

More Risks or More Opportunities?

DOMESTIC AND INTERNATIONAL ENERGY TRANSITION IMPLICATIONS ON THE FIDUCIARY RESPONSIBILITIES OF CORPORATE DIRECTORS IN THE PHILIPPINES

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Event Transcript

I. OPENING REMARKS

Atty. Pedro H. Maniego, Jr.

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On 06 August 2021, the United Nations (UN) Intergovernmental Panel on Climate Change (IPCC) issued its latest finding approved by 195 member states. UN Secretary-General António Guterres called the report a "Code Red for Humanity." He noted that "global heating is affecting every region on Earth, with many of the changes becoming irreversible."

The report firmly placed the blame for global warming squarely on Greenhouse gas emissions from human activities. Let's look at weather and climate disasters from a brief period, only June to August 2021 that is this year, less than three months:

- Heatwaves, wildfires and the most number of storms in North America;
- Highly unusual flooding in Europe and China;
- Enormous wildfires in Russia, heavy monsoon rains in India and, of course, the Philippines; and
- Severe drought in Africa and South America

We could expect more super typhoons like Yolanda intensified by heavy monsoon rains like Ondoy to devastate our country with continuous global warming. There is an increase in future global warming levels in terms of likelihood of occurrence and increase in temperature. Every year, record temperatures are being set.

Many places on Earth will be uninhabitable if global warming is not arrested. And yet, although there are always higher temperatures every year, more severe flooding is experienced at the same time in more and more countries, including the Philippines.

The average rise in sea level relative to 1900 could reach almost two meters if we don't change our life. Even in the different possible scenarios, unless we maintain our global temperature to within 1.5 degrees Celsius rise, then we will have problems. The sea level brought about by global warming is a significant concern to the island and archipelagic nations like the Philippines.

Former President Nasheed of Maldives warned that hundreds of millions of people would be dead with a sea-level rise of over 1.5 meters. He predicted that the Maldives would be extinct and swallowed by the rising sea waters. And the Maldives is now looking to buy a new homeland. Being an archipelago, many of our coastal communities and even cities could suffer the same fate.

According to the IPCC, society's reliance on fossil fuels is the main reason why the planet has already warmed by 1.2 degrees Celsius. Fossil fuel power plants had been identified as a significant source of greenhouse gas emissions. According to the International Energy Agency, over 40% of energy-related CO₂ emissions are due to the burning of fossil fuels for electricity generation.

We must evolve so as not to become extinct. Similar to health protocols to mitigate COVID-19, we must institute governance protocols to ensure that we can prepare for, mitigate and recover from the impacts of extreme weather events and climate disasters - we can no longer wait. We must act now!

II. PRESENTATIONS

Highlights of the Report Analysing Energy Transition Risks In The Philippine Power Sector

Presented by: Alberto Dalusung III
ICSC Energy Transition Advisor and NREB member

Energy affects all sectors. In our pandemic times, in light of the report of the IPCC, the key attributes that we are looking for are reliability, cost, and sustainability—and these are analogous to resilience, affordability, and being carbon-free.

As the report states, the ICSC continues to do new studies on the various evidence presented in the report. There is no empirical evidence that current coal power assets have low reliability and high cost; it provides both the rationale and urgency for the energy transition in the Philippines.

Finally, international finance and insurance providers have started to impose sustainability requirements in their transactions, and I believe Sara will be discussing this in her part of this presentation.

I want to present information on the actual performance of the SUAL Coal-fired 650 megawatt power plant, the second unit, which is the largest unit in the Luzon grid; it's a coal-fired power plant and the largest unit in the country.

The Y-axis will be generated and what we did was we got the hourly Wholesale Electricity Spot Market data from March 2019 to June 2021. This is the chart showing precisely the performance of this coal-fired power plant.

I want to point out that cycling means it was moving up and down, increasing capacity, and decreasing capacity, essentially almost following the load, which is uncharacteristic of what the largest baseload coal-fired power plant should do. You normally would expect it to operate at a sustained steady rate.

We're pointing out that there were three periods when we'd had one-month unavailability, eight months availability. After that, several week's unavailability and if we count the outages—14 in the period and each of those outages shown in this chart.

I want to tell you that this is not a one-off in our coal portfolio. We've seen other coal-fired power plants exhibiting similar unreliable performance.

So while coal is not reliable, it is the dominant power supply source in the Philippine power grid, accounting for almost 55% of generation in 2019. In other words, coal is more significant than all of the additional supply sources combined.

Coal power costs are very volatile, as we've seen. We have the cost of coal generation from the most extensive distribution utilities in Luzon, Visayas, and Mindanao. Meralco is the orange curve; you would see that it went as high as over 7.50 pesos per kilowatt/hour in February 2019. Veco approached the same level in May 2020. We see very volatile coal generation costs passed on to consumers, and the reason, of course, is simple: because fuel costs are very volatile.

This is a chart on the Newcastle Coal Index standard in all coal-fired power supply agreements in the Philippines. Note that between March to June this year, 60% increase in the coal price index based on regulatory practice; this cost will be directly felt by our consumers of the utilities buying from these coal-fired power plants.

The critical aspects of the Energy Transition Analysis Report are presented here. I will focus on the first, second, and fourth aspects. The transformation and materialisation of energy transition risk in power generation depend on regulation and the extent of the risks sharing improvements in Power Purchasing Agreements.

When we talk of regulation in the Philippine power sector, we are looking at the competitive selection process required by the Energy Regulatory Commission for all contracts of distribution utilities when they procure power.

The first point, and probably an essential point, is a bias for baseload power supply as proven by the excess capacity that we've seen in Luzon, Visayas, and Mindanao. There is a need to improve electric distribution utility capacity to do least-cost capacity expansion studies. Because if you cannot contract for the right amount of baseload, there is probably a more difficult underlying problem in the planning process.

The second is to recognise the benefits of an optimal mix with flexible generation, renewable energy supply, and local energy resources. Finally, it has been proposed by the Renewable Energy Coalition to have an unsolicited proposal option for Renewable Energy given its peculiarities and how difficult it is for them to participate in the traditional competitive selection process.

Another critical point is the power purchase agreements. What I've shown here are industry practices, like automatic fuel price pass-through, automatic fuel consumption allowances increasing the cost of the fuel over the life of the contract, mandatory energy offtake even in disruptive events, and if you look at the particular coal pricing formulas, very poor selection of benchmark parameters in pricing formulas, leading to higher actual payments.

A quick background on the determination of the required baseload capacity. Note that in the context of the power sector, baseload is not the same as 24-hour delivery. Baseload refers to the minimum capacity needed by the power grid at any given time, the minimum. In other words, you have to look into the demand profile and determine the lowest points, which sets your baseload capacity. Thus, an examination of the hourly load curve is needed to determine the optimal baseload capacity requirement.

This is the curve of the Luzon load profile, the first quartile. In other words, this curve defines what would be the lowest 25% of all of the registered loads in these hours per year. So the red one was the year in 2019. The lowest point was between the period 3 AM to 4 PM or 4 AM, 6310 megawatts. Usually, that should be the proper amount of baseload capacity in the grid. But what we have is 10,813 megawatts from coal, natural gas, and geothermal. Over 4,000 megawatts have more baseload capacity than what we need.

Let's compare that to the peak demand of the grid, which is around 11,000 megawatts. We're practically at the peak demand level as our baseload capacity. The speed of the energy transition will be driven by a combination of endogenous and exogenous factors. Ten factors have been identified here.

