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

<table>
<thead>
<tr>
<th>Gross capacity</th>
<th>2,000 MW</th>
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</thead>
<tbody>
<tr>
<td>Existing PPA</td>
<td>10 years remaining</td>
</tr>
<tr>
<td>Useful life</td>
<td>25 years remaining (PPA+15 yrs residual life)</td>
</tr>
</tbody>
</table>

### 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

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**Cash flows Breakdown**

USDm

<table>
<thead>
<tr>
<th>Year</th>
<th>PPA Residual Life (i.e. PPA Y16~25)</th>
<th>Residual Plant Life of 15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y16</td>
<td>425</td>
<td></td>
</tr>
<tr>
<td>Y17</td>
<td>422</td>
<td></td>
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<tr>
<td>Y18</td>
<td>420</td>
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<td>Y19</td>
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<td>Y21</td>
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<td>Y22</td>
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<td>Y23</td>
<td>406</td>
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<tr>
<td>Y24</td>
<td>403</td>
<td></td>
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<tr>
<td>Y25</td>
<td>400</td>
<td></td>
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</tbody>
</table>

**PPA Expiry**

- Wholesale market; or
- New / extension of the PPA

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RESTRICTED
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

- 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

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