



Climate Change Policy

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Responsible: Development Impact Advisor

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Appendix 1

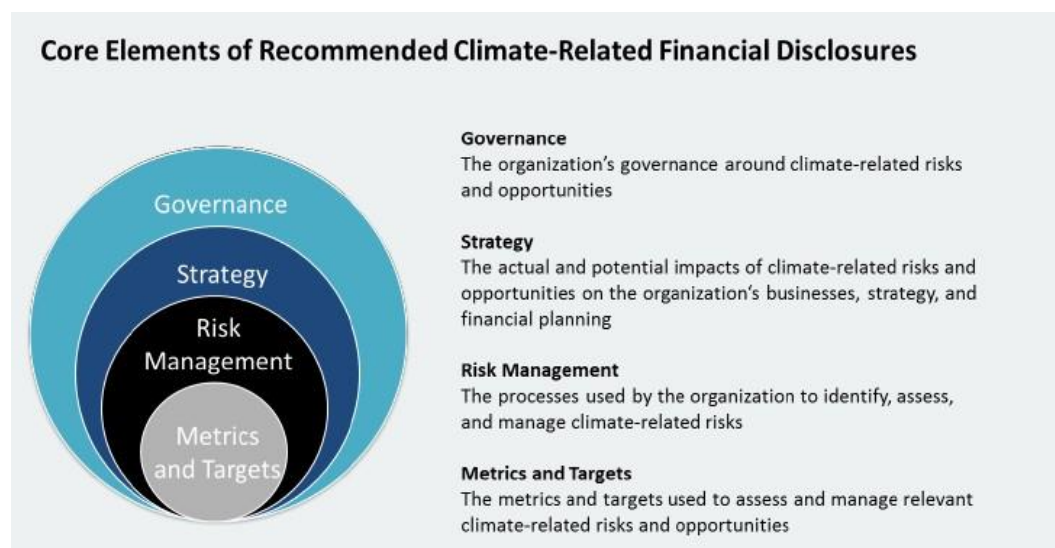
Summary of key elements of reporting in line with the Task Force on Climate-Related Financial Disclosures (TCFD)

1 Introduction

- 1.1** Gridworks aims to support the development of poorer economies through improving the capacity and efficiency of their electricity systems. This is achieved through investing in utility companies, transmission companies, off-grid electrification schemes, mini-grids, providers of electricity to commercial and industrial users and other interventions. Gridworks contributes to several Sustainable Development Goals including SDG 7 (affordable and clean energy), SDG 8 (decent work and economic growth) and SDG 13 (climate action).
- 1.2** Climate change is taking place throughout the world, with the poorest countries bearing a significant and increasing burden from floods, drought and storms. Scientists state that temperature increases of more than 1.5°C above pre-industrial levels will result in irreversible climate change, and that, to have some chance of keeping temperature increases below these levels, global emissions must reach net zero by 2050.
- 1.3** As well as being vital for economic growth, the global energy sector is a significant contributor to greenhouse gas (GHG) emissions and therefore to climate change. Gridworks is committed to helping the countries where it operates to follow pathways towards net zero, socially inclusive and resilient economies. This paper outlines how Gridworks will contribute to these pathways.

2 Background

Many investors and businesses are organising their climate change approach in line with the pillars of the Task Force on Climate Related Financial Disclosures (TCFD) – i.e. Governance, Strategy, Risk Management, and Metrics and Targets¹. CDC's climate change strategy follows this framework and this Gridworks policy does the same. Gridworks may consider making a commitment to formal reporting in line with TCFD in the future.



Source: Recommendations of the Task Force on Climate Related Financial Disclosures – Final Report 2017

¹ A more detailed table showing the key elements of each category of disclosure is at Appendix 1.

