plant)
- ETM dismantles the plant at the end of the PPA, instead of running it till the end of its useful life
- ETM therefore saves 15 years worth of CO2 emissions

Valuation

- Day 1 acquisition by ETM is at market price
- For illustration purpose, we have considered USD1.8m/MW

Potential ways for ETM funders to finance the acceleration of retirement:

- **Scenario 1**: No revenues after the plant is dismantled
  - Equity bears the loss of foregoing 15 years of free cash flows
  - ETM needs upfront grant to maintain equity return at market levels

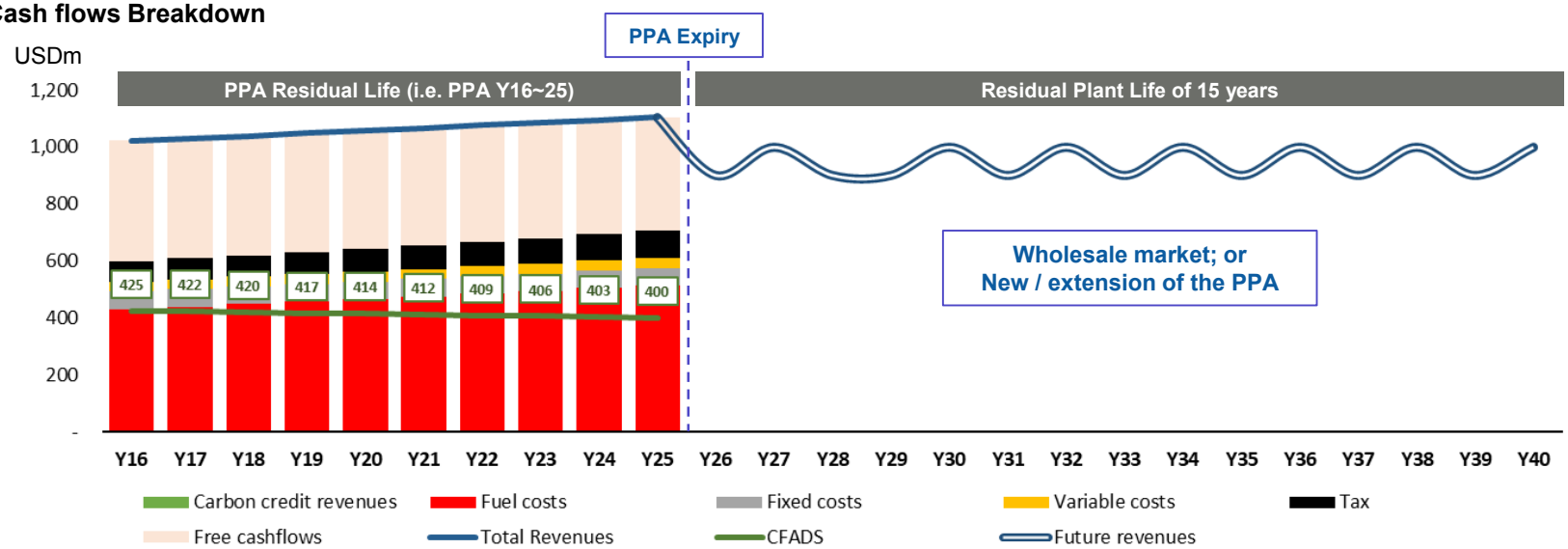
- **Scenario 2**: Carbon credit replacement
  - Carbon credit scheme provides a replacement cashflow from year 11-25
  - Equity return is maintained at market level

