11th Annual

ALBERTA POWER SYMPOSIUM

Financing the Energy Transition

Patrycja Drainville
Director, Sustainable Finance
Scotiabank

Bill Gilliland
Partner
Dentons Canada LLP

CI ACI C5

Sustainable Finance Overview

Sustainable Financing Models

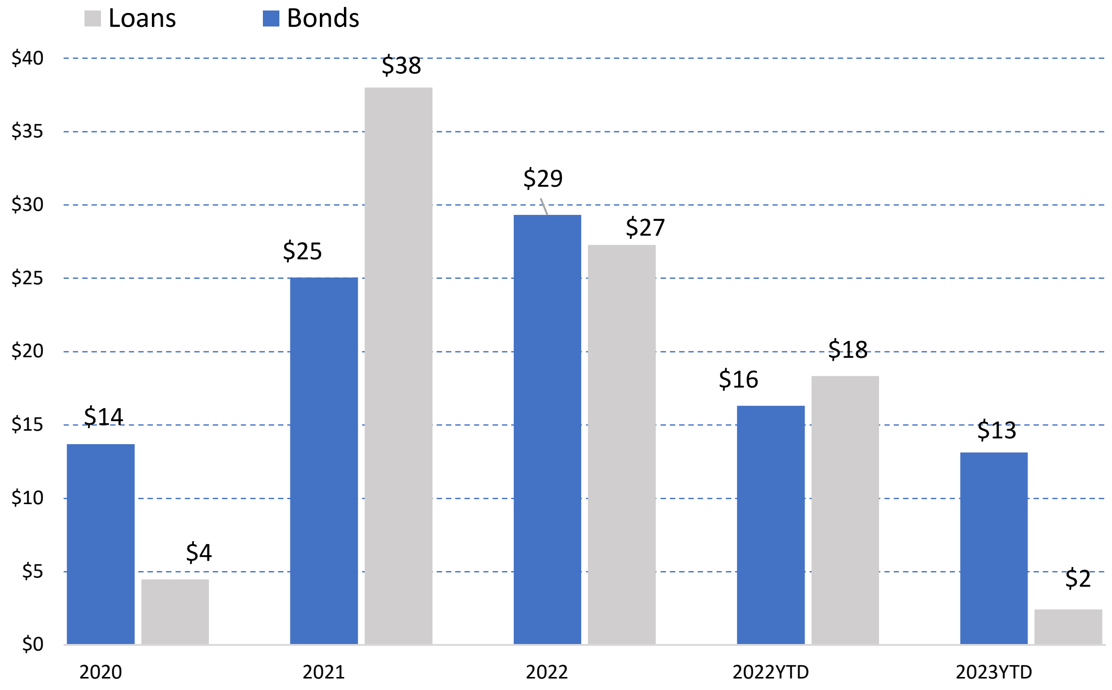
Use of Proceeds vs Sustainability Linked

- Mostly fixed income instruments (loans or bonds) with ongoing product innovation (derivatives, deposits)
  - Use of proceeds
    - Funds raised are used to finance sustainable projects that meet pre-defined market criteria and thresholds and typically fall in to three categories: Green, Social, or Sustainability
    - Thematic issuance growing where there is a targeted use of proceeds (blue bond, forest resiliency bond)
    - Transition finance on the horizon
  - Sustainability Linked
    - Funds raised can be used for general corporate purposes and not directed at a sustainability investment
    - Pricing characteristics vary depending on whether an ESG performance target is met or missed