The first is the rate of technology innovation in power generation. We can see the high efficiencies, the lower cost of solar panels, on-shore wind and off-shore wind; we can see it here—dramatic price declines, effective Levelized cost of electricity from solar, wind, both off-shore and on-shore. These declines will continue. The report lists divestment, restrictions, and cost of capital from the capital market and financial regulatory policies.

Per year, we've identified important policy announcements that show that international agencies, for example, NBIM divested from Aboitiz Power to reduce exposure to coal assets. 2018, AC Energy sold its stake in the GN Power Kauswagan's coal-fired power plant to its partner.

More recently, in April 2020, Ayala Corporation, through its subsidiary AC Energy, is driving the energy transition in the Philippines with a divestment plan by 2025 and a complete coal exit by 2030. We are seeing that these are happening both from international players and our own local power companies.

Carbon pricing and air pollution policies have been growing. World Bank reports 61 carbon pricing initiatives, consisting of 31 emissions trading systems and 30 carbon taxes. I hope you can see that in the part where we have Southeast Asia, the yellow indicates that they are considering similar carbon pricing initiatives in Thailand, Vietnam, and Indonesia while the Philippines remains grey.

No carbon pricing is still being considered, but I hope, given the increased pace of actions of the DOE towards the energy transition, this will also be considered by our energy management. I'd like to point out, and this was what I was referring to earlier, the Department of Energy (DOE) and National Grid Corporation of the Philippines' (NGCP) recent actions towards accelerating the energy transition in the Philippines.

Geothermal biomass now is open for 100% foreign ownership. The DOE is a member of the National Renewable Energy Board, seeking to extend this initiative to solar and wind. In the latest transmission development plan, there is an interconnection of Visayas to Mindanao that is expected to happen next year, followed by the expansion of crucial island interconnections. We see competitive renewable energy zones, innovative grid development and demonstration for the first time, now part of the transmission development plan.

Excellent actions by key government agencies will help us move towards more renewables in our power grids. Further, the more volatile fossil fuel prices are, the more we accelerate the energy transition. As we've seen and I have shown here the trends in coal, gas, and oil prices from the time we signed the Electric Power Industry Reform Act (EPIRA) to the time

we signed the Renewable Energy Act in 2008, until now, always, volatile costs of fossil fuel prices.

Even in the last few months, towards the end of the chart on the right, you will see, as stated earlier, a 60% increase in coal prices in the Newcastle Coal Index between March to June this year. So volatility continues; this will serve as a primary driver to our energy transition. We need proactive policymaking to minimise stranded cost risk and ensure a least-cost power system.

The first point is to fast-track auctions to ensure new capacity decisions are cost-competitive and complementary to grid flexibility. The next proactive measure is to enforce mandatory removal of coal pass-throughs. Because as I mentioned earlier, first, the bias for baseload and acceptance of pass-through is a standard feature of our Power Purchase Agreements.

Improve tariff setting to ensure least-cost and flexibility, then build on the current moratorium of the DOE by implementing a permanent moratorium on new inflexible power.

This is not without basis. As a member of the technical working group of the National Renewable Energy Board, our analysis in the simulations for the National Renewable Energy Plan stated that we do not need baseload capacity anymore. We need it, but we have more than enough of it. Our future additions to the grid must be low-cost renewables and flexible power generation.

Finally, increase clarity on who pays for stranded asset risks, which is relevant to the proposal. The DOE has released the guidelines for the Green Energy Auction, basically using the available mechanisms now but with the pricing determined through the auction process. The first auction round procedures are expected to be released in August. The guidelines call for an ARP annual auction round, not later than August of every year.

*Presented by: Sara Jane Ahmed
Advisor, V20 Group of Ministers of Finance*

I'll be presenting more on safeguarding the financial system from evolving risks, so I'll go through some insights from the report. According to Bloomberg New Energy Finance, the last coal capacity will be in 2023, with coal generation peaking by 2034. And by 2050, coal would make up 16% of total electricity.

In 2014, Marc Carney, governor of the Bank of England and Chairman of the G20 Financial Stability Board, warned investors of stranded-asset risk inherent in fossil fuel projects, meaning when these assets turn into liabilities. As we know, companies have a fiduciary duty or a legal obligation to act in the best interest of their shareholders. I believe we are joined today by two colleagues from the Climate Law Initiative and ClientEarth who could further discuss this.

In 2017, Black Rock, the world's largest investment group with US\$5 trillion assets under management, recalled that anyone who's taking a longer than the 10-year view on coal is gambling significantly. The State Street Global Advisors chief also mentioned that they have a fiduciary responsibility to their clients to maximise the probability of attractive long-term returns and will not hesitate to use their voice and vote to deliver performance outcomes.

All managers have a fiduciary duty to factor in a known financial risk. The question here is, "Can directors be held personally liable if they breach fiduciary duties, that is if they haven't acted in the best interests of their shareholders?"

The Institute for Energy Economics and Financial Analysis (IEEFA) has been tracking globally significant financial institutions' fossil fuel restrictions. Now, over 155 leading global financial institutions have pulled the plug on funding by imposing restrictions on investments for the coal sector. This progressive strangulation results in coal companies' inability to access capital for expansion, mergers, or acquisitions, as well as cutting avenues for insurance.

While it's easy to say that climate change may be shifting a lot of this for countries like the Philippines, which is not a major emitter, it is the changing climate for corporate and social responsibility. Banks are profit-motivated without a doubt. They are being pushed today by investors and regulators to commit and wake up to the reality that techno-economic shifts are materialising into risks that could turn today's assets into non-performing loans. Thus, end up on the liability side of the balance sheet.

The Bangko Sentral ng Pilipinas' (BSP) Sustainable Finance Framework includes transition risks and physical climate risks. Banks will have to submit a three-year work plan to address these risks. The BSP's Sustainable Finance Framework complements the SEC mandatory Environmental, Social, and Governance (ESG) reporting for publicly-listed companies starting 2019.

RCBC, at the end of last year, announced that they would no longer be lending to new coal projects. Ayala's energy arm, AC Energy, plans to exit coal by 2025. BPI aims to halve coal financing by 2026, phase out by 2033, and ultimately phase down to zero by 2037. San Miguel has dropped coal expansion plans and aims to spend about a billion dollars on 30 battery projects.

This slide here shows some of the critical financial risks highlighted by Philippine conglomerates in their annual reports. I'll go through five of them. One is that financing and refinancing risks in the inability to borrow money to fund coal projects are materialising. Number two, insurance procurement is complex where insurers' policies on coal underwriting and investing are becoming increasingly aligned with global trends on sustainability and ESG issues. It means that there are significantly higher premium rates for coal insurance year on year.

It also means that some companies have resorted to self-insurance. That said, Philippine conglomerates certainly have the balance sheets to self-insure; the question is whether this is the right decision. Number three, there's regulatory pressure, which increases with the moratorium on new coal by the DOE. Number four, refinancing and liquidity risks are arising from balloon and bullet payments of existing loans.

Number five is quite significant. A substantial portion of the captive market may shift away from coal and other fossil fuels. It is likely due to the interaction of retail competition and the deflationary trajectory of renewable energy. A risk that may thus materialise is a stranded-asset risk, which is mentioned here as an unanticipated write-down, devaluation, or conversion to liability.

I've listed here just some questions to consider as we're thinking through the transition. The main message is that the traditional planning and market oversight structure presumes that the planners and the market all have perfect information. And thus, the market players can adjust to and allocate risk appropriately. It is demonstrably not the case in a period of rapid technology change. Our understanding of financial risks, also related to climate and resilience, is still evolving.

