

Asian Utilities Engagement Program (AUEP)

2022–2023 Year in Review: Progress Update

August 2023

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1. AUEP at a Glance¹



total of all focus companies²

All numbers in this section, and throughout the report, are valid between August 2022 – July 2023

 $\mathsf{Data} \, \mathsf{as} \, \mathsf{of} \, \mathsf{the} \, \mathsf{end} \, \mathsf{of} \, \mathsf{2022}, \mathsf{obtained} \, \mathsf{from} \, \mathsf{each} \, \mathsf{company's} \, \mathsf{disclosure}, \mathsf{such} \, \mathsf{as} \, \mathsf{an} \, \mathsf{annual} \, \mathsf{report}, \mathsf{integrated} \, \mathsf{report} \, \mathsf{and} \, \mathsf{and}$ 2 or sustainability report. For CRP, the company's annual report does not disclose the coal capacity but only thermal power capacity, which might include natural gas as well. The number has been rounded to the nearest decimal point for consistency.

2. Summary and Progress Highlights

The Asia Investor Group on Climate Change (AIGCC) launched the Asian Utilities Engagement Program (AUEP) in June 2021. Its goal is to increase the effectiveness of climate engagement in utility companies through a common agenda and collaborative effort, with the consistent, long-term shared objective of sending a powerful signal: investors are asking and expecting that companies respond to climate change with greater urgency and ambition to ensure jobs are created, livelihoods are protected, and returns are sustainable over the long term as economies transition. The program complements and runs in parallel with the global <u>Climate Action 100+</u> initiative.

The AUEP is supported by 19 investors (all AIGCC members), with combined assets under management or advice of USD 12 trillion, who engage with seven focus companies based in five different Asian markets. Based on the key insights into trends affecting Asian electric utilities outlined by <u>Investor</u> <u>Expectations of Asian Electric Utilities Companies</u>, published by AIGCC in December 2020, the common agenda for engagement was focused on five areas: governance, decarbonisation strategies with coal and gas phase-out timelines, disclosures, physical risks and public policy engagement.

The utility sector is fundamental in an economy's decarbonisation, given its interrelation with other sectors such as heavy industry, transport and real estate. Hence, there is a need for utility companies to take upfront action towards a 2030 target in line with the 1.5 degrees pathway. Investor engagement with Asian electric utilities will play a key role in climate change mitigation given the sector contributes over 20 per cent of global greenhouse gas emissions and has a young asset-age profile of about 14 years (versus an average economic lifetime of 46 years³).

Since the beginning of the initiative, the collaborative engagements have been progressing well. In the first year, investors focused on the companies' decarbonisation strategies, especially their future electricity generation planning, and on the management and phase-out of coal-fired power plants.

During the second year (August 2022 – July 2023), investors increased discussion on climate governance of the companies, including executive-linked remuneration, and continued discussion of credible decarbonisation strategies.

3 IEA (2022), Coal in Net Zero Transitions, IEA, Paris https://www.iea.org/reports/coal-in-net-zero-transitions,

The key progress highlights of the engagement in this second year include the following:

Strategy: early retirement of coal plants

Although CLP Holdings is the only AUEP focus company that has outlined a phase-out schedule for coal-based assets by 2040, other focus companies, such as Tenaga and PLN, are catching up. Both companies have selected several coal plants for early phase-outs (these are to retire earlier than the date in the power purchase agreement). PLN has also committed to not building any new coal projects.

Strategy: increased ambition to expand renewable energy portfolios

In a more detailed transition plan issued in 2022, Tenaga announced that they aim to grow the company's renewable energy portfolio, including expanding the focus market, especially in solar energy, offshore wind, and battery storage. This includes targeting 14.3 GW capacity by 2050 with a USD 7 billion equity investment. PT Perusahaan Listrik Negara (PLN) also aims to develop more renewable energy power plants as part of its six strategic initiatives to support its existing goal of net zero emission by 2060.