Snapshot of the target's revenues

Key Assumptions

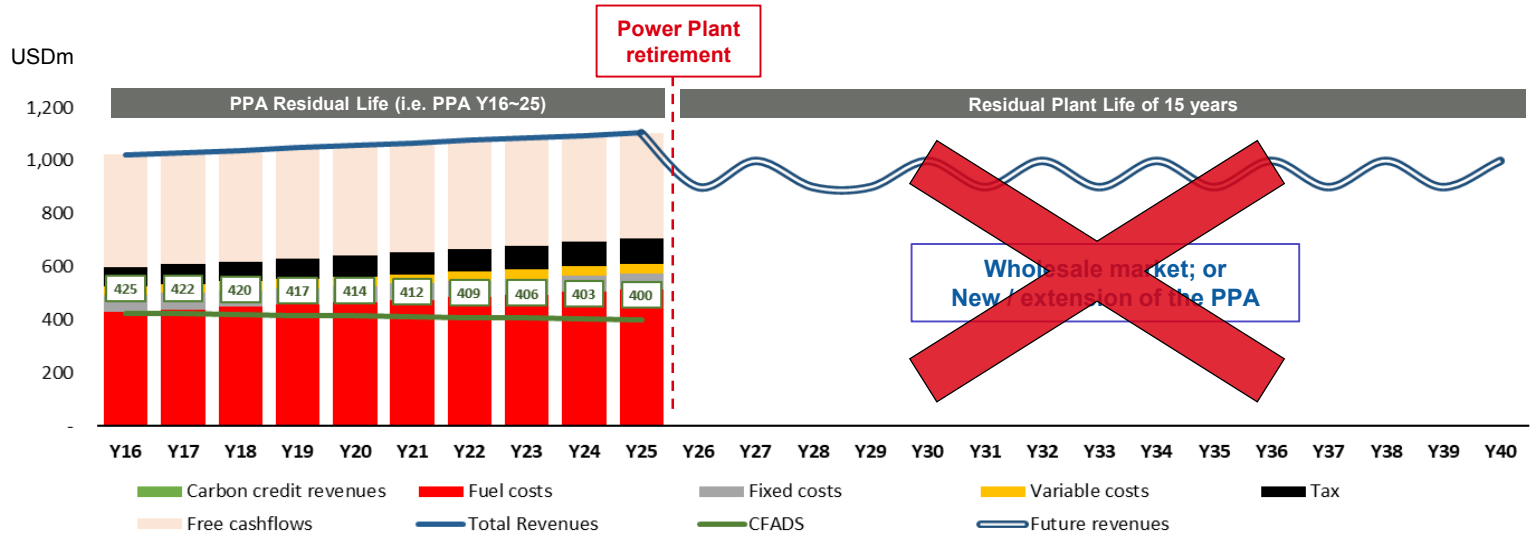
Gross capacity	2,000 MW
Existing PPA	10 years remaining
Useful life	25 years remaining (PPA+15 yrs residual life)
Revenues under the PPA	4 components: ▪ Capacity charge – availability based ▪ Energy charge – passed through ▪ Fixed O&M charge – passed through ▪ Variable O&M charge – passed through
Operating costs	Fully passed through under the PPA
Outstanding debt	To be refinanced

Cash flows Breakdown

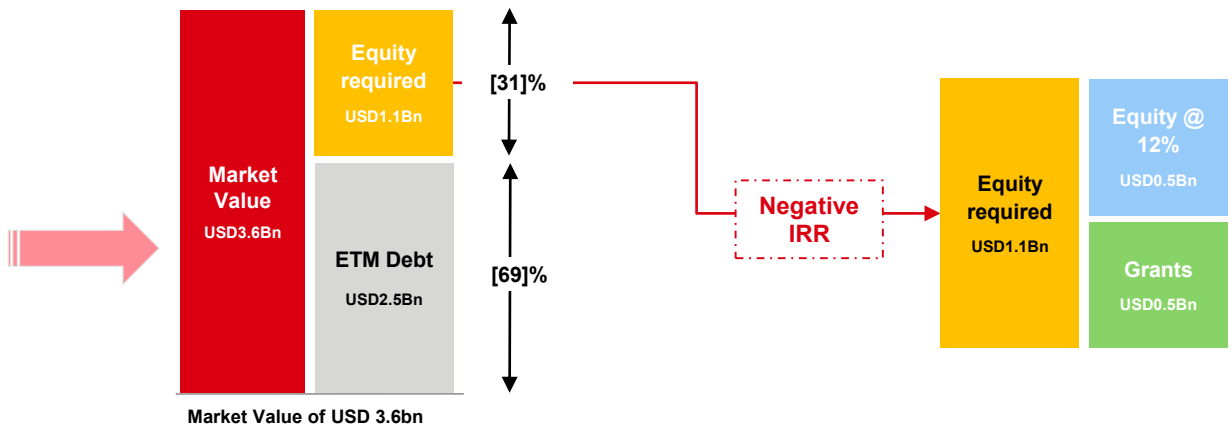


Power Plant retirement 10 years post acquisition

Scenario 1: No cash flows replacement



ETM Debt assumptions	
Tenor	10 years
All-in interest rate	4.5% p.a.
Sizing DSCR	1.30x
Debt size	**USD2.5Bn**



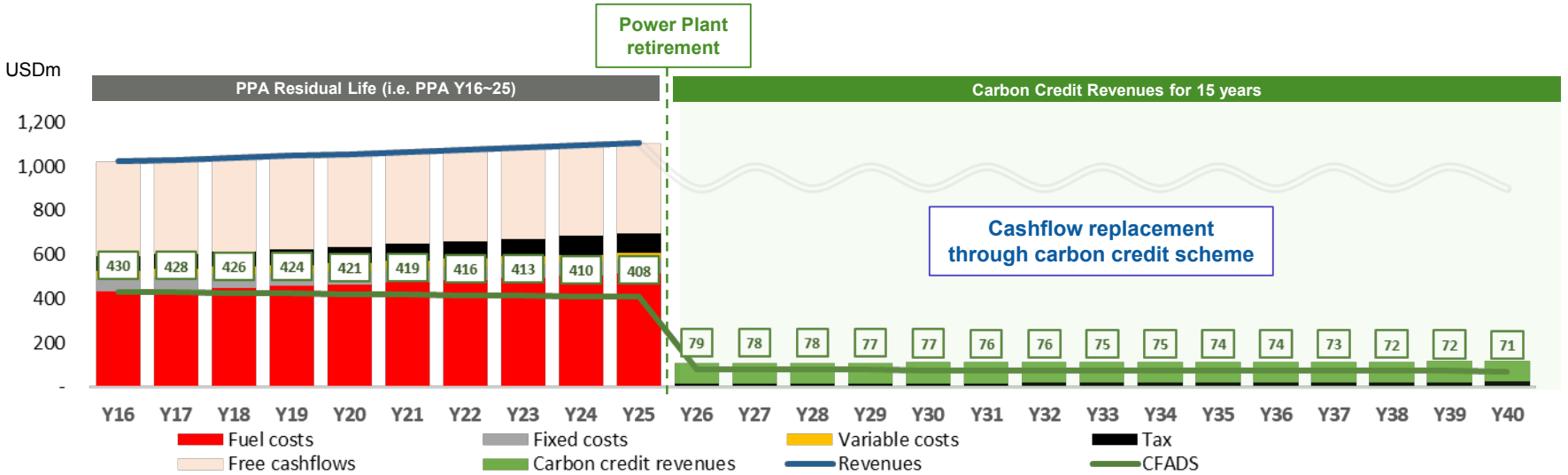
Features

- ✓ Grants can be injected on Day 1
- ✓ Commercial debt raised from the PPA cashflows
- ✓ No concessional debt required
- ✓ Public perception of Day 1 subsidies to buy CFPP

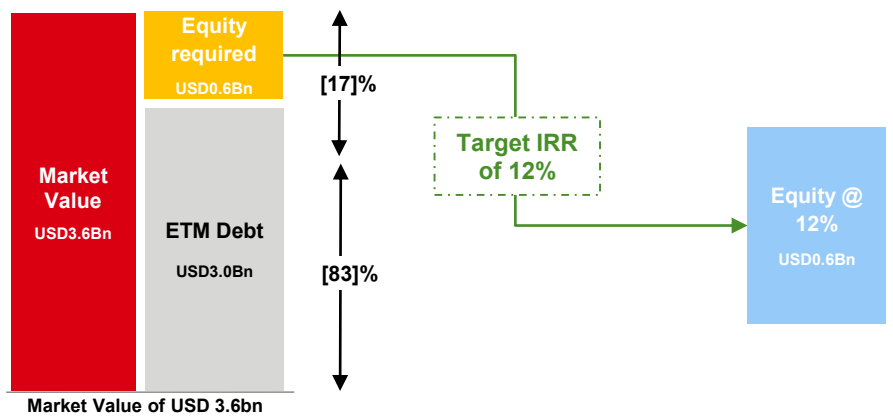
- ✓ Lack of control over actual retirement
- ✓ Availability of grant / finite by nature
- ✓ Sustainability of such model to be developed
- ✓ Increasing grants required for additional acquisitions

Power Plant retirement 10 years post acquisition

Scenario 2: Carbon credit cash flows starting post PPA term



	Assumptions
Yearly CO2 saved	10,000,000 tonnes
Carbon credits	c.USD9.4/t based on target Equity IRR of 12%
Debt sizing	Before retirement: 1.30x Post-retirement: 1.10x
Debt tenor / size	**25 yrs / USD3.0Bn**



Features

- ✓ Public perceptions likely more supportive
- ✓ No grant required / all funding at market returns
- ✓ Potential to replicate / build a portfolio
- ✓ Attractive investment proposition / new green asset class for investors
- ✓ EU ETS extension (market price) vs. fixed separate contracted tariff
- ✓ Equity incentive if carbon credit is subject to retirement of the plant
- ✓ Debt can be optimised if carbon credit payment is unconditional, irrevocable and ring-fenced – 100% re-leveraging potential post retirement