In the report, we looked at a bond prospectus of a coal project for retail investors. In this case, the excerpt, the question here, "Is the language on the regulatory environment adequate?" We find here that one shouldn't collaborate with regulators; either you're compliant or not. That's binary, and there are no bonus points for keeping abreast of environmental laws. But the language here really suggests that it's difficult to verify compliance or that it's a work-in-progress. Realistically, it indicates that there may be a lack of internal controls, and it appears that this is more a "build and buy and hope it's okay" strategy.

We also look into whether it's feasible to model this project. We see that many new bond perspectives discuss the quarantine, the impacts of COVID-19. Still, more importantly, it's about prolonged economic disruption. Many of these perspectives have challenges to cash flows, and that they have specific directives to try to ease the impact. However, it's very unclear, and they don't clarify the situation on payables. There's also very little evidence on how the company aims to support this project. This raises more questions than answers, and no experienced institutional investor could model this. It's challenging to assume that a retail investor possibly could.

The last question here is, "Is project risk adequate?" In terms of a systems design regulatory risk because of the energy transition and where these assets suit the market. Regarding the paragraph here or the second one on insurance, the question raised was whether there is insurance for these types of risks related to the project and system viability.

To conclude all this, it's clear that there are evolving risks in the system. On the bright side, the Philippines is not the first country to experience this across different stakeholders. There would be winners and losers, but the point here is the need to be working together towards a managed transition instead of an expensive and mismanaged transition.

International Experience in Identifying and Managing Climate-related Financial Risks and Directors' Duties

Presented by: Ellie Mulholland

Director, Commonwealth Climate and Law Initiative (CCLI)

I am here to share what we see globally in the management and disclosure of climate-related financial risks and directors' duties. Why is the energy transition a bordering issue? The answer upfront is that it is a financial and systemic risk issue, so it must be integrated into corporate risk management strategy and disclosure.

There is a growing understanding globally that directors and officers must consider climate issues in their governance role, from oversight of risk management to strategy to signing off on disclosures. Directors and offices may be personally liable through duties and disclosure claims if it is not done well. And what makes potential personal liability for

climate risk issues particularly present in some jurisdictions is the potential for losses of large magnitude like stranded asset risks and strategic climate litigation. And to finish, I will talk about the difference between liability and responsibility.

To start with, directors and office-related liability risks, like any other climate litigation risks to companies, stem from physical and transition risks—the failure to manage or disclose physical and transition risks that could lead to litigation. When we talk about the physical and transition risks, remember that we mean the risks to the profits of the company or institution on the flow and systemic risks, not just the impact of the company on the environment. So, we understand that climate-related financial risks are far-reaching in their breadth and magnitude across the economy on short, medium and long-term horizons. Some sectors, including the financial sector, are particularly vulnerable to these risks.

The KEEP report highlights these transition risks to the energy sector in the Philippines. Bert and Sara talked through many of these transition risks. We got a warning from three Central Bank governors back in 2019 that if some companies and industries fail to adjust to the new world, they will fail to exist. Directors must understand this new risk environment and help their companies navigate the disruption.

Investors and financial regulators are looking at the evidence on the economics of transition. We see an ongoing ratchet of expectations on companies globally despite the COVID-19 pandemic. Regulators and investors are responding to climate science. It does not matter what directors across the globe believe in climate science in the IPCC report last week. Regulators and investors are responding to it. And so through their response to the market trends and the policy requirements, like the policy and pricing signals in the energy transition, and the risks of stranded assets in the fossil fuel and carbon-intensive sectors. These lead to heightened investor expectations, moving from intentions to demonstrable actions to be net-zero by 2050 or sooner.

Through the Network for Greening the Financial System, central banks have called to action on climate risk to integrate stress testing and balance sheets into their supervision. Jamie will discuss central banks more shortly. We see increased supervisory expectations from prudential, corporate, and securities regulators, from the US SEC to the Filipino SEC. Debt markets are accelerating their pricing of climate risks. We have heightened societal expectations of financial institutions on climate change, particularly in Europe. The International Financial Reporting Standards Foundation trustees have guided us on integrating climate risks in financial statements prepared per their accounting standards.

This guidance tells us that climate-related financial disclosures are not just required in the narrative disclosures in the upfront sections of the annual reports like the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations tell us. This accounting standard guidance means that climate and energy issues could be relevant in the numbers in the financial statements. Some companies may need to provide disclosures on how climate and the transition assumptions underlie the accounting estimates.

The Principles for Responsible Investment (PRI), the world's largest body for responsible investment, is telling their investors to control US\$ 121 trillion, as the disorderly transition is looking increasingly plausible as the physical impacts increase. The EU continues to push policy and regulatory ambition forward, which has implications across borders. COVID-19 shows the importance of stress-testing and scenario analysis in the face of uncertainty. We have seen disruption to systems and economies that we have not seen

outside wartime and that the tail-end risks can happen. These global developments influence the interpretation of legal duties and what we expect of corporate directors.

There is a growing body of legal analysis, mainly published opinions by commercial barristers and commercial law firms, who have never said a green thing in their lives, that climate and ESG factors are a matter of directors' duties. This started in Australia with the famous Hutley opinion that was the first to connect the dots between science, market trends, safe litigation exposures and explain what that means to the directors' duties of care, skill, and diligence.

Then, we have in other jurisdictions, New Zealand, Australia, UK, US, Canada, Singapore, and again back to Australia in 2019 and 2021, when Sydney Council and Hutley gave two other opinions that the standard of care is elevated and that is how quickly this is moving today. In June, the World Economic Forum's Climate Governance Initiative and the CCLI will publish a primer looking at 22 jurisdictions across the globe. Not yet the Philippines, but hopefully the next edition.

It granted that it is not just a legal hurdle as a matter of directors' duties. Still, it is required to take into account climate issues by responsibilities. So, what do directors' duties say about climate issues? Well, the duties to act in the company's best interest require consideration of climate issues to the extent they intersect with the company's interests. And the duty to exercise due care, skill and diligence requires a proactive and increasingly robust consideration of climate risks to fulfil the standard of care.

This is the case even in jurisdictions without expressed stakeholder consideration to take into account the environment or to take into account communities and workers. Why? Because the climate is foreseeable and increasingly material financial risks for companies. So, directors might breach their duties if they fail to consider climate-related financial risks to the company in financial planning, strategy, asset valuation, risk assessment, and disclosure.

In many jurisdictions, on balance, it may be that the reasonable likelihood of the litigation against directors is not high because there are many procedural, evidentiary, and cost-related barriers to claims, particularly in the absence of bad faith. But when we talk to directors globally, regardless of the jurisdiction, we say it will be ill-advised for directors to dismiss the risk of personal liability as remote or theoretical. This is particularly the case for directors of companies in high-risk sectors or those with particular expertise or responsibilities relating to risk management. While insurance provides some financial protection in a claim, its application may not be universal, and it does not mitigate reputational harm for the directors.

Even if the potential liability feels theoretical, there is a difference between meeting the minimum standards and fulfilling a responsibility. Liability is at the very fore. This is where we get the hierarchy of personal exposure. At the top, we have best practices. Then, good governance because is about fulfilling your responsibilities to help your company navigate risks and opportunities. It is also about avoiding reputational issues.

For example, the Exxon Mobil proxy fight, where the directors were replaced a few months ago, avoids litigation. We are already seeing the first litigation against directors. For example, directors of the PG&E in the US were sued after the utility went into bankruptcy

because of liabilities for wildfires caused by their poles and wires in drought and heat events made more likely by climate change.

In Australia, we have a case where government officers who heard duties of care and diligence like company directors are being sued for alleged breach of these duties when they signed sovereign bond disclosures that were allegedly misleading on climate risks and down to the bottom said to avoid liability and gross negligence in some jurisdictions. This is a high bar.