Governance: linking executive remuneration to climate metrics

An increasing number of companies are incorporating climate and sustainability into directors and executives renumeration. This year, Japanese utilities Chubu Electric, JERA and J-POWER stated that they are considering linking

Beyond the engagement meeting with the companies, AIGCC also held a series of in-person and hybrid policy-engagement sessions with regulators in multiple markets, including Indonesia, Japan and Malaysia. Roundtable discussions highlighted the key areas of policy support required to advance the agenda outlined in <u>Investor Expectations of</u> <u>Asian Electric Utilities Companies</u>. These roundtables have facilitated active dialogues among policymakers, institutional investors and corporates in each of these markets on some of the more challenging issues of energy transition. their directors' compensation to environmental, social and governance (ESG) indicators. Similarly, Tenaga Nasional announced that the key performance indicator (KPI) of their top management is linked with ESG metrics.

This report will discuss some of the key issues that the Asian utilities sector faces and will give a high-level snapshot of the progress to date of engagement with the seven focus companies. AIGCC looks forward to further engaging with all stakeholders in Asia's energy transition in the coming years.



3. The Electric Utilities Sector in Asia

The Background

The urgency of addressing climate change has increased rapidly and is now at an unprecedented level. The Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Synthesis Report (AR6)⁴ clearly states that global greenhouse gas emissions have continued to increase, with ongoing contributions from unsustainable energy use. Limiting human-caused global warming requires net-zero CO₂ emissions by 2050 at the latest. To achieve this, all globally modelled pathways that limit warming to 1.5°C with no or limited overshoot show that deep, rapid, immediate greenhouse gas (GHG) emissions reductions are required in all sectors during the current decade. The latest findings of the International Energy Agency (IEA) on CO2 emissions⁵ are that in 2022, global emissions from coal-fired electricity and heat generation grew by 224 Mt or 2.1 per cent, led by emerging economies in Asia. Therefore, it is critical to engage Asian electric utilities in order to achieve global net-zero CO₂ emissions in 2050.

Benchmarking and Tracking Progress

The investor-led AUEP was launched in June 2021 to engage Asia's systemically important electric utilities in cutting emissions, strengthening disclosure and improving governance of climate-related risks. Through the program, investors are working to increase the effectiveness of climate engagement with the focus companies by using a common agenda, shared objectives and collaborative effort. Participants in the AUEP agree to a common engagement agenda based on <u>AIGCC's Investor Expectations of Asian</u> <u>Electric Utilities Companies</u> and intend to work with the boards and senior management of these companies to encourage them to commit to the following measures:

- GOVERNANCE: Implement a strong governance framework that clearly articulates the board's accountability for and oversight of climate change risks and opportunities.
- DECARBONISATION STRATEGY AND SCENARIO STRESS TESTING: Take action to reduce GHG emissions in line with the Paris Agreement. Companies should have clear decarbonisation strategies with short-, medium- and long-term action plans, including timetables for phasing out coal-based emissions in line with 1.5°C temperature scenarios such as the IEA NZE2050 scenario. This scenario specifies that advanced economies have phased out unabated coal power by 2030 and that it has been phased out by 2040 at the latest in all other regions. Generation using natural gas without carbon capture starts falling by 2030 and is 90 per cent lower by 2040 compared with 2020.
- TRANSPARENCY & DISCLOSURE: Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-Related Financial Disclosures.
- PHYSICAL RESILIENCE: Outline physical risks and relevant adaptation strategies for mitigating these risks.

⁴ Intergovernmental Panel on Climate Change, AR6 Synthesis Report: Climate Change 2023 (March 2023), https://www.ipcc.ch/report/sixth-assessment-report-cycle/.

• PUBLIC POLICY: Engage with public policymakers and other stakeholders to support cost-effective policy measures that will mitigate climate-related risks and facilitate low-carbon investments in line with achieving net zero emissions by 2050 or sooner.

In addition to benchmarking and tracking the progress of the engagement via investor updates, the annual investor collaborative forum and yearly progress reports, the work for and within the AUEP is informed by research from <u>World</u> <u>Benchmarking Alliance</u>, <u>Asia Research & Engagement</u>, Transition Zero and Carbon Tracker.

