CEED
CENTER FOR ENERGY, ECOLOGY, AND DEVELOPMENT

POSITION PAPER ON

ADB's Draft Energy Policy

June 2021

For the consideration of the Board of Directors and Governors of the Asian Development Bank.

After over two years of engaging the Asian Development Bank (ADB) in its Energy Policy Review process, the Center for Energy, Ecology, and Development (CEED) is glad that the Draft Energy Policy published on May 7, 2021 included several recommendations from civil society. Among others, the draft includes to some extent the four main recommendations in CEED and NGO Forum's Leaving Behind ADB's Dirty Energy Legacy paper:

1. **Paris-alignment.** The Bank placed Paris-alignment as a top objective in its draft policy (pars. 28-33), in recognition of the fact that the 2009 Energy Policy is no longer in tune with the global consensus on climate change and the global transformation of the energy sector (par. 8). ADB will also support DMC in undertaking transparent and inclusive planning and policies for a just transition to a carbon-neutral economy (par. 98), an initiative sorely lacking in the previous policy and was only alluded to in EID's sector-wide evaluation.

2. **Decarbonization of the energy sector, starting with the planned and rapid phase-out of coal.** After decades of communities and civil society demanding for a coal ban, ADB has once and for all put in writing that it will withdraw financing for new coal power and heat plants and associated facilities, including modernization, upgrade, and renovation however, still under one exception (par. 43). ADB will further support DMCs in planning for early retirement of coal power plants and decommissioning of coal power plants and site redevelopment for new economic activity (par. 43). It has also extended the ban to any coal mining, oil and natural gas field exploration, drilling or extraction activities (par. 86).

3. **Promoting community microgrids and other distributed energy systems.** While its 2009 Energy Policy merely alluded to distributed energy systems as a viable alternative to oil in rural areas, ADB now commits "to support deployment of new technologies such as renewable energy based microgrids, with active participation of local communities to achieve the for last-mile electrification" (par. 51) as well as market-driven off-grid systems (par. 65). In these off-grid solutions, ADB acknowledges that community participation is vital (par. 54).

4. **Support innovative renewable energy technologies and expand modernized grid infrastructures.** ADB recognizes that the "2009 Energy Policy needs an update that considers the opportunities provided by innovative technologies and with its price dynamics, decentralized energy systems, digitalization, energy efficiency and new business models for enhancing sustainability, resilience, inclusiveness, energy access and security" (par. 8). To this end, the draft policy will support the creation of enabling policy frameworks for emerging new technologies (par. 115), and encourage utilities and transmission and distribution companies to incorporate recent advancements in grid technology that will increase grid reliability, flexibility, and resilience (par. 97).

While CEED welcomes these new policy intentions, it urges the Bank to consider the following recommendations as well:

1. **Ensure a transparent and inclusive process in the Energy Policy Review.** Apart from CSO-led dialogues with Bank executives and board members, the Bank has not published the schedules for dialogues and consultations and has not shared how it has exerted efforts to hear from frontline communities. Guidance notes that were mentioned several times in the draft policy should likewise be made available for comments in the public sphere.

2. **Align with the 1.5°C Paris goal in the entire energy sector operations.** While Paris-alignment is a top priority, the draft policy's language does not specify which temperature goal it is aligning to. At most, the draft policy implies a 1.5°C alignment when it mentioned net neutrality in relation to coal plants re-engineered to natural gas, and not to the Banks' entire energy sector operations (par. 86). It is important to specifically specify Paris-alignment to the 1.5°C Goal because warming of more than 1.5°C can save millions of people from joblessness, poverty, hunger, and disasters.

   In Par. 32, the draft policy states that ADB will rely on lists of types of projects that can be universally considered aligned or not aligned with the Paris Agreement's mitigation goals. However, for the same reasons that ADB recognizes the need for differentiated approaches to various groups of countries (par. 35), it should also recognize that the degree of scaling up plans and ambitions for renewable energy development, will depend on whether the pathway is aligned to 1.5°C or 2°C, and on a DMC's fair and equitable share to the global climate response.

3. **Withdraw from existing coal projects, not only new ones.** The draft Energy Policy indicates that the Bank will withdraw financing of new coal power and heat projects, but does not detail its plans for its existing investments in coal projects, projects which the Bank still profits from to this date (par. 43). The Bank should likewise share how it plans to close these projects from its portfolio.

4. **Include ADB-funded coal projects in the rapid and planned coal phase-out in DMCs.** Since the Bank commits to support the early retirement and decommissioning of coal power plants (par. 86), we recommend that it starts with ADB-funded coal projects. Given the Bank's familiarity with these projects and proponents, the Bank can more easily encourage and assist in the early retirement or decommissioning.

5. **Include strict monitoring, assessment, and reporting on non-sovereign operations to ensure Paris-alignment.** The draft Energy Policy aims to increase private sector lending to make it a third of ADB's lending by 2025, more than 50% of its current value (par. 37). The Bank also states that lending through financial intermediaries will align with ADB's Strategy 2030 vision (par. 28). However, the draft does not provide for the necessary safeguards to ensure this. This lack of safeguard proves to be advantageous for fossil fuel companies as it provided the likes of World Bank a means to finance coal projects through financial intermediaries. A report on World Bank's private-sector arm, International Finance Corporation (IFC), by Inclusive Development International, Bank Information Center Europe and Jakarta-based coal watchdog JATAM revealed that IFC financed a chain of commercial banks and private equity funds that in turn funded coal projects in Indonesia. This occurred under the guise of World Bank pledging to end financing of coal projects in 2013. In light of this, ADB

must shoulder additional responsibility of monitoring and assessing how its loans are utilized by its private sector clients, making sure their policy directions are linear with that of ADB's. The Bank's capital should not be accessible to clients that would potentially undermine the Bank's energy policies and use it to finance fossil fuels and other carbon-intensive projects.

