The Renewables Framework was presented, and these answers provided, as at 11 August 2022. The answers do not necessarily reflect the current positions taken by the Renewables Framework, which may have been updated following further internal review. Please reach out to your usual Sylvera contact, or to frameworks@sylvera.io, if you would like to discuss further.

Attendance at a Framework Review Committee meeting does not constitute an endorsement of Sylvera nor any Framework.

Framework Review Committee:

Renewables Consultation

Attendees: Anew Climate, ASOCIACION PARA LA INVESTIGACION Y DESARROLLO INTEGRAL, Bain, Biofilica Investimentos Ambientais, BRCarbon, Carbon Streming Corp., Carbongrowth, Climate Impact Exchange, ClimatePartner GmbH, Ecologi, EnBW Energie Baden-Wurttemberg AG, ENGIE, Equinor, Fauna & Flora International, GO2Markets, Morgan Stanley, Nasdaq, Permian Global, Respira, RWE Supply and Trading GmbH, Salesforce, Sasol Limited, Schneider Electric, Shell, South Pole, Volkswagen.

Question

How deeply do you look into the financials of the project to determine additionality? Do you have access to their annual reports or p/l?

Answer

The financial inputs are sourced from the project documentation and tested for reasonableness against the Sylvera dataset of regional costs, prices and hurdle rates. We are not currently sourcing corporate level parameters from financial statements as we are performing Net Asset Valuations for each project and relating corporate cash flows back to any single project would be a challenge.

Question

How much of a profit does a project need to show in order to prove additionality? Does it depend on the jurisdiction?
eg, IRR for a power plant in Somalia would likely need to be in the triple digits in order to attract investors, given the instability and risk therein.

Answer

We do not see this as binary, financial additionality exists in shades of grey

hence our 1-5 scoring. Projects which are marginally additional will score less highly than those which are clearly additional. Financial additionality is indeed a function of jurisdiction. We adjust tax rates and subsidies specific to the host country in the proprietary Sylvera Economic Model. The minimum required IRR is jurisdiction specific, and these hurdle rates reflect the various risks posed by investing in a given jurisdiction.

Question

What about non-grid connected RE?

Answer

We are looking at grid connected renewables under methodologies ACM0002 & AMS-I.D. first as this represents most of the renewables market (93%). We will also be covering non-grid connected renewables in the future; however, as yet we have no timeline for when this will be.

Question

Since your financial model is non-transparent, how do you handle things if a PD disagrees with your score?

Answer

We have a “right to respond” process as part of every rating we provide at Sylvera whereby we contact the developer and ask them if they wish to challenge any part of our rating before it is released to our clients. If required we’d be happy to share the financial model with the developers to ascertain whether the rating is fair.

Question

You say on p. 20 that "other policies or mandates to increase renewable energy are not considered to definitely lower additionality". I think it is important to consider Guarantee of Origins (GoOs) and/or Scandinavian Electricity certificates.

Answer

We certainly agree any additional source of revenue such as energy certificates is important to consider. We would add any additional revenue stream as an input to the financial model for the financial additionality test.

Question

What is the logic to have 'over-crediting' as part of additionality and not part of carbon accounting?

It would make more sense for over crediting to be in the carbon score rather than additionality (general point, not renewable specific)

Answer

We recognise that over-crediting risk is perhaps more appropriate under carbon accounting and so we plan to make this change in due course. Until we have completed the required work behind the scenes we will keep the existing structure across all our frameworks to ensure they are comparable. In order to stay consistent with our Avoided Unplanned Deforestation, Avoided Planned Deforestation, and ARR frameworks, we have bucketed over-crediting risk/strength of baseline in additionality. At present, over-crediting risk is score from 1-5, whereas carbon score is expressed as a %. In subsequent framework iterations, over-crediting risk will be integrated into carbon score so that carbon score assesses the percent of credits that were justified to be issued. Certain frameworks require further work from our machine learning and geospatial software engineering team to develop a "Sylvera baseline" (e.g., AUD) that we can incorporate into carbon score.