Recent Topics of Engagement

Coal Phase-Out Plan and Just Transition

A continuation of the key topic of engagement from the previous year, the coal phase-out plan and just transition is a priority agenda for the AUEP. According to the latest research by Wood Mackenzie, ⁶ around 55 per cent of Asia's power supply is still generated from coal. Emerging economies, including many Asian countries, have a young coal fleet. Early retirement of these coal assets in a transition to renewables is a focus for multiple stakeholders. To implement the median 1.5°C pathway described in the IPCC AR6, coal power needs to drop globally by 87 per cent by 2030, highlighting the importance of this topic in the program. The discussion on timeline for the phase-out of thermal coal power plants was discussed in all engagement meetings with companies this year.

These discussions also include the topic of financing mechanisms for early coal phase-outs, such as the <u>Just Energy</u> <u>Transition Partnership (JETP)</u>. JETP is a financing mechanism to support coal-dependent developing countries to phase out coal and transition towards clean energy while addressing the social consequences. It launched at COP26 in November 2021 and has now expanded to two Asian countries, Indonesia and Vietnam.⁷ The Glasgow Financial Alliance for Net Zero, through its APAC network, is also developing guidance for financial institutions on how they can facilitate the managed phase-out of coal power generation in the Asia-Pacific region.⁸

In 2023, AIGCC started a new working group on Energy Transition for our members to build investors' capacity and support navigating the evolving topics around energy transition in Asia. This work stream is complimentary to AUEP as the target companies look to set and implement their decarbonisation plans and requires investors to actively engage in discussions on the adoption of new technologies, early coal retirement, and transition to clean energy. AIGCC also bring in external experts and participates in the development of frameworks, while encouraging peer-topeer learning sessions.

Increasing Ambition for Renewable Energy and Fast-Tracking Deployment

Specific engagement identifying roadblocks to increasing ambition regarding renewable energy targets for utilities was discussed with several utilities. For countries who have already committed to long-term, ambitious targets, investors sought more clarity on nearer-term plans to set up infrastructure and technology support to develop renewable energy capacity at the pace required to achieve those targets. Malaysia, for example, has committed to produce 70 per cent of its energy supply from renewable sources by 2050 and specified that between now and 2050, this will require an estimated RM637 billion (approximately USD 149 million) in new investments in its transition to renewable energy.⁹

Investors have been keen to understand the issues better to identify remedies where technical barriers to ramping up renewable energy targets are cited. Research from Bloomberg NEF, Climate Integrate and Transition Zero continue to provide detailed analysis of these issues.

The Role of Decarbonisation Technologies and Their Supply Chains

Technology plays a crucial role in energy systems reaching net zero. Rapid increases in solar and wind capacity have been supported by dramatic cost reductions in recent years. However, Asian utilities with high reliance on fossil fuel-based assets continue to include fossil fuel technologies, such as ammonia co-firing with coal, in their key decarbonisation strategies. The discussions on the feasibility of investing in these technologies against increasing ambition, targets and utilisation of proven, lower-cost renewable energy technology continue to be a key theme throughout the AUEP engagements, particularly with Japanese utilities.

With Japan pushing for the recognition of hydrogen and ammonia as low-carbon fuel sources that can help decarbonise its power sector, the role of hydrogen—a fuel that does not produce carbon emissions at the point of combustion but does in production if using coal or gas as feedstock—has gained widespread interest. In their engagements, investors also ask utilities about the

⁶ Gavin Thompson, 'Securing Asia's Energy and Natural Resources Future', Wood Mackenzie, 31 May 2023, https://www.woodmac.com/news/opinion/asia-energy-natural-resources-future/.

⁷ Launched on 15 November 2022 (https://ec.europa.eu/commission/presscorner/detail/en/statement_22_6892) and 14 December 2022 (https://ec.europa.eu/commission/presscorner/detail/en/statement_22_7724), respectively.

⁸ Monetary Authority of Singapore, 'Public-Private Partnerships to Mobilise Capital for Net Zero Transition', 4 October 2022, press release, <u>https://www.mas.</u> gov.sg/news/media-releases/2022/public-private-partnerships-to-mobilise-capital-for-net-zero-transition#1.

