

Case Study:

Achieving international climate goals through issuing transition bonds

Castle Peak Power Company Limited (“CAPCO”) owns three power stations in Hong Kong. Deeply committed to the sustainable finance market, CAPCO’s parent company CLP Holdings Limited (“CLPH”) published a Climate Action Finance Framework in July 2017, which has recently been updated to reflect the increased climate-related commitments made by CLP Group and, the broader range of financial transactions to finance its climate actions.



The company issued its first energy transition bond in July 2017 - US\$500 million 3.25% senior unsecured notes due 2027 (the 2027 Notes) under Castle Peak Power Finance Company Limited’s US\$2 billion Medium Term Note Programme - which was the first benchmark USD energy transition bond globally. The proceeds from the 2027 Notes were used to finance the construction of a new 550 MW combined cycle gas turbine (CCGT) generation unit in Hong Kong to achieve high thermal efficiency and

a lower carbon emissions intensity than the average of the generation units used in Hong Kong at that time. The 2027 Notes were more than two-and-a-half times oversubscribed with more than US\$1.25 billion in orders from global investors.

In June 2020, the company issued its second energy transition bond to support Hong Kong’s transition towards a lower carbon future.



Details of the transition bond & use of proceeds

The 10-year bond amounted to USD350 million and was tightly priced with a coupon of 2.20% (the 2030 Notes). The transaction was well-supported by institutional investors, recognising the growing importance of energy transition bonds to enable meaningful action on climate change in Asia.

The funds raised will be used to finance the construction of an offshore liquefied natural gas receiving terminal in Hong Kong waters and an associated subsea pipeline and gas receiving station. This will allow the company to purchase gas directly from more diversified sources for its gas-fired electricity generation facilities, including two new CCGT units being developed at Black Point Power Station, to significantly replace the existing coal-fired generation units in the CAPCO supply area.

Bond details

| | |
|--------------------------|--|
| Amount: | USD\$ 350 million |
| Company Ratings: | AA- (Standard & Poor's), A1 (Moody's) |
| Date of Issuance: | 22 June 2020 |
| Maturity: | 22 June 2030 |

Framework

Proceeds from Energy Transition Finance Transactions may be used for 1) the building of natural gas fired power plants, and associated enabling infrastructure including facilities required for the receipt and delivery of gas to the plants, where the opportunities to develop renewable energy is limited; and 2) the conversion of coal-fired power plants, and the facilities or modifications associated with such conversion, which, in both cases, will result in carbon emissions of no more than 450g CO₂/kWh₂ at baseload.

CLP Group will prepare a Climate Action Finance Report on an annual basis.

For each CLP Climate Action Finance Transaction, the following will be disclosed:

- Identity of the CLP Group Business Unit that has entered into a CLP Climate Action Finance Transaction;
- Type of CLP Climate Action Finance Transaction entered into (Energy Transition Finance Transaction or New Energy Finance Transaction);
- Aggregate amounts of proceeds allocated;
- Estimation of beneficial impact of the use of proceeds; and
- The remaining balance of unallocated proceeds at the reporting period end.



Impact

The 2030 Notes were priced at a competitive rate and attracted final orders of USD1.7bn from 93 global accounts. The issue amount was moderately higher than the plan in order to cater for the very strong support by investors. The overwhelming interest from conventional and ESG investors around the world underlines the strong appetite for attractive offerings supported by quality projects despite the unique circumstance under the influence of the COVID-19. The bond achieved broad and well-balanced distribution; 49% of the final allocation went to fund managers, 25% to insurance companies, 15% to banks, 9% to government-related entities and 2% to private banks.

Assurance

CLP will engage an appropriate external assurance provider to independently assure the contents of the Climate Action Finance Report as appropriate.

Key takeaways

- Hong Kong is capable of financing innovation for greater good as demonstrated by the issuance of first benchmark USD energy transition bonds globally
- Transition bonds provide a financing alternative for high carbon sectors such as industrial companies to transition away from fossil fuels.
- It also bridges the gap between traditional and sustainable financing as businesses begin the transition to carbon neutrality.
- There are investors who are keen to diversify its portfolio beyond green.
- For credible transition bond issuance, issuers should disclose committed or expected environmental benefits and a strategy for long-term decarbonisation.

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