To close, the legal and financial imperatives for robust integration of climate and energy issues into risk management, governance, and disclosure are precise. There are risks and opportunities in the energy transition for the Filipino banks. Today's good governance practice requires contemporary understanding, proactive inquiry, and critical evaluation on a forward-looking basis; Understanding what these energy transition trends and drivers mean for your bank to minimise risk and capture opportunities. Net liabilities are in the analysis and advice based on historical norms instead of policy signals.

What used to happen, what used to be the case. That's a red flag. Instead, it is policy signals, modelling, and future scenarios that are key. Globally, we ask directors and officers of financial institutions: How will your governance and oversight help your bank survive and thrive in the disruption of the energy transition?

Experiences in Engaging With the European Banking Sector on Directors' Duties in Relation to Climate Risk

*Presented by: Jamie Sawyer
Lawyer, Climate Programme, ClientEarth*

My name is Jamie Sawyer, and I am a Lawyer at the Climate team at ClientEarth. For those of you who don't know ClientEarth, we are an international environmental law charity that uses the law to push for systemic change to protect people and the planet. Our Climate team seeks greater accountability and climate action from governments, businesses, and the financial sector, particularly relevant to today's webinar. We also strengthen the financial industries' approach to climate risk and shift financial flow to drive the transition to net-zero.

My work focuses specifically on the banking sector and banking regulation, mainly in the UK and Europe. But I also work with central bank policy such as monetary policy. I am not going to talk about that in detail during this webinar. Still, of course, Central Banks policies can impact bank's operations, one recent example from Asia being the Bank of Japan's announcement that it will provide zero-interest loans to lenders to finance climate change projects.

Today I have been asked to talk about the developments in the European banking sector around climate risks and opportunities and the duties of Bank's Directors regarding climate risk management. First, I talk about the growing pressure from shareholders over the last few years to ensure that banks are correctly managing their climate risks. Their significance in challenging developments has banks having to develop Paris-alignment strategies to transition their business to net-zero emissions. So I will jump right in there and start. Still, then I will move on to discuss the regulatory developments and investor

expectations we've seen around climate disclosures, climate risk management, stress tests and scenario analysis, and capital requirements.

So until about two years ago, a key focus of banks and their shareholders when it came to climate risks was on energy policies, which activities they were going to stop financing. These policies tended to start by restricting project finance to new thermal coal activities. Still, now European banks tend to have policies covering a wide range of activities, including oil and gas, fracking, tar sands and Arctic oil.

Over time, following pressure from investors and stakeholders, banks have made these policies progressively more stringent, covering a broader range of activities and a broader range of financial services, so going beyond project-specific finance to general corporate finance and underwriting for fossil fuel companies. Although these policies are necessary, one downside of focusing solely on activity or sector-specific policy is quite a piece-meal approach to managing climate risks. Shareholders want to see banks managing climate risk across their entire business. That's because it's not only the bank's customers in the coal industry, for example, who will face climate change risk. All of their customers will be affected by climate change, and the transition to net-zero brings risk to each bank.

Within the last couple of years, we've seen European banks shift toward developing a strategy to align their entire business with the Paris agreement and reach net-zero emissions before 2050. You might have heard this referred to as the "Paris-aligned" strategy or a Transition plan. This partly comes about through voluntary industry initiatives such as the Collective Commitment to Climate Action under the Principles for Responsible Banking, accelerated by shareholder resolution.

In 2020, we saw the world's first shareholder resolution on this topic, which was a resolution by Barclays bank by a group of investors. The Board of Directors at Barclays then decided to propose its resolution, which would commit banks to start a Paris-aligned strategy with the target, to transition its business to net-zero by 2050. That resolution passed with 99% of shareholders voting in favour. Since then, we've seen similar resolutions at other banks, including HSBC in the UK and Mizuho and MUFG in Japan.

One point to mention here is that, as Ellie discussed, the Directors of banks have fiduciary duties to promote the company's success in many countries. In the Philippines, I understand that one duty is to ensure its long-term viability and profitability. There is a need for fiduciary duty when they are developing a Paris-aligned strategy. I have set out on this slide a few relevant considerations around the long term health and stability of the bank, capitalising on climate-related opportunities that arise because of the transition and reputational risks.

These Paris-alignment strategies generally start by reducing emissions from lending the most emissions-intensive factors because the most significant climate risks are related to being in the near term. Still, the intention is to expand these plans to cover all sectors over time. To cover project financing, corporate financing, underwriting and advisory activities by the bank. This should include short, medium and long term targets on how they will reduce their emissions over time and achieve those emissions reductions. Banks will need to consider whether or not to continue relationships with certain customers going forward. If they do, they should be engaging with their customers to ensure they reduce their emissions. That could, for example, include making lending conditional on the customer

putting in place the transition plan within a certain time frame to achieve their emissions reduction.

Moving on to emissions calculations and climate disclosure by banks - as Mark Carney has said, "What gets measured, gets managed." The starting point to banks is to calculate their emissions, which includes their customer's emission as those are banks Scope 3 or financed emissions. Banks could start to plan where and how to reduce their emissions over time. In Europe, shareholder pressure has driven more climate-related financial reporting by banks, often requesting that this align with the TCFD recommendation because shareholders need this information to make investment decisions and fully understand how exposed banks are to climate risks.

Often we've seen this pressure coming in the form of investor engagement with banks, so we've also seen legal action from shareholders against banks. For example, the Commonwealth Bank of Australia was sued in 2017 by two shareholders for failing to disclose climate risks.

The more significant challenge here is for the banks to measure their Scope 3 financed emissions. However, thankfully methodologies are developing and improving steadily. This means that banks can start to report some of their Scope 3 emissions now and then increase that reporting over time as methodologies improve. As I have mentioned before, to report effectively, banks need to engage with their customers to understand their emissions. Still, as climate-related reporting becomes widespread in the real economy, that should become easier for the banks.

We are also seeing regulators and investors assessing their expectations of how banks should manage climate risks. In the UK, for example, the Bank of England expects banks to address climate risks through their existing risk management framework and embed climate risks in their governing processes so that their board is engaged and responsible for managing these risks. Banks in the UK also need a dedicated Senior Manager who takes responsibility for climate risks. They can be held personally accountable by the regulator if climate risk is not managed correctly.

Similarly, investors expect banks to manage their climate risks and be vocal about how they think that should be achieved. For example, the Institutional Investors Group on Climate Change (IIGCC) has published a starter on investor's expectations for banks on their net-zero commitment, climate risk governance, customer engagement and climate disclosures. Banks that are not meeting these expectations can expect to face questions and pressure from their shareholders.

Regarding understanding the impact of climate risks on the bank's business, regulators expect banks to use scenario analysis, essentially looking at how their portfolio will be impacted in a range of hypothetical climate change scenarios. We also see regulators running climate stress tests over the banking sector to see how well the bank would hold up. I set out here European examples on this slide. I want to flag that the Network for Greening the Financial System, which the Philippines' Central Bank is a part of, has put out a guide on climate scenario mapping and has designed a scenario analysis and hypothetical scenario that banks and central banks across the world can use. Ultimately, these exercises will allow banks to understand climate risk exposure better and allow regulators to understand how climate change will affect financial stability.

Related to that, banks need to ensure that climate risk is adequately reflected in their capital requirements calculations to have an adequate capital buffer to withstand shocks to the financial system or their customers stemming from climate change. Banks should already factor in climate risks when calculating the risk weighting for fossil fuel exposures, particularly given how closely linked climate risk is to credit risk. But it's not entirely clear that banks are doing this properly at this stage.