⁹ Junaid Ibrahim and Mahadir Monihuldin, 'Renewable Energy Transition Needs RM637bil in New Investments', The Star, 13 July 2023, <u>https://www.thestar.com.</u> my/news/nation/2023/07/13/renewable-energy-transition-needs-rm637bil-in-new-investments.



companies' plans to secure a stable supply chain and economic rationale for proposed investments in these fuels. A report by the Investor Group on Climate Change (IGCC)¹⁰ examined the supply chain and investments in the highintegrity hydrogen industry between Australian and Asian economies. The decreasing costs of renewable energy are rapidly improving the economic and financial outlook for clean hydrogen production.

Boards' Climate Accountability

One of the key questions investors ask electric utility companies in Asia concerns a strong governance framework that clearly articulates the board's accountability for and oversight of climate change risks and opportunities. Determining whether the company's executive incentives are aligned with the Paris Agreement gives investors a better understanding of the quality of the company's board of directors, who shape the company's direction and strategy concerning the climate agenda.

Our investors discussed linking executive compensation to climate-related KPIs in most of the focus companies' engagement meetings last year. Investors are looking forward to more progressive strategies, such as the use of quantifiable climate-related metrics in linking performance to executive compensation. Some companies have indicated that they are working to use GHG or CO_2 emissions reduction as the climate indicator linked to board members' compensation; this is a positive development. Further engagement with companies in the coming years will include questions about the transparency of how performance evaluations are conducted and measured against non-financial performance metrics such as climate indicators.

10 Dani Siew, Laura Hillis, Alan Rai and Ben Nethersole, Unlocking Investment in the Australian Hydrogen Industry (Investor Group on Climate Change, August 2022), https://igcc.org.au/wp-content/uploads/2022/08/Investor-Group-on-Climate-Change-Hydrogen-Report.pdf.

4. Focus Companies

Note: Focus companies below are listed based on the order of coal capacity as of 2022, obtained from each company's disclosure, such as an annual report, integrated report or sustainability report.

Huaneng and China Resources Power

Name: Huaneng Power International, Inc.¹¹ Market: China Installed capacity: 127.2 GW (2022) Coal capacity: 94.0 GW (2022)

Name: China Resources Power Holdings Company Limited (CRP)¹² Market: China Installed capacity: 52.8 GW (2022) Thermal power capacity: 35.5 GW (2022)¹³

CRP and Huaneng Power International are both AUEP focus companies in China. Huaneng was one of the two additions to the program last year. Huaneng has the largest coal capacity among the AUEP focus companies and is one of China's state-owned enterprises.

The engagement with CRP had a positive start. CRP also reported that it has received the green light from the Hong Kong Stock Exchange to list its renewable energy business separately in Shenzhen, a move that will help raise additional funds to finance the company's <u>'aggressive</u> expansion of wind and solar power projects'.

CRP and Huaneng remain under active monitoring by AUEP, with a next-step priority being for these companies to set interim milestones in the context of their longer-term decarbonisation strategies.

13 The CRP annual report does not disclose the coal capacity but only thermal power capacity, which might include natural gas as well.

¹¹ Based on Huaneng Power International's 2022 annual report: http://file.finance.sina.com.cn/211.154.219.97:9494/MRGG/CNSESH_STOCK/2023/2023-3/2023-03-22/8901649.PDF.

¹² Based on CRP's 2022 annual report: https://www.cr-power.com/power_en/InvestorRelations/AnnualInterimReport/202304/ P020230427386813681324.pdf.

PT Perusahaan Listrik Negara (Persero)

Name: PT Perusahaan Listrik Negara (Persero) (PLN) Market: Indonesia Installed capacity: 69.0 GW (2022) Coal capacity: 36.9 GW (2022)

PLN was also added to the AUEP focus companies last year. It is a state-owned enterprise in Indonesia. With an installed capacity of 69 GW as of the end of 2022, PLN is one of the largest electric utility companies in Asia and the largest electric utility by installed capacity in South-East Asia (i.e., the Association of South East Asian Nations, ASEAN).