3 Governance

- 3.1 Gridworks recognises climate change as a financial, environmental and social risk which will be managed by the Board (or relevant committees when formed). Climate risk will be included as a risk in the risk register as well as being embedded in other standard risk management tools.
- 3.2 Gridworks will include an item on the Board agenda every 6 months to update on climate-related physical and transition risks in the portfolio and pipeline and how they are being assessed and managed. Where pipeline projects have a relationship with fossil fuel generation (for example, transmission of electricity from existing high-carbon generation) this will be highlighted in a submission to the IC during the project development and potential transition risks further assessed during the due diligence process.
- 3.3 Gridworks will consider climate change as an important context for development of its annual business plan and strategy.
- 3.4 Climate change oversight within the context of the Gridworks mandate is the responsibility of the Chief Executive (and the Board).

4 Strategy

4.1 Supporting net zero pathways

(a) Utility companies

One area of Gridworks' mandate is investing in electricity utilities, providing capital and management expertise to improve long term efficiency and capacity. These utilities will ordinarily distribute electricity from a broad mix of generation sources to supply its customers, including potentially both fossil fuels and renewables. The structure of each power sector will differ country-by-country. Most governments in Gridworks' mandated jurisdictions typically prioritise least-cost marginal supply when considering new projects. Utilities in which Gridworks invests will often not be responsible for, or have control over, procurement of new electricity generation.

In investing in or operating any utility, Gridworks will play a vital role in delivering carbon emissions reductions by:

- increasing the efficiency of energy transmission and distribution so that there are lower technical and commercial losses and hence less wastage than would otherwise have been the case (recognising that increasing connections to low consumption users can increase network losses); and
- enabling a greater proportion of variable renewables to be added to the existing grid, thus enabling a lower carbon growth pathway.

When making an investment in an integrated utility, Gridworks will

- be explicit about how that investment fits within the country's Nationally Determined contribution (NDC) and a long-term Paris-aligned pathway towards net zero for each country or region;
- only proceed:
 - where investment will reduce carbon emissions from existing generation; or

- where any new generation being funded by Gridworks' investment is not coal, where renewable options have been fully considered, and where the new generation is the lowest-carbon option that is technically and commercially feasible;
- consider the risk of an integrated utility remaining carbon-intensive after 2050 with reference to that country's options for a net zero pathway. For example, this might include an assessment of whether carbon-intensive assets (coal, HFO, gas) (a) can be converted to renewable sources (for example, a gas-fired power station will be converted by biogas) or (b) retained only as a back-up source of power after 2050 or (c) can be decommissioned so that they cease production prior to 2050, and whether these steps have been budgeted for and are consistent with any business plan or financial model used by the utility. The risk of an integrated utility remaining carbon-intensive after 2050 will be made explicit in the IC submission approving the investment and will be explained by reference to that country's options for a net zero pathway; and
- not finance the refurbishment of existing generation assets to extend their lifetime if to do so would be inconsistent with the target of zero carbon by 2050.

(b) Transmission infrastructure

When making investments in transmission infrastructure (separate from a utility), Gridworks will:

- seek to increase the efficiency of transmission infrastructure so that power is moved efficiently from sources of generation to consumption;
- seek to finance transmission infrastructure with optimised system losses in order to maximise the use of generation capacity;
- seek to facilitate new generation capacity from renewable sources; and
- exclude investment in transmission lines that are being constructed for the sole purpose of connecting new coal or heavy fuel oil (HFO) generation to the grid.

(c) Mini-grids

Gridworks will seek investments in the development of mini-grids because of the vital role they can play in delivering an inclusive net zero growth pathway, displacing alternative higher-carbon means of producing energy, and will

- exclude diesel-only mini-grids;
- support mini-grids that use renewable technologies (including hybrid solar/diesel mini-grids); and
- seek to minimise the thermal component of a mini-grid's generation when making an investment decision, to the extent technically and commercially feasible.

(d) Commercial and industrial distributed generation

Gridworks will seek investments in commercial and industrial generation such as rooftop solar installations and will:

- exclude commercial and industrial generation that is based only on fossil fuels;
- seek commercial and industrial generation from renewable sources; and
- undertake a baseline to assess the reduction in greenhouse gas emissions associated with the replacement of high-carbon sources such as diesel generators with renewable alternatives.