Question

For financial additionality, how do you differentiate between a project that has a return without CC but isn't bankable? How do you consider financial additionality when CCs are essential to make a project investment grade

Answer

Our ratings represent relative risk and, while we cannot definitively identify bankability requirements, we can highlight where a project is more or less likely to have required the additional revenue in order to be bankable i.e. in order to not only be economic, but to be an attractive investment. We have country specific minimum rate of return thresholds which represent reasonable risk-return tolerances for investing in different jurisdictions. A project must

demonstrate its economics relative to its country specific return rate. As the project must first service senior debt and then provide returns to shareholders, if a project is able to provide above threshold returns to shareholders it is able to service it's debt. The shareholder IRR test highlights the relative risk that carbon finance was required both for a project to be bankable based on economics (ie. excluding technical commercial contingencies), and to provide above hurdle rate returns to shareholders.

Question

What thresholds do you use for common practice (e.g., 5% penetration threshold?)

Answer

We will be using 5% as the threshold for common practice. We would welcome feedback from our clients on whether this should be higher or lower.

Question

Agree it would make more sense for over crediting to be in the carbon score rather than additionality (general point, not renewable specific).

Answer

This is the same answer as the similar question above. In order to stay consistent with our Avoided Unplanned Deforestation, Avoided Planned Deforestation, and ARR frameworks, we have bucketed over-crediting risk/strength of baseline in additionality. At present, over-crediting risk is score from 1-5, whereas carbon score is expressed as a %. In subsequent framework iterations, over-crediting risk will be integrated into carbon score so that carbon score assesses the percent of credits that were justified to be issued. Certain frameworks require further work from our machine learning and geospatial software engineering team to develop a "Sylvera baseline" (e.g., AUD) that we can incorporate into carbon score.

Question

In terms of co-benefits. I support that it isn't part of the overall rating (since not affecting the efficiency of the instrument to counterbalance CO2). BUT - don't you need to have a DNSH check/control?

Answer

We think this is a good idea. We are looking at ways to incorporate co-harms as well as co-benefits into our ratings.

Question

Are you able to share an early stage indication of where the projects you've reviewed so far may score?

Answer

We are about to begin scoring our projects. We are approaching our clients and asking for feedback before we start the work on our scoring matrices and finalising the scores for our initial batch of projects. We will be looking to officially make the first renewables ratings available via the application in late September and are happy to set up a call before then to discuss score dispersion.

Question

Will permanence not factor into the carbon score, or will all RE projects receive a boost compared to AFOLU projects that have reversal risks?

Answer

All renewable projects will receive a permanence score of 5 as they have no risk of reversal. We consider permanence to relate only to carbon stored within the project area. Carbon accounting aims to consider leakage, which we consider distinct from permanence, however, as we cannot relate market leakage back to a specific project area we can't include it in our project level ratings. We welcome feedback on how we can incorporate market leakage into

our ratings in the future.

Question

It seems a little reductive to always have a permanence score of 5 considering the possible lack of storage for excess RE and replacement by coal or gas (for example). Is the issue of storage and intermittence accounted for somewhere (if not in permanence)?

Answer

We consider grid power storage and intermittance to be factors relating to market leakage. Carbon accounting aims to consider leakage, which we consider distinct from permanence, however, as we cannot relate market leakage back to a specific project area we can't include it in our project level ratings. We welcome feedback on how we can incorporate market leakage into our ratings in the future.

Question

Given that willingness to pay for RE carbon offsets is relatively low, it's possible that some projects may need additional funding beside carbon credits...are you able to account for this in the financial additionality scoring?

Answer

Yes certainly. Any sources of additional revenue or government grants, tax breaks and subsidies should be included in the financial additionality modelling.

Question

Question "tagged onto" Mark's question above. Will you have some sort of maximum rating level for e.g. nature-based (with storage in biosphere + reversal risk) which would be significantly below the max rating level of a credit based on geologically storage? And also the same question regarding

distinction between avoidance/reductions vs removals?

Answer

We are yet to produce a framework for project types associated with geological storage. We welcome feedback from our client on whether a premium should be given to geological storage over biosphere storage with no risk of reversal.

Question

In the introductory slide, it states that "RES are zero-carbon emission energy sources as they generate net zero CO2 when they produce electricity" but this is avoidance credits and how does those influence net zero CO2? Does it not only influence the CO2 intensity?

Answer

Perhaps our wording could have been clearer here so apologies for that. A clearer way of saying this would be, *"RES are zero-carbon emission energy sources as they generate no CO2 when they produce electricity."* I hope this clarifies things but would welcome further discussion on this if necessary.