The engagement with PLN has had a positive start, with the engagement group being able to schedule a few productive meetings with the company immediately. The discussion has been focused on the decarbonisation strategy, especially PLN's roadmap to achieve net zero, climate risk assessments, financing options, and challenges related to the company's plan to phase out its coal assets. The engagement group also discussed PLN's sustainability governance and the company's relationships with key ministries in Indonesia.

In the media, <u>Bloomberg</u> reported that the company successfully reduced its carbon emissions by 32 million metric tons in 2022. The early retirement of coal-fired power plants is a key part of PLN's net-zero strategy and is critical to building credible decarbonisation plans. Since the first engagement, PLN has participated in the JETP, which was launched in November 2022. PLN is working with various stakeholders of JETP to develop plans for meeting the decarbonisation objectives of JETP.

The major roadblock cited by PLN is the financing of the energy transition, including not only the early retirement of coal-fired power plants but also the transmission and distribution network and baseload renewable energy generation units that will be required to shift from coal to renewable energy. It is also important to PLN that the financing mechanisms will not reduce the financial health of the organisation.

In late 2022, PLN <u>signed a deal</u> with the state-owned Japan Bank for International Cooperation to finance the early retirement of coal-fired power plants. PLN has also <u>signed a memorandum of understanding</u> (MOU) with the Asian Development Bank (ADB) and other partners to develop an energy transition mechanism for Indonesia. In 2023, PLN announced that it <u>signed another MOU</u> with the IEA on the JETP Investment and Policy Plan to accelerate Indonesia's energy transition to net zero.

Our investors are looking forward to continuing the engagement with PLN, especially regarding aligning the latter's transition plan with the Paris Agreement. This could include coal phase-out projects and financing options such as the Energy Transition Mechanism (ETM), as well as future investments in renewables and the optimisation of the grid.

J-POWER

Name: The Electric Power Development Co., Ltd. (J-POWER) Market: Japan Installed capacity: 42.3 GW (2022) Coal capacity: 9.9 GW (2022)

The engagement group for J-POWER continues to engage with the company regarding the phase-out of J-POWER's domestic coal power plant plan and the feasibility of decarbonisation technologies, such as green hydrogen, ammonia co-firing, and carbon capture, utilisation and storage (CCUS), compared to that of investment in renewable energy. The company's net zero targets in 2050 rely heavily on hydrogen and CCUS. Investors will continue to convey their expectations for a 2040 coal phase-out plan to include overseas coal assets.

J-POWER has improved its climate disclosure, including disclosing the company's internal carbon pricing. The engagement group also discussed governance expectations. It is positive to know that the company is considering introducing non-financial metrics, including ESG metrics, into senior-management or board-level compensation. Investors will continue to convey their expectations for the company to use quantifiable climate metrics (such as tCO_2 reduction) and a more transparent process for assessing the metrics used linked to executive remuneration.

This year, Amundi, the lead investor for this AUEP engagement, co-filed a set of two shareholder proposals¹⁴ to the company. Additionally, Amundi voted against the re-election of the J-POWER director who is responsible for the company's decarbonisation strategy. Although both shareholder proposals were rejected,¹⁵ the first resolution has received over 20 per cent support¹⁶ from shareholders for a second consecutive year which demonstrates sustained investor interest in seeing greater progress on their 2050 strategy and nearer-term goals to align with the Paris Agreement.

We look forward to further engagement with the company in the coming year, especially to support the company to have a more credible plan for accelerating decarbonisation.

 14 1) Set and disclose a business plan to achieve science-based short- and medium-term GHG emissions reduction targets aligned with the goals of the Paris Agreement and 2) disclose the details of a company's remuneration policies to incentivise progress toward the company's GHG emissions reduction target.
15 Shareholder proposal need to receive the two-thirds majorities in order to be accepted.

16 A 21.2 per cent vote, according to the company's release at https://www.jpower.co.jp/news_release/pdf/news230628_2-2.pdf.