State of the Sustainable Finance Market

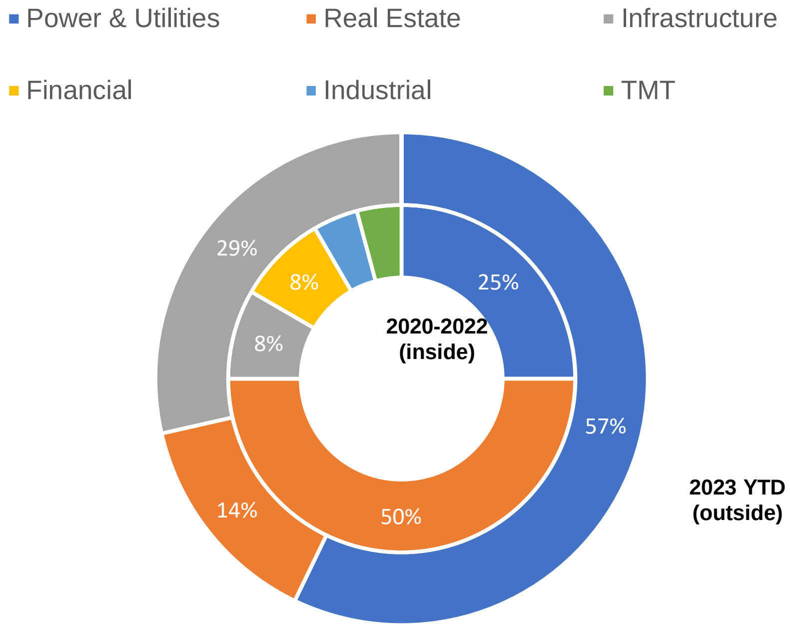
Power & Utilities

Issuance Volume (C$MM) | 2020- 2023YTD



Source: Bloomberg

Debut ESG Issuers By Industry (%)



Source: Bloomberg

CI ACI C5

Common Use of Proceeds & KPIs

Use of Proceeds[1]

Renewables	• Wind, Solar, Geothermal, Biomass that is derived from waste feedstock and hydropower (including pumped storage) • Long term renewable energy power purchase agreements • Construction, development, acquisition, expansion, operation and maintenance of transmissions and distribution infrastructure
Energy Efficiency	• Systems or technologies that increase energy efficiency and/or reduce energy consumption, such as smart grid10 technology, smart sensors, and automation systems • Programs to support customer energy efficiency incentive programs such as weatherization, caulking, insulation upgrades, and window replacements
Clean Transportation	• Acquisition, upgrade and roll out of dedicated low-carbon transport assets including: • Zero-emission vehicles; • Supporting clean transportation infrastructure, including electric vehicle charging stations and the associated power delivery and distribution systems for charging stations
Climate Adaptation	• Enhancing resiliency and hardening in transmission and distribution networks to mitigate and adapt to the impact of climate change and extreme weather-related events and impacts • Investments for advanced monitoring equipment, information support systems, climate observation and early warning systems

[1] Performance thresholds apply for certain activities

Key Performance Indicators

- Low Carbon Energy Generation
- Safety
- GHG Emissions
- Diversity

Market Participants

Participating Companies in the North American Market

- Brookfield
- FortisBC
- NextEra Energy
- Ontario Power Generation
- Capital Power
- Bruce Power
- Algonquin
- Hydro Québec
- enwave
- transalta renewables
- PSE Puget Sound Energy
- American Electric Power
- Southern Power

And many more…

Polling Question #1

Is your organization doing sustainable finance?

- Yes
- Not at this time
- Considering

CI ACI C5

Why Sustainable Finance

- Towards ESG leadership
- Highlight corporate ESG investments/target/commitments
- Diversify investor base
- Possible pricing benefits
- Increased engagement with investors, stakeholders
- Deeper integration across organization
- Accelerated ESG performance

Moving towards ESG Regulation

National Instrument 51-107 *Disclosure of Climate-related Matters* (NI 51-107)

- **Board of directors' oversight** of climate-related risks and opportunities
- **Management's role** in assessing and managing climate-related risks and opportunities
- **Strategy.** Climate-related risks and opportunities identified over the short, medium and long term, and the impact of these risks and opportunities on business, strategy, and financial planning, where material
- **Risk management.** Processes for identifying, assessing and managing climate-related risks, and how these processes are integrated into its overall risk management

National Instrument 51-107 *Disclosure of Climate-related Matters* (NI 51-107)

- **Metrics and targets.** Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process, and targets used to manage these risks and opportunities and performance against targets. An issuer would not be required to disclose information that is not material

- **GHG emissions.** “Comply or explain” disclosure of Scope 1 , Scope 2 and Scope 3 GHG emissions

Polling Question #2

Is your organization planning to report under the ISSB standards?

- Yes
- No
- Not sure

International Sustainability Standards Board (ISSB) releases sustainability and climate change disclosure standards

- Disclosure of material information regarding all significant sustainability-related and climate-related risks and opportunities to which it is exposed
- Materiality is assessed or the basis of whether the information would be required to enable users of general-purpose financial reporting to understand the effects of significant sustainability-related and climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and anticipated effects in short, medium and long-terms
- Climate-related disclosure is generally consistent with the TCFD recommendations, but goes beyond in several areas
- Unlike proposed NI 51-107, issuers would be required to engage in “scenario analysis”, describing the resilience of their business strategy against a variety of climate-related scenarios
- The ISSB Exposure Drafts would also require the disclosure of absolute Scope 1, Scope 2 and Scope 3 GHG emissions information
- Applicable for annual reporting periods beginning on or after January 1, 2024
- CSA has announced its review of the ISSB standards with a view to how they may impact and inform the finalization of the proposed NI 51-107
- Significant Governance Implications

ISSB Standards – Governance Implications

- Boards of directors should expressly establish oversight of climate-related risks and opportunities of the issuer
- Boards of directors should expressly task management with responsibility for assessing and managing climate-related risks and opportunities.
- Boards of directors should consider board committee roles in the review and assessment of climate-related risks.
- Boards of directors should specifically consider the role of the audit committee in the review and assessment of climate-related risks and opportunities.

ISSB Standards – Governance Implications

- Boards of directors should be aware that the Climate Disclosure Proposals require climate-related disclosure to be contained in documents that by law specifically must be reviewed and approved by the board.
- Boards of directors will need to assess the materiality of climate-related risks and opportunities.
- Boards of directors should develop a familiarity with the TCFD recommendations.
- Boards of directors should consider the need for scenario analysis as contemplated within the TCFD recommendations.

ISSB Standards – Governance Implications

- Boards of directors will need to consider the annual timing of preparation of an issuer's climate-related disclosure.
- Boards of directors should consider any *de facto* requirement to disclose GHG emissions.
- Boards of directors should consider whether the issuer should start early in addressing the disclosure contemplated by the Climate Disclosure Proposals.
- Boards of directors need to understand the impact of the Climate Disclosure Proposals on their prospectus-related liability.
- Boards of directors will need to monitor the development of climate disclosure ratings and rankings established by third parties.

Looking Forward

Considerations

- Organizational comfort with forward-looking goals
- Future ‘tightening’ of ambition – call for Science Based methodology
- Heightened guidance on recommended KPIs for sector – ICMA directory
- Regulator constraints in setting (and meeting) ESG targets
- Multiple instruments at disposal can shape corporate ESG narrative with stakeholders i.e., OPG and nuclear

Organizational Readiness

Building a Foundation for Sustainable Finance

- Established ESG corporate ‘architecture’ including governance and strategy
- Defines areas of ‘material’ impact
- Robust data, KPIs and targets
- Limited assurance of material KPIs
- Robust disclosures using globally established ESG frameworks

Transition Taxonomies, Natural Gas and Nuclear

- Sustainalytics
- European Approach
- Canada - “Taxonomy Roadmap Report” by the Sustainable Finance Action Council (Sept. 2022)
- Climate Transition Finance Handbook - ICMA

Trends

- Adoption of Social Use of Proceeds Categories
  - Diverse and Indigenous Peoples Procurement
  - Access to Clean Power for Remote Communities
  - Just Transition ensuring Equitable and Fair Transition for worker and communities

- Collaborative Partnerships for Power Purchase Agreements

- Biodiversity Risk and Opportunity and the TNFD Recommendations

- Energy Transition Robustness and Progress on Net Zero

HAVE A QUESTION?

Q&A