In the UK and Europe, regulators are now coming under pressure to tell banks that specific fossil fuel exposures should be given a risk weighting of 1250%. Essentially, 100% capital is howled against them. Essentially, that would be a penalising factor being applied to fossil fuel exposures, increasing the cost of capital and forcing banks to move away from fossil fuel lending.

To conclude, Directors have a key part to play in ensuring climate risk is adequately managed across their business. And indeed that they are making the most of the opportunities presented by the energy transition. Those who fail to do so may be subjected to pressure from shareholders and stakeholders and face questions such as "Why didn't the bank take action sooner." To ensure the long term viability and profitability of their bank, Directors need to take early and robust steps to integrate climate risks and align bank strategies to the Paris goal. Thank you.

III. REACTIONS

Moderated by Nazrin Camille Castro

Climate Reality Philippines Branch Manager

Paris Alignment Prospects for Leading Philippine Banking Institutions

Eduardo Francisco

President, BDO Capital

So basically, at least representing BDO, and I guess even representing the banks. Jo Ann will talk representing BPI, but the Philippines banks, regardless, are cognisant of you know the Sustainable Development Goals (SDG) and climate change. We're trying to do our best.

Admittedly, we were late in following, I guess, equator principles; well, it's not even officially launched; they're not followed formally. But in general, local banks have not been lending to coal. And then, I guess from BDO's perspective, we are the first Green Bond insurer nevertheless, and we are, you know, our SDG reports are being reported. The only challenge I see is what to do because there are not enough renewable energy proposals reaching our desk, so there is a shortfall. There are too many bottlenecks, and from the bank's perspective, it's more implementational already.

We are already strictly regulated by the Monetary Board and the Central Bank; we'll follow them if they issue more guidelines. We do a lot of project finance, analyse all the risks, and try to factor that in. The capital markets are also live, so we do our job there. But I note the comments on the coal plants risk analysis example, and maybe we'll try to learn from that.

I suppose it is up for discussion if the Philippines can do something where emissions reductions are conditional on lending. I think the bank's role should be more on the reporting or the compliance side.

In conclusion, the financial sector is very supported, especially in the Philippines, and the capital market is also alive. It is possible to consider working with the SEC or PSE because we do bonds for financing if rules need to be placed or maintained or mandate professional agencies to acquire such reports. We will welcome these steps to protect and enlighten the investors consequently.

Generally, there's much liquidity in the banks, loan growth is down, and our loan balances are shrinking. We're looking for new projects, and we see a dearth of projects, even if there's a looming power crisis.

Jo Ann Eala
Vice President, BPI

What are the climate and environmental risks in the Philippines? Take note, there is a second word there, environmental risks. We lie along the Pacific Ring of Fire; we feel 100 to 150 earthquakes per year or, on average, 20 earthquakes per day—a lot of which we don't think because they happen over 100 kilometres underground. We are also located along the typhoon belt and experience 20 to 25 typhoons per year with 3.44 mm of seawater level rise.

Business plans are designed to be more resilient. Many technological innovations are being used to protect the physical designs and assets and protect the human resource. When all things fail, when they're not safe, for instance, redesign an already existing building, we run to insurance.

To see how we are right in the centre or the epicentre of these environmental risks. I differentiated from climate because the climate is more of typhoons and flooding. Still, when you talk of earthquakes and volcanic eruptions, that is not due to climate. That is because we are in the Pacific Ring of Fire.

There is a system that we have been espousing; it is an online system called HazardHunter. You can use your smartphones to hop into identifying where you are located to find out how exposed you are to earthquakes, typhoons, flooding, and volcanic eruptions. This is owned and maintained regularly by no less than PHIVOLCS and PAGASA-DOST.

We encourage other banks to use this for their portfolio - your assets and your client's assets. Because of this Hazard Hunter system, we've practically mapped the whole country, so we have our hazard assessment for 1,647 cities and municipalities. Assets of the bank and our clients have been mapped, and we're almost done with the retail side. This system is free and available online, very Philippine-focused.

This is our commitment; BPI has mentioned this during the annual shareholders meeting last April 2021, so we know that we can be halving our coal portfolios, so we're committing to this really halving our coal portfolio by 2026 and actually by the end of 2032, we should be out, entirely out of our coal exposures. And this is our way of supporting the Paris Climate Agreement to target less than 1.5 degrees centigrade.

Further, we're the first bank to do all of this reporting from GRI to data reporting to SASB. We are the first bank in Southeast Asia to offer a bond and fetched a negative yield. Additionally, we have a partnership with IFC, and we comply with the gold standards they taught us. By the end of 2020, 47% of our portfolio supports the UN SDGs. Last May, we're the first bank to pledge to TCFD, joining seven out of 12 supporters from the Ayala group.

We are proud to share that we have made it mandatory for employees to take sustainability training. The top management decided to make it compulsory across the company. We aim to have sustainability as part of the KRA of every employee at the bank by next year. It is also essential to have an SDG champion. For us, it's our Chairman Jamie Augusto Zobel de Ayala, who was awarded in 2017. You need an advocate, and better if it comes from top management espousing sustainability. Thus, it is not hard for the bank to go forward and sustain environmental initiatives. We explore partnerships, we work with other stakeholders, and we appreciate their hard work.

There are four types of loans that the BPI helps clients do, and these are for both big and small companies. We don't scrimp on the free technical consultations given by IFC; we subsidise. Our experience is this: we can say that all clients who have done any of these four—from energy-efficiency and renewable, climate resilience or green buildings and then sustainable agriculture. The clients we have assisted and have followed and implemented the recommendations by BPI and IFC technical consultants have all succeeded. We have over 354 projects done to date already.

This is the vision of BPI to be an inclusive, innovative, and trusted leader in responsible banking. We recognise how important it is to incorporate sustainability in our products and services, value our stakeholders, and manage our resources.

This is the formula that we've been giving out; up to the fourth box, ESG is familiar to everyone. The last E or the second E, which we branded as E2 to differentiate it from the first E, is economic. We do this, of course; as a bank, we'd like to make sure that the projects that we support for our clients ensure technical and financial delivery; because of that, we know very well that we are not just espousing ESG. So it's not enough to comply with the technical requirements, the eligibility requirements, under E, under S and G.

We have to make sure that the projects that we support that we fund as a bank is making money will be profitable because that is the only way that the project becomes sustainable. Otherwise, the task becomes a charity. As a private bank, the project must sustain itself financially for economic sustainability. That makes our formula unique. We make sure that as we do ESG, we have a second E. To share the formula, ESG + E where economic sustainability is represented by economic goals and standards incorporated in the core business strategy.

Updates on the Sustainable Finance Framework of BSP and the Banking Sector's Shift to Paris Alignment

Lyn Javier
Assistant Governor, BSP

So let me begin by echoing what Sara, Ellie, and Jamie mentioned a while ago about the strong call for more regulators to embrace the sustainability agenda. The BSP responded to

this call because we believe that ESG related risks, not just climate risks, pose safety and soundness concerns to individual banks and threaten our financial stability.

Now, while the Philippines only contributes around less than 1% or .03% of the total greenhouse gas emissions, we are still among the most vulnerable countries in the world. So we consistently rank, I think we're the 6th among the most vulnerable countries in the world.

Now, the BSP adopted the two-prompt approach in our campaign in adopting the sustainability agenda. We started with an awareness-building campaign, that's five years back. We collaborated with various development partners in terms of building awareness on ESG related principles. And in 2020, we now mainstreamed our expectations in adopting the sustainability agenda through the issuance of Circular No. 1085 on the Sustainable Finance Framework. That issuance is deliberately timed; we issued that April 2020 amid stringent economic lockdown because we thought this is the best time to consider ESG-related principles as the Board of Directors reviews, rethinks, and reset their strategies considering what's happening in the environment.

One critical element of Circular No. 1085 is about understanding risk. When we understand risk, we are more equipped in terms of embedding it in the risk management systems. When we know risks, we also see the opportunities behind investing in sustainable projects. What the BSP did is we followed our usual approach in issuing risk management guidelines. That is to set the tone of good governance from the top - to set out our expectations from the Board of Directors and the responsibilities and expectations from the three lines of defence.

Now, let me go over some of the general expectations from the Board of Directors. We expect the board to institutionalise the adoption of sustainability principles within the organisation, promote a culture that fosters environmentally and socially responsible business decisions, enhance risk management by looking beyond the traditional sources of risks, also look and consider climate-related risk because this would go beyond the usual time horizons in planning for strategies and business operations of the bank. We also expect the board to uphold transparency and provide adequate disclosures to various financial institution stakeholders. Finally, we hope them to upskill, retool, and reskill their personnel regarding the sustainability agenda.

After issuing those guidelines, after the issuance of Circular No. 1085. We have already exposed the second phase of our issuance for comments, which provides more granular risk management guidelines covering credit and operational risk. We are targeting to issue this circular before the end of the year. So in that issuance, we explicitly state that the board should consider the short, medium, and long term strategies that support sustainability principles. We wanted to see that their portfolio towards renewable or sustainable related exposures progressively increases as well. We've exposed that for comments, we are now finalising the document, and we're looking at issuing it by the end of Q3 or Q4 of this year.

One of the... I think there are two points in the KEEP report that pertains to regulators. One is on disclosure and bond issuances. The other one is. It's not part of the recommendation, but it was mentioned in the report about project financing. For the bond issuance disclosure, the approach of the BSP in this space, to promote capital market development, is actually to leverage on the requirements of the SEC.

So in 2018, we lifted all BSP requirements for bond issuances of banks. What we did was send out eligibility criteria for banks. Suppose they qualify based on those eligibility criteria. In that case, they have to notify the BSP about these issuances and follow the requirements of the SEC.

Now, we do understand that there's a need to enhance disclosures in this case further. In Circular No. 1085, we again leverage the disclosure requirements of the SEC for publicly listed companies. But we see that we need to provide further guidance to clarify the expectations under the TCFB. As well as focus on risk exposures and promote comparability across the banking system. So that's one of the policy agenda or policy items of the BSP moving forward.

In terms of project financing, the key here is to understand the cash flows coming from these businesses and the risk attendant to this exposure. So again, we go back to understanding the risk to be able to tap the opportunity. So there's a window for this one; the BSP has a regulation on project finance that provides its own singular borrower's limits. So we will not add this exposure to exposures of other related parties in determining the ceiling for project finance loans. Also, as part of the relief measures of the Bangko Sentral amid the pandemic, we increased the single borrower's limit from 25% of net worth to 30%, so that's on the project finance space.

Let me also share another important initiative of the BSP; we are part of an intergovernmental agency collaboration called the Green Force. The Green Force is co-chaired by the Bangko Sentral ng Pilipinas and the Department of Finance. Essential products of the Green Force are the roadmap and the guiding principles. The guiding principles provide specific activities for industries that contribute to the sustainability agenda and identify actions and sectors that are inconsistent or do not adhere to the sustainability principles. The British Embassy Manila supports those outputs or the Green Force initial output. We thought that the issuance of the guiding principles would further facilitate investments into activities aligned with the sustainability goals.

Another initiative of the BSP, which will be launched this month, is the conduct of the vulnerability assessment and stress testing exercises. Again Ellie and Jamie mentioned this earlier in the banking industry. So, it involves all types of banks, from the big universal and commercial banks to the stand-alone thrift and rural banks. So the vulnerability assessment will be supported by the WWF Philippines and the World Bank.

We'll also be looking at scenarios provided by the network for greening the financial system. So NGFS scenarios and see how we could further shape this to apply to the domestic setting. We will also be using the Hazard Hunter tool, which was mentioned by Jo Ann earlier. We are pretty sensitive than smaller banks might not have this exposure to co-related projects and minimal exposure to stranded assets. Still, they are the most vulnerable to physical risks.

Finally, the BSP has its own Sustainable Central Banking Program, which we launched last 2020. So, the SCB provides activities of the BSP on how we could embed sustainability principles in our practices and policies. So, now, we're also conducting our vulnerability assessment of BSP branches to reuse the Hazard Hunter tool physically.

The second phase would be to assess, to conduct self-assessment or gap analysis in areas of operations of the BSP, including the supervision sector where we could embed the sustainability agenda.

Now, we envision the BSP's role as an enabler, mobiliser, and doer. Enabler means issuing and enabling regulation to promote and support growth and promote sustainability in the financial system, which is part of the supervision sector. Mobilizer, in terms of being a champion for sustainability. The BSP has invested 550 million dollars in the BIS green fund. We're also looking at areas where this could be incorporated into some of our monetary policy operations. That's a study that we will also be conducting. Finally, as the doer, how do we practise and walk the talk and apply in our operation the sustainability principles.

Opportunities for Banks to Accelerate the Modernisation of the Country's Power Sector

*Presented by Undersecretary Felix William Fuentebella
Department of Energy*

First, let me start my talk this way, walang mag-iinvest sa power kung wala silang kontrata. So that's the primary problem that we are experiencing as far as the finance sector is concerned.

The Philippine Energy Plan will probably add another chapter on energy financing because we have recently added energy resiliency. For this year, the update will add on energy security. It's a problem as far as financing is concerned. We are bombarded by investors, especially on renewable energy, that they cannot secure a loan because of specific requirements from the banks.

As far as the DOE is concerned, we have already spoken to the higher-ups, high-level officers of the DBP, Landbank, and the other banks, but when we go down to the level of the evaluators, we see a problem. There's still a denial or many requirements to be asked, so the Department of Energy focused on what the banks are asking for, which is the contract.

So I agree with all the presenters, especially, it was presented earlier that as far as the country is concerned, there is a need to educate, organise and to move forward with our targets as far as Sustainable Development Goals and in the energy sphere, in the energy world, we call it the Clean Energy Scenario.

So in our campaign, we always have the #EPowerMo, which is the education portion. Then, we have the #WeHaveTheEnergyAbility for organisations, especially in the energy efficiency sector. The last hashtag is the energy or #EnerhiyangAtin, which is towards sustainability and energy security.

I know that the country has difficulty understanding the energy sector and transitioning towards the Clean Energy Scenario. So, that being the case, we presented to the President and the Cabinet that there's a need for the Philippines to maximise financing available globally to pursue our Clean Energy Scenario. We want to report before this forum that the President already ordered it. That's why you have the Green Force, as mentioned by our esteemed BSP representative.

What will that Green Force do? It has to maximise, but it will have to go down to the level of the evaluators. So there was an order from the President to the DOF and the other finance

local government to look into this because there's a gap and, as one of the reactors, its implementation that we have to focus on.

What is that formula that the Department of Energy is espousing? So, as far as we are concerned, we know of the business as usual (BAU). This is our regular day-to-day activity. When we wake up, we turn on the TV or radio, and then we go to the office using our cars. Sometimes we're alone, or with the driver, there's space, etc.