CLP Holdings

Name: CLP Holdings Limited Market: Hong Kong, China Installed capacity: 23.0 GW (2022) Coal capacity: 9.7 GW (2022)

The engagement group for CLP continues to discuss the company's plan to use gas as a transitional fuel for coal. CLP's Climate Vision 2050 aims to phase out CLP's coal assets by 2040 and outlines the phase-out schedule for the company's coal-based assets. The engagement group also discussed CLP's plan concerning green hydrogen and the consequent issue of securing a green hydrogen supply chain. It is positive to know that the company acknowledges battery storage as a solution for ramping up its renewable energy capacity, especially solar energy.

In the media, CLP also <u>announced that it is investing in</u> <u>renewable energy projects in Australia</u> as part of a larger commitment to invest \$10 billion in renewable energy by 2025.

In the next year, investors are looking forward to engaging with CLP regarding the rollout of its net-zero plan. There is a possibility that the company will refine its decarbonisation strategy and roadmap based on the Hong Kong Development Plan of 2024–2028, which is tentative and will be announced in November 2023. Another aspect of engagement focus is just transition because the company is looking to phase out coal assets in various jurisdictions, such as India and China.

Tenaga Nasional

Name: Tenaga Nasional Berhad Market: Malaysia Installed capacity: 16.7 GW (2022) Coal capacity: 7.0 GW (2022)

The engagement group of Tenaga has prioritised decarbonisation strategy and climate governance, focusing on early exit from power purchase agreements (PPAs), the distribution of capital between renewable energy and other decarbonisation technologies such as CCUS, and the linking of ESG metrics to executive remuneration. Compared to the previous year, there has been an improvement: investors are encouraged to see the company's announcement about its fast-track decarbonisation plan, which includes the renegotiation of one of the contractual PPAs for coal power plants.

In May 2023, the Malaysian government announced it would soon roll out its energy transition roadmap, which might address the issue of grid connectivity. This has been highlighted by Tenaga as a hindrance to ramping up renewable energy deployment. Tenaga announced in 2022 that it intends to invest about RM20 billion (approx. USD 4.4 billion) in capex per annum to <u>fast-track its energy transition plan</u>, including 'realising the 8,300-megawatt renewable energy generation target in 2025'.

There has also been a positive trend for corporates and utilities to appoint a chief sustainability officer to look after the effective deployment of sustainability strategies, initiatives and governance. In June 2023, Tenaga appointed Leo Pui Yong, its former chief risk officer, as its new chief sustainability officer. She will focus on strengthening sustainability governance and on the effective deployment of Tenaga's sustainability strategies and initiatives, including the reinforcement of its energy transition plan.

Our investors continue to convey investor expectations for a 2040 coal phase-out and to work with the company on aligning its decarbonisation pathway with the goals of the Paris Agreement.

Chubu Electric

Name: Chubu Electric Power Co., Inc. (Chubu Electric) Market: Japan Installed capacity: 37.2 GW (2022) Coal capacity: 6.3 GW (2022)

The engagement group for Chubu Electric continues to focus on the company's detailed plan for decarbonisation, especially on the granularity of its 2030 target and netzero-emission-by-2050 target, which are stated in its Zero Emission Challenge 2050. Discussions include the feasibility of Chubu Electric's ammonia and hydrogen co-firing strategy and the company's plan to expand its renewable energy capacity. The engagement group also covered the governance aspect, linking executive remuneration with climate metrics.

Last year, the engagement group was also pleased to be able to engage both Chubu Electric and JERA. The latter is a joint venture between Chubu Electric and Tokyo Electric Power Company (TEPCO) and holds the coal assets of Chubu Electric. Investors are looking forward to continuing to encourage both companies to disclose a more concrete decarbonisation strategy with a reasonable feasibility plan.

JERA announced that it had <u>acquired a 35.1 per cent</u> <u>stake</u> in a Vietnam-based renewable energy company, Gia Lai Electricity JSC, to expand its overseas business and step up its decarbonisation efforts. After the acquisition, JERA's renewable power assets in equity holdings will grow to nearly 2 GW.

For the second year in a row, both Chubu and TEPCO faced climate resolutions filed by third-party non-governmental organisations (NGOs) to disclose asset resilience in line with a net-zero-by-2050 pathway. Although those resolutions did not receive the two-thirds majorities they needed to be accepted, investors will continue engaging with the company about the key requirements of the AUEP and will support the company to develop a more credible plan for accelerating decarbonisation.