4.2 **Aligning with net zero pathways by 2050**

Gridworks will seek to minimise long term carbon emissions in each investment, based on the principles outlined in this policy. Gridworks is seeking net zero emissions by 2050 in its own portfolio and will assess how each investment relates to that target. Any investment decision will be transparent about the risk that the assets might continue to emit GHG after this period.

4.3 **Supporting a Just Transition**

A Just Transition to net zero and resilient economies is socially inclusive in relation to workers' rights, gender and communities. Within the companies in its portfolio, Gridworks will explore how it can support a just transition both through the job creation and skills development required for grid infrastructure and power generation consistent with the net zero transition and through planning to mitigate the negative community and jobs/livelihoods impacts of decommissioning carbon-intensive assets. For example, for the utility companies in which it invests, Gridworks will assess whether there are gaps in the skills necessary to support and drive low carbon assets, including energy storage and grid management capabilities.

4.4 **Promoting Adaptation and Resilience**

As part of its due diligence process, Gridworks will consider the resilience of its investments in the face of acute and chronic climate change scenarios. This input will inform the investment decision and / or the need for additional adaptation measures.

Gridworks will put in place appropriate monitoring of existing investments to enable an ongoing assessment of long-term climate change and a focus on ensuring resilience.

5 **Risk Management**

Gridworks will have systems in place to identify, mitigate, manage and monitor the physical and transition risks from climate change arising from its investments. Transition risks might include policy and legal risks, technology risk, market risk and reputational risk. Physical risks arising from climate change can be acute (relating to the increasing occurrence of severe weather events such as cyclones and floods) or chronic (relating to longer-term change in temperatures that will lead to sea level rise or sustained heat waves).

- The investment paper for each Gridworks investment will outline the transition risks and physical risks of the proposed investment, at an appropriate stage during the due diligence process.
- Where a utility is focused on transmission from an existing high-carbon asset or supply mix, Gridworks will, in particular, assess the transition risk that the asset or supply mix could become stranded as technology advances.
- Where a potential investment is exposed to a high level of climate risk, Gridworks will seek expert input to assist in assessing the nature of the risks under different scenarios and whether they can be managed, together with a costed action plan.

6 **Metrics and targets**

- Where Gridworks is investing in transmission and distribution (T&D) networks and not in generation, in line with accepted methodologies Gridworks will not be accountable for the carbon footprint of any generation assets to which the T&D networks are connected, but will account for the carbon emissions from the T&D operations and the benefits of reduced losses associated with greater efficiency.

- Gridworks will track a number of relevant metrics -
 - Reduction in emissions through reduction in technical losses.
 - Reduction in emissions compared with existing use at the time of investment - for example, where solar or diesel-solar hybrid is replacing diesel generation. (Where baseline energy sources are currently informal or ad hoc (for example, use of charcoal or diesel), it may be difficult to gather evidence and Gridworks may seek proxy data.)
 - Greenhouse gas intensity of the grid (in order to monitor whether Gridworks' investment has enabled an increase in renewables generation).
 - Emissions from energy generation assets when Gridworks has invested in an integrated utility.
 - Total carbon emissions across the portfolio.
- Gridworks will not have an annual target for carbon emissions across its portfolio at this early stage, but this will be reviewed as the portfolio grows.
- On individual projects, Gridworks will create a plan for carbon emissions reduction, based on (a) the expected roll-out of renewables generation capacity and the expected impact on diesel and/or charcoal use and / or (b) the expected reduction in losses.

Appendix 1 – Summary of key elements of reporting in line with the Task Force on Climate-Related Financial Disclosures (TCFD)²

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>a) Describe the organization's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p>	<p>b) Describe the organization's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>

² Recommendations of the Task Force on Climate-Related Financial Disclosures – Final Report 2017 – fsb-tcf.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf