

# ACEN Early Retirement in The Philippines

Asset: South Luzon Thermal Energy Corporation (SLTEC)

## Timeline

**18 October 2021:** ACEN's Board of Directors authorized ACEN management to work towards the early retirement of the 246MW SLTEC coal plant by 2040 – 15 years ahead of the end of its technical life – through the use of an Energy Transition Mechanism ("ETM"). The ETM aimed to leverage low-cost and long-term funding geared towards early coal retirement and reinvestment of proceeds to enable renewable energy.

**26 July 2022:** ACEN approved the divestment of all its shares in its wholly-owned subsidiary, South Luzon Thermal Energy Corporation ("SLTEC"), through energy transition financing. Subject to regulatory approval, the shares would be acquired by ETM Philippines Holdings, Inc. ("EPHI") and The Insular Life Assurance Company, Ltd. ("InLife"). ACEN will use the proceeds from the divestment to invest in more renewable energy projects. EPHI was set up with bridge financing from ACEN, as an SPV that will allow financial investors to invest in the ETM mechanism.

**21 October 2022:** SLTEC redeemed 32,000,000 SLTEC Preferred Shares from ACEN at par value for a total redemption price of PHP 3.2 Billion

**28 October 2022:** SLTEC retired 34,997,750 Common Shares held by ACEN at par value (PHP 100.00 per Common Share) or a total of PHP 3,499,775,000.00, following SEC approval of the decrease of SLTEC's authorised capital stock on 7 October 2022.

**7 November 2022:** ACEN fully divests from the SLTEC coal plant, selling its remaining 832,500 Common Shares to EPHI at a purchase price of PHP 100.00 per share. On the same day, ACEN's remaining 3,830,250 SLTEC Preferred Shares were redeemed at par value (PHP 100.00 per Preferred Share) for a total redemption price of PHP 383,025,000.

**4 December 2023:** At COP28, ACEN, The Rockefeller Foundation's Coal to Clean Credit Initiative (CCCI) and Monetary Authority of Singapore (MAS) partner announce a pilot for the use of transition credits that leverage carbon finance to phase out a coal-fired power plant and replace it with renewable energy.

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ETM Fundamentals	
Seller	AC Energy (ACEN), an Ayala Corporation Group company
Buyers	ETM Philippines Holdings, Inc. – a special purpose vehicle The Insular Life Assurance Company – mutual insurance company and previously an Ayala Group company Government Service Insurance System (GSIS) – largest pension fund in the Philippines
Aggregate Value of sale	PHP 3.7 billion <ul style="list-style-type: none"> <li>• InLife invests PHP 1.0 billion in equity with a quarterly dividend and a put option</li> <li>• PG SIS invests PHP 2.2 billion in redeemable preferreds</li> <li>• ETM Philippines invests PHP 0.5 billion</li> </ul>
Original Debt Package	PHP 11.0 billion. A 12-year tenor tied to the power supply agreement (PSA); floating rate of 4.44 to 7.11% involving the Banco de Oro (BDO), SBC, and Rizal Commercial Banking Corporation (RCBC)
Lead ETM Arrangers	BPI Capital (Ayala Group) and CLSA
ETM Debt Package	PHP 13.7 billion; BPI (Ayala Group) and RCBC
Proceeds Realised by Seller	PHP 7.2 billion (USD 131.5 million), or USD 0.49 / MW
Use of Proceeds	ACEN stated that the proceeds would be used to finance their announced pipeline of renewables projects
Management, Operations, and Maintenance	ACEN will continue to manage the facility and provide O&M services on a contractual basis ACEN will continue to supply coal – and take fuel price risk – through the end of the PSA
Avoided Emissions	ACEN states that they will avoid 50 million MtCO <sub>2</sub> through early retirement

Country-Level Fundamentals	
Nationally Determined Contribution (NDC)	The Philippines first filed its NDC in April 2021 targeting a GHG reduction of 75% by 2030 versus a BAU baseline of 3,340 MtCO <sub>2</sub> . Only 2.71% of the targeted emissions avoidance is unconditional. The NDC also includes a target for peak emissions by 2030.
Carbon Emissions	Estimated at 144.26 MtCO <sub>2</sub> in 2021 (0.39% share of global emissions).
Net Zero Alignment	While the target to peak emissions by 2030 is considered ambitious, the Philippines' current policies are not believed to be aligned with the NDC target for 2030
Power System Emissions	Account for more than half of the Philippines' carbon emissions

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Entity-Level Fundamentals	
Proceeds Paid to ACEN	ACEN realises PHP 7.2 billion from sale following debt refinancing
Use of Proceeds Terms	General statements on the use of proceeds; unclear whether funds are ring-fenced or targeted
RE Required to Replace SLTEC	Estimates that replacing SLTEC generation will require approximately 1 GW of new solar & wind
Scale of RE Pipeline	Expect to have 10 times SLTEC capacity in new renewables when SLTEC is retired or more than 2.7 GW
Net Zero Alignment	Commitment for 100% renewables by 2025 and 20GW of RE by 2030. Company also has a zero GHG emission target by 2050
Total Attributable GHG Emissions	2022 Scope 1 and 2 estimated at 2.1 million MtCO <sub>2</sub>
Emissions Intensity	2022 Scope 1 and 2 estimated at 944.3 MtCO <sub>2</sub> /GWh
ACEN's Net Zero Commitments	100% RE by 2025; Reduce Scope 1 by 74% by 2030 and 95% by 2040 Integrated 2022 Annual Report has first data on 1.5°C aligned scope 1, 2, and 3 emissions targets

Asset-Level Fundamentals on the SLTEC Power Plant	
Facility	2x135 MW (246 MW net) sub-critical circulating fluidized bed technology, located in Batangas, Luzon
Fuel Type	Sub-bituminous
COD	2015
Planned Retirement	Unit 1 by 2040; Unit 2 by 2041
Expected Technical Life	50 years
Age at Early Retirement	25 years
PSA End Date	PSAs with Meralco end in late 2029 and early 2030
Wholesale Market (WESM) Participation	SLTEC has dispatched approximately 11% of its output to WESM between 2020 to 2022
Relevant Utility & Grid	Meralco for power to the Luzon grid

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Asset-Level Operational Metrics based on TransitionZero's Coal Asset Transition (CAT) database	
Capacity Factor	56%
Contracted demand	200 MW (Baseload) and 110 MW (Intermediate)
Estimated annual emissions	1.6 MtCO2 annually

Qualitative Assessments	
ETM Design Features	The new debt and equity structure increases the debt-to-equity ratio to 79% and support investor return profile Long-tenor of the new debt package and yield are attractive for insurance and pension investors. ACEN retains economic exposure via the put and redemption features & continued operating role
Leakage Risk^ (High-Medium-Low)	Medium
Moral Hazard** (High-Medium-Low)	Low

^ Leakage risk is a phenomenon where efforts to reduce emissions or transition to cleaner energy sources in one region or sector inadvertently lead to increased emissions or environmental degradation elsewhere.

\*\* Moral hazard describes situations where private parties are insulated from the negative economic consequences of their decisions by others – often governments using public funds.