5. Beyond Company Engagement

Policy Engagements

As travel restrictions eased, after the previous few years that were disrupted by the pandemic, the AUEP held a series of in-person and hybrid policy-engagement sessions with regulators in multiple markets, including Indonesia, Japan and Malaysia. Roundtable discussions highlighted the specific areas and key topics of engagement between investors and utilities that required policy support in each of these markets.

Japan Energy Transition Roundtable

AIGCC convened a closed-door roundtable discussion, bringing together representatives of key government bodies responsible for formulating policies on energy transition, of domestic and international investors, and of corporate groups, to discuss two key themes:

- the role of technologies, specifically hydrogen, in the decarbonisation plan of the utility sector in Japan and, more broadly, in the region
- how to support the increase of renewable energy targets and deployment in Japan.

The session began with a presentation by a leading research firm on the technical and commercial viability of incorporating hydrogen in Japan's transition plans, highlighting the sectors most suited for its use while underscoring the potential for lower-cost renewable energy generation, notably offshore wind. Participants discussed the need for more clarity about the long-term costs of hydrogen, Japan's capacity for enhancing the deployment of renewables, and the importance of transparency and credibility, in both Japanese policies and corporate climate-related disclosures, for attracting future investment. This was welcomed as a timely discussion given Japan was in the process of revising its Basic Hydrogen Strategy and Strategic Energy Plan. Investors emphasised the need for long-term pledges that are supplemented by short-term science-based targets and detailed transition plans showing immediate emissions reductions.

Following the roundtable, participants stated that meetings with policymakers, corporates and investors to share their perspectives on decarbonisation strategies are scarce but crucial. Attendees expressed an interest in participating in similar events, with some recommending that additional sessions be held to bring together investors and policymakers from ASEAN countries and the broader region to discuss the challenges and opportunities associated with ASEAN's energy transition. It was also suggested that discussions on the role and potential of decarbonisation technologies should continue.

The CEO and Director of Policy of AIGCC also penned a piece in a major Japanese <u>financial publication</u> on some of the key discussion points on the role of hydrogen in Japan's transition plans which were raised during the roundtable session.

Malaysia Energy Transition Roundtable

AIGCC partnered with Capital Markets Malaysia (CMM) to host a closed-door roundtable discussion during CMM's ESG Week. Officials from the government were joined by representatives from utilities, regional financial institutions, and domestic and international investors. Malaysia's new renewable energy target of 70 per cent by 2050, announced in May 2023, is timely and ambitious. As Malaysia is in the process of developing an energy transition roadmap that will set out the details of the support required to achieve this target, during the discussion, participants aimed to provide input for the development of the roadmap.

To achieve Malaysia's renewable energy target, it needs to be incorporated into the utilities' transition plans. Utilities highlighted that grid integration and interconnectivity are critical for supporting the achievement of the national renewable energy-mix target. It was also suggested that the country needs to reform its energy market to increase competition and innovation in electricity supply.

Investors also emphasised their expectation for a coal phase-out timeline by 2030 for OECD countries and 2040 for non-OECD countries. Emphasis was placed on ensuring that Malaysia follows clear, science-based transition plans. Participants considered how a coal phase-out could occur in conjunction with a switch to renewables while supporting a just transition.

A positive trend among corporates and utilities has been the appointment of a chief sustainability officer to supervise the deployment of sustainability strategies, initiatives and governance.

Indonesia Energy Transition Roundtable

The roundtable event in Indonesia was convened at an opportune time, as Indonesia takes the political spotlight this year by holding the ASEAN chair. This follows Indonesia's G20 presidency, during which the country set energy transition targets and launched related initiatives, including the JETP and the ETM country platform. AIGCC partnered with Climateworks Centre and the Centre for Policy Development to hold the roundtable discussion as part of the Indonesian ASEAN Chairmanship 2023 side event.