But to move towards the transition, we have first to add energy efficiency. Our first formula is BAU + energy efficiency. So it's enhanced energy efficiency because we have the Energy Efficiency Act, which not only looks into behavioural patterns of the consumer to reduce energy consumption but also looks into designs of buildings, electric vehicles, appliance labelling so that we will empower all our buyers of appliances to gauge whether or not the appliance that they are purchasing is energy efficient.

That is the first stage, and then we add on plus RE. So, it's BAU + EE + RE, and why do we add RE after energy efficiency? We add RE because it's pointless to utilise RE given in our agricultural RE support. We have to have very efficient agriculture pre-and post-harvest facilities before we plug in the RE. Even when we provide refrigerated, solar-powered refrigeration for fisherfolks and even to our health workers in the very remote areas, it has to stem from energy efficiency first before RE. We add on other energy technologies and ICT.

Information Communication Technology is a way forward as far as the financing sector or consumers are concerned. We will see these technologies that our gadgets can control our appliances even remotely. That is what the Department sees. Plus resiliency, plus security is our result towards a Clean Energy Scenario. So, that's our simple formula. Where will the banking sector or the finance sector come in? Of course, you don't go to the BAU as far as the Green Force is concerned. We were discussing a lot about coal and demonising it. Still, we need all the energy resources. We will focus on the Philippine Energy Plan that Filipinos make for the Filipinos and not foreign sovereigns interfering with it.

As far as that's concerned, BAU, we have to improve on our practices. Still, for the Green Force and the others to come in or the private banks, energy efficiency, there should be a way to evaluate and approve immediately all these applications—the renewable energy and the ICT and resiliency and even the security—for us to improve and build a clean energy regime in the country.

To reduce cost because it was presented earlier, it keeps on popping up that the Philippines is one of the most expensive electricity as far as the ASEAN or Asia is concerned. It's because some of those countries are also subsidised, but what did we do?

Number one, we did a little bit of tweaking. The Murang Kuryente Act is a way of answering that portion passed on to the consumers, so we pay for it. It's the universal charges, stranded debts, and abandoned contract costs. It's not a subsidy because our policy in the energy sector is no subsidy. Still, it's a way to address all the sins of the past by the government, NAPOCOR specifically, in answering for that portion.

And also, the Duterte administration passed this Energy Virtual One-Stop Shop Act. It's addressing the red tape in energy applications. There were concerns about NCIP. The NCIP has already submitted its revised process to comply with the time frames in the Energy

Virtual One-stop Shop Act. If any agency fails to act on these applications to approve or disapprove, automatically, the application will be deemed agreed.

There's also addressing the cause as far as the WESM prices are concerned. There was an alignment as far as ERC is concerned. It became only five minutes when we transitioned from an hourly bidding interval in the wholesale electricity stock market. Then instead, Ma'am Mel is here no, the former President of PEMC, instead of five days now, it's three days. So, if the prices are up for three days straight, there will be the entry of the implementation of the secondary price cap.

Why am I explaining all these? Because these principles are very important for the evaluators. Again, the finance sector should address the contract requirement to address the prices through competitive selection. Because we see in the international community, they have been saying that "renewable energy technology has been more cost-competitive versus our use of conventional energy technologies."

As far as the DOE is concerned at the local level, when we march from the Business As Usual to the Clean Energy Scenario, the shift itself would cost an additional 151 billion US dollars by 2040. The Department of Energy has already published this in the Philippine Energy Plan 2018-2040. That is why again, the DOE focused on addressing costs and in challenging all these statements that RE is becoming cost-competitive through the competitive selection process.

So, the CSP has three general subparts. One is the available CSP. The general CSP addresses that concern on whether or not we have a bias towards conventional. No, it was required by the Department of Energy in the 2018 policy that all bids will have to include pass-on charges. Otherwise, it cannot be passed on to the consumers. So, what did that provision say? It's speaking for RE, especially for the zero fuel. You will become at par or more competitive because the bids before they bid on coal plant and then say that we pass on fuel prices to consumers. But DOE said no. Secretary Cusi emphasised that all pass-on charges should be included in the bid. And that is what we saw on how Meralco made its bid. All fuel volatility in prices, whether it's coal or natural gas, of course, there will be no zero as far as fuel for some RE sector, biomass, that will be advantageous to the RE, okay or it becomes level.

The second rule, as far as CSP is concerned, is the Renewable Portfolio Standard. In the quota for distribution utilities as one of the mandated participants. For example, let's focus on the DU; 1% should be sourced from RE. It will be increased; probably it will be announced soon, the Secretary will improve it. But still that 1% in a competitive selection process for the compliance in the Renewable Portfolio Standard (RPS), that there is a ceiling price for the bid and that is it cannot go above what the consumers are paying already under the blended generation rate. Ibig sabihin eto na yun pinakamataas kung ano ang binabayaran natin ngayon. It cannot go above.

The third CSP is what the DOE will roll out in two weeks. It's the Green Energy Auction program. So, the design is that ERC will provide for a ceiling price. There will be bidding by the developers as far as filling up, for example, 2,000 megawatts of capacity. So that being the case, we're answering the discipline on pricing. Even if our country has zero as a general rule, zero subsidies on prices, as compared to other countries that have lower prices but they charge it from either taxes, the people's money, or from their energy resources where some of them have vibrant resources, not like our country.

As far as this topic is concerned, the DOE, the ERC, has focused on the discipline in costing. But we have to address indeed the gap in how we utilise or maximise the green funds.

I was listening intently to the BSP representative giving out all these new policies. Still, we have to make sure that the evaluators approving these loan applications for our RE developers or energy efficiency service providers should fully know how they will comply. And yeah, contracts would be the easiest way to address the risks. But we, as stated earlier, we already have designed this. We are pushing, for example, the NGCP to comply with their ancillary services requirements, which will again improve the reliability of the power sector.

So I think that's it, thank you very much. I listened very well to all the speakers. Thank you for your inputs, and I believe we need to add a chapter in the Philippine Energy Plan for energy financing. But that will not be done this year. Probably next year when there's a new administration.

Energy Transition Council Updates in the Road to Glasgow and COP26

*Presented by: Kathleen Ann Capiroso-Caballes
Climate Change and Energy Attaché, British Embassy in Manila*

Indeed, our topic this afternoon is timely and relevant. The arguments made by our presenters offered interesting solutions to accelerating the transition to clean energy, especially emphasising the role of the financing sector.

In the Philippines, you've heard two essential policies. First is BSP Sustainability Framework and SEC Sustainability Reporting Guidelines. And overseas, Jamie and Ellie highlighted the Task Force on Climate-Related Financial Disclosures.

Regarding climate talks happening in November in Scotland, I'd like to start by saying that as the COP26 Presidency, the UK, in partnership with Italy, is committed to increasing climate ambition. We have set out four goals related to mitigation, adaptation, finance, and collaboration. These are aimed at accelerating real-world progress towards achieving the Paris Agreement. Today, I will be focusing on mitigation, emphasising accelerating energy transition.

This topic, as highlighted earlier, is significant in Southeast Asia, given the region's role as a driver of the global economy and because of the large pipeline of fossil fuels, especially coal projects in the region.

Also, we've heard from our presenters that clean power is already a growth industry. Countries that will invest now will be positioning their economy in a booming industrial sector. It will also place them at the forefront of most innovative economies worldwide, whereas failing to take this opportunity will, of course, risk them losing their competitive advantage. Now is the perfect time because the pandemic offers an excellent opportunity to build back better and greener, which was highlighted earlier by AG Lyn.

It will also support jobs because investments in renewables have already shown substantial numbers of jobs compared to the fossil fuel sector. Based on studies, 50% more jobs can be created than fossil fuel-related employment. It will also respond to the growing concerns from the citizens on health because this will help address concerns on emissions. Thus, it would be good for public health.

Above all, the cost of clean power, particularly renewables, is already competitive. So you've listened to the deflationary cost of solar, wind, and battery storage. And the prices, as mentioned earlier, are expected to continue to fall over time.

Having said this, it is inspiring also to hear the updates from Undersecretary Wimpy spoke a while ago because it provides a more optimistic scenario for RE resources, which we expect to unlock the Philippines' untapped potential in this space.

We also welcome, of course, the Department of Energy's efforts on energy transition, including the issuance of the moratorium on endorsements for new coal power plants last year. We would very much want to recognise the DOE's very active engagement in the COP26 Energy Transition Council, ETC process, both at the international and local levels or national levels.

To briefly mention ETC, it brings together government, development partner community, energy and financial organisations to accelerate the shift towards clean energy. It has already been identified support and new contributions to prioritise actions related to clean energy, energy efficiency, and reliable energy systems. All these are aimed at contributing to the pillars of the country's Clean Energy Scenario, which was emphasised a while ago by Undersecretary Wimpy.

I am delighted to mention that some of the recommendations highlighted by Sara and Bert in the study were being addressed in the identified ETC interventions. I want to emphasise that the ETC underscores the creation of solid financial and technical support. An example of this is the Southeast Asia Energy Transition Program, wherein 50 million dollars in pipeline funding has been already identified, including the new commitment of 5 million pounds of funding from the UK. For the ETC process, this will not just be for COP26. But it has already been announced that ETC will continue to deliver its work until 2022.

Before I conclude, I'd like to underscore the critical role of central banks in mobilising and accelerating green finance, including for clean energy. As mentioned by AG Lyn a while ago, BSP and DOF are working with the UK on preparing a Sustainable Finance Roadmap and Sustainable Finance Guiding Principles. This aims to harmonise and to understand better what are sustainable activities.

In the UK, the Bank of England is at the forefront of expertise in this area, both with stress testing where it considers climate risks and its monetary policy. Bank of England (BOE) also provides capacity-building or extending capacity building related to understanding and managing climate-related financial risks and disclosures to central banks, including BSP.

I would like to end by highlighting that the IPCC's recent report makes it very clear that the temperature goal of the Paris Agreement is within reach. However, it can only be achieved with further ambition and action. So we must rise to this challenge of climate change by really working together. Everyone, it's time to act now.

IV. CLOSING REMARKS

Renato Redentor Constantino
Executive Director, ICSC

It's vital to emphasise several things. I'm not going to sum up, the discussions, but I will refer to some of the highlights. The question that was asked, for instance, was on IPCC and their reaction to it.

I want to echo this; as a climate advocate and as a person that is a part of the ICSC, I think it is essential to reflect what has been said in particular by Undersecretary Fuentabella because it's necessary. But also, in a way, it starts a conversation or sustains one. We are in a specific situation where countries' response needs to be differentiated because of our particular development circumstances and economic setting. In this sense, it's essential to consider the findings of the IPCC concerning the energy sector in terms of two approaches. It cannot be one.

First, as far as the impacts of climate change are concerned, it is only proper that an agency like DOE pay attention to the urgent and pressing need for resilience because the results are coming our way. And we need our power sector to be resilient based on what science is telling us will become the norm. Things may become worse before they become better.

On the other hand, does that mean that the energy transition should be of less priority? No. I think the speakers have said this, including Undersecretary Fuentabella. But the intervention must be different. It's a market intervention, in particular, if the DOE continues to pursue the mandate of competition to ensure that there is a level playing field that translates better development into an economy that can be powered using affordable, reliable energy that happens to be sustainable as well.

So those things we can approach from two lenses because it's pretty important to say that our circumstance means that if the impacts are projected to worsen. We should increase our resilience, protect our economy. At the same time, we pursue sustainability by ensuring that we exploit the demand for affordable and reliable power through market interventions that will make our ability more affordable and sustainable and dependable. So, what is that, in short? It means I think if it hasn't been clear yet, let me spell it out, that we have to promote better systems thinking than technology-driven or project-driven, short-term approaches.

Systems thinking is going to be critical mainly because, as the pandemic has shown us, not just in the Philippines but around the world, it is very, very clear that all the countries in the world are grappling in different degrees of difficulty, but all with a problem, in response to this pandemic because we are all unprepared to deal with external non-financial shocks. This also means we will continue to be spontaneous until we place resilience at the centre of fundamental macroeconomic considerations. The absence needs to be corrected. We need to do more than just measure progress based on productivity and GDP because resilience needs to be at the centre of our macroeconomic fundamentals, and we need to start measuring it as well.

What is also a sign that I hope everyone takes away from this is that there was much disagreement but even more agreement because the direction seems to be—we are all pointed in the right direction, except the steps are something we have to work on.

Echoing Undersecretary Fuentabella also reached his hand out again, saying that this is not going to be easy. Pag hindi po ito tulong-tulong, mahihirapan po tayong lahat. And so the plans that are in place read them. If you disagree, critique them, provide them to the government, let our private sector leaders know. Because if we cannot work on this together, even if the favoured leadership that you want for next year is in place, that new administration will fail if we cannot get behind a long-term vision that speaks to not just the entire country but to the majority of our people—the working families of this country.

So it was quite a pleasure to hear our colleagues in BDO and BPI talk about the future in ways that are responsive to our current realities. We may have disagreements, for instance, in terms of how to get there, or when or how fast, but I think we will work on this together as well based on what we've heard from Jo Ann and Ed.

In particular, we've also heard from the Central Bank in terms of their exhortation to the private sector, to our banks, to look even further and to ensure that they're already prepared to meet what is coming our way in terms of the threats, but also in terms of what I think Jamie and Ellie had talked about—the massive opportunities that are already available, except that we need to be even more targeted in our interventions and the questions that we raise.

For instance, yes, we always talk about supply when it comes to the recent outages. But are we discussing the right kind of supply given what Bert and Sara said earlier that we have an excess of what we don't need at the moment? And what we need is a flexible generation. Still, there are financing gaps that we have to work on together to plugin not only so we don't have outages but so that we can go and move together towards the longer term.

Colleagues, we've run overtime, and obviously, there will be a part two again. I hope we can continue to work together and that you all have taken note of the critical leadership role that the ICD has continued to play in governing and sending the message to the private sector that there's only benefit that we can all harvest if we work together across different sectors and if we put our disagreements on the table and work on them collectively as well.

Flexible generation is not just about power. I think we all need to be flexible in finding ways that this conversation can become a more collaborative way of planning and supporting the work that's already underway.

The energy transition is already underway. The question is not whether we will reach the right kind of landing zone. As we always say in ICSC, we think the landing zone is in sight. We believe we will get there. The challenge is not reaching the landing zone. The challenge is: Can we get there sooner? Can we get there far earlier?

And if we have disagreements, put them on the table. For instance, Undersecretary Fuentabella talked about 35% of renewable energy by 2030 and 50% by 2040. It sounds like the numbers are already well contained in the National Renewable Energy Plan. Can we set those numbers as the floor rather than the ceiling? I think the answer will be in the affirmative, but it will be accompanied by "but these are things we require." What are these? Doon na po Tayo sa Part 2 when we hold another discussion which I hope you can all be part of again.

On behalf of all the organisers, thank you to ClientEarth and Climate Reality in the Philippines. Maraming Salamat to the Institute of Corporate Directors. Thank you to Pete

and Naz for ably moderating the sessions. We could not answer all the questions, but there will be a barrage after this session concludes. Indeed, we will keep you all updated.

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