6. **Expand the coal ban and coal phase-out policy to all fossil fuels, and scale-up plans for renewable energy development.** While the Bank prioritizes Paris-alignment and underscores the urgent action to combat climate change, the Bank only bans financing for coal and explicitly supports a planned and rapid phase-out of coal in its DMCs and not for all fossil fuels (par. 43). The Bank also mentions the re-engineering of coal plants to use fossil gas (par. 86), promotion of investment in fossil gas network infrastructure (par. 45), and five conditions for financing gas projects (par. 87).

   As we have learned from its 2009 Energy Policy, a permissive language on coal has allowed many coal projects to go online, with the vital help and support of ADB. And as ADB is a massive financier of fossil gas projects in the region for the past decade, it has the responsibility to adopt a strong position on all fossil gas projects moving forward. The Net Zero by 2050 Report by the International Energy Agency (IEA) elaborates on necessary actions to achieve net-zero CO_2 emissions by 2050, consistent with limiting global temperature rise to 1.5°C. According to the report, achieving these milestones require decarbonization across all fossil fuels and the rapid development of renewable energy technologies to maximize emissions reduction.

   For the Bank to better align itself towards the 1.5°C Goal, we recommend a full withdrawal from financing all fossil fuel projects and prioritize financing for renewable energy projects through scaling up existing plans and ambition for renewable energy development. ADB should close its doors to any conditions that would permit further fossil gas financing and let other financial entities pursue gas financing when it is necessary and economically viable. This would entail adjustment of its position on fossil gas and removing the conditions that state possible scenarios where fossil gas can be financed.

7. **Impose a higher shadow carbon price of at least 100USD/tCO_2, coupled with a faster and higher rate of increase.** A more stringent shadow carbon price will be important especially if the Bank retains financing for new gas projects. The suggested carbon price is still currently set at 36.3 USD/tCO2 with a 2% annual increase (par. 33). This is the same price that ADB adopted in its revised Guidelines for the Economic Analysis of Projects released in March 2017. ADB cites the IPCC's Fifth Assessment Report as reference, a report published prior to the IPCC's Special Report on Global Warming of 1.5°C, which found a robust difference in climate impacts and associated risks, and emissions pathways and system transitions, between 1.5°C and 2°C global warming.

   If global and regional consensus on the social cost of carbon is considered, the Bank should note that 36.30 USD/tCO_2 is among the lowest carbon prices imposed by MDBs, which are in the upper range of mid 55 USD/tCO2. The European Investment Bank (EIB) sets its shadow carbon price at 96.88 USD/tCO2 for the period of 2020 and would rise to 968.78 USD/tCO2 by 2050.

   The High Level Commission on Carbon Prices in fact suggests that the explicit carbon-price level consistent with achieving the Paris 2°C temperature target is at least USD

50–100/tCO2by 2030. To approximate the cost that is closer to achieving the 1.5°C goal, we recommend at least 100USD/tCO2 by 2030 as the baseline, with a determined faster and higher rate of increase until 2050.

8. **Abandon false solutions that would only prolong the energy transition.** In the draft policy, ADB mentions several false solutions such as CCUS, WTE, emissions-trading and other international offset mechanisms. We invite the Bank to reconsider support for these technologies and listen to the many communities and organizations opposing these projects on the ground. In its Leaving Behind ADB's Dirty Energy Legacy, CEED has also expounded on the reasons for abandoning support for these technologies.

9. **Support and assist DMC's in assessing the real impacts of privatization and deregulation in their energy sectors.** ADB pursues the development of competition and private sector participation, which supposedly often leads to higher operational efficiency, cost-effectiveness, and better responsiveness to customer needs (par. 109). In the Philippines, ADB in fact assisted the government in restructuring and privatizing the power industry through the enactment of the Electric Power Industry Reform Act of 2001 (EPIRA).

   After 20 years of EPIRA this month, real competition in the power sector was not achieved. Only 5 corporations own at least 73% of the total installed capacity in the country. In terms of reliable electricity supply, the biggest island in the country is currently facing rotating blackouts due to inefficient services and unplanned outages from conventional power generation. All the while, legislators and regulators are inutile in addressing these issues. The Department of Energy (DOE) and Energy Regulatory Commission (ERC) failed to strictly implement its Stringent Rules on Outages, and hold generation companies accountable for the yearly Red and Yellow grid status alerts.

   Lastly, electricity rates in the country did not decrease. According to the Global Retail Electricity Tariff Survey conducted by the International Energy Consultants, the Philippines ranked 2nd in Asia, and 24th globally in terms of expensive electricity prices. Furthermore, the 37th EPIRA Implementation Status Report revealed that the country's average electricity rate in 2020 is its highest in the last 3 years.