Representatives from government ministries, utilities and NGOs engaged with both domestic and international

investors. While the early retirement of coal-fired power plants was a central topic for Indonesia's transition, attendees underlined the need for a just transition that considers social impacts and guarantees capacity for future energy demands. The discussions covered plans for the effective utilisation of the public and private financing pledged under JETP, the ways in which scenario analysis can consider early coal retirement, and the need for infrastructure development to support clean energy. The credibility and viability elements of coal phase-out transactions were also discussed, highlighting the need for a credible phase-out roadmap that will supplement Indonesia's transition plans. It was raised that while the switch from coal to clean energy would require a substantial investment, investors will be restricted from financing companies reliant on carbon-intensive assets. The meeting concluded with participants welcoming further engagement to address the financial implications of Indonesia's decarbonisation.

Media Coverage

During the last 12 months, the AUEP garnered nearly 350 mentions in top global media. Notable trade publications such as <u>Asian Investor</u>, <u>ESG Investor</u> and <u>Responsible Investor</u> reported on the progress of the AUEP a year after its launch. ESG Investor noted that <u>the first AUEP Progress Report</u> 'marks a shift from net zero commitments to implementation'.

PLN, one of two new focus companies added to the program last year, demonstrated notable progress towards their net zero commitments. <u>Bloomberg</u> reported that the company successfully reduced its carbon emissions by 32 million metric tons in 2022. The early retirement of coal-fired power plants is a key part of PLN's net-zero strategy and is critical to building credible decarbonisation plans.

Other related media coverages are included in the respective company update in Section 4.



6. The Journey Continues

Global carbon emissions have continued to rise over the past several decades, and Asia accounts for an increasing share of these emissions as the largest region with a growing development pathway. Achieving global climate goals depends on Asia, with many sectors dependent on the decarbonisation of utilities. According to a report by the ADB, the transition of energy to cleaner sources in Asia would account for 17 per cent of emissions reduction by 2030, and this proportion would increase to 45 per cent by 2050 as cleaner energy becomes the predominant source of decarbonisation in the long term. Coal is currently still the largest source of energy-related emissions in developing Asia, accounting for about 70 per cent, followed by oil (20 per cent) and gas (10 per cent) - a structure that has remained largely unchanged since the 1990s. The share of coal in primary energy sources in Asia is expected to decline from about half to less than a guarter by 2050, and renewable energy could dominate electricity generation in Asia by 2040.¹⁷ This demonstrates the importance of further encouraging Asian power utility companies to achieve managed coal phase-outs and more ambitious renewable energy assets expansion plans.

AIGCC started the AUEP program in 2021 with the aim of increasing the effectiveness of climate engagement with focus companies through a common agenda and collaborative effort, with the consistent, long-term shared objective of sending a powerful signal: investors are asking and expecting that companies respond to climate change with greater urgency and ambition to ensure jobs are created, livelihoods are protected, and returns are sustainable over the long term as economies transition. With this collaborative engagement initiative now entering its third year, investors will continue to push for faster and more ambitious climate commitments from focus companies. They will also focus on the implementation of company strategies to meet net-zero goals, with short-, medium- and long-term emissions reduction aligned with the Paris Agreement.

In addition to strengthening dialogues with focus companies about the common agenda of decarbonisation strategies, we are keen to further engage with the companies on climate governance, physical risk and resilience, and public policies related to their lobbying activities. As part of the benchmarking and tracking of the engagement progress of the AUEP, we are seeking ways to collaborate with research institutes, think tanks and other stakeholders in the region to further shape the narrative and assist investors to engage with the companies.

¹⁷ Asian Development Bank, Asia in the Global Transition to Net Zero: Thematic Report of the Asian Development Outlook 2023 (April 2023), <u>https://www.adb.org/sites/default/files/publication/876891/ado-2023-thematic-report.pdf</u>.





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About AIGCC

The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness and encourage action among Asia's asset owners and asset managers about the risks and opportunities associated with climate change and low-carbon investing. AIGCC provides the capacity for investors to share best practices and peer-to-peer learning on sustainable investment, risk management, corporate engagement and policy advocacy. With a strong international profile and significant network, AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a greener economy. AIGCC members come from 11 markets and with over USD 32 trillion in assets under management.

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