

'Second Opinion' on Aligera's Green Bond framework

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Summary

Overall, Aligera's Green Bond Framework and environmental policies provide a progressive, clear and sound framework for climate-friendly investments. Only wind power projects are eligible under the framework. These projects are supportive of the objective of promoting a transition to low-carbon growth. Aligera's policies support regular and transparent updates, including examples of project achievements to investors and the public.

Based on an overall assessment of the projects that will be financed by the green bond, and governance and transparency considerations, Aligera's Green Bond Framework gets a dark green shading.

1. Introduction and background

As an independent, not-for-profit, research institute, CICERO (Center for International Climate and Environmental Research - Oslo) provides second opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The second opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered during meetings, teleconferences and e-mail correspondence with the client.

CICERO has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for second opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for second opinions. In addition to CICERO, ENSO members include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. CICERO encourages the client to make this Second Opinion publically available. If any part of the Second Opinion is quoted, the full report must be made available.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO does not validate or certify the climate effects of single projects, and, thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor for the outcome of investments in eligible projects.

This note provides a Second Opinion of Aligera's Green Bond Framework and policies for considering the environmental impacts of their projects. The aim is to assess Aligera's Green Bond Framework as to its ability to support Aligera's stated objective of low-carbon and climate resilient growth.

Climate change will have a significant impact on economic development, both from the perspectives of sustainable future development pathways and from the perspective of adapting to changing circumstances. The recently released Intergovernmental Panel on Climate Change report (IPCC, 2013) on the physical science of climate change highlighted the seriousness of human-induced climate effects. The report can be viewed as an immediate call to action on the challenge of reducing greenhouse gas (GHG) emissions. The 195 countries that have ratified the United Nations Framework Convention on Climate Change (UNFCCC) have agreed to reduce GHG emissions to limit global temperature increase to below 2°C above pre-industrial level. Reaching this target requires shifting development pathways towards low- or zero-emitting economies without delay, and avoiding locking-in high-emitting capital.

CICERO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments, and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this second opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with 'shades of green'

CICERO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society.

This second opinion will allocate a 'shade of green' to the green bond framework of Aligera:

- Dark green for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- Medium green for projects and solutions that represent steps towards the long-term vision, but are not quite there yet.

- Light green for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil based processes).
- Brown for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations also factor in, as they can give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework.

2. Brief description of Aligera's Green Bond framework and environmental policies

Aligera is a renewable power producer focusing on onshore wind farms in Sweden. Aligera Group comprises the parent company Aligera Holding AB and four subsidiaries. Aligera's wind power portfolio consists of 14 wind turbines in Southern Sweden at a total effect of 35 MW, with an expected annual production of 97 GWh. Revenue is derived from sale of power, sale of green certificates, and sale of guarantees of origin of power.

Aligera's investment framework includes lending to eligible projects that target mitigation of climate change through financing wind turbines. Aligera's green bonds are planned to finance new projects (73 %) and the remaining to refinance existing debt (27 %).

This second opinion is based on documents received from Aligera listed in Table 1, and conversations and discussions with representatives from the company, including clarifications.

Table 1. Documents received from Aligera.

Ref. nr.	File name
1.	Aligera's Green Bond Framework
2.	Aligera Senior secured Green Bond of maximum SEK 500,000,000, April 2014, presentation
3.	Aligera Delårsrapport Q1 2015, 1 januari – 31 mars
4.	Aligera Holding AB (publ) related to listing of SEK 400 mill. Senior secured floating rate bonds due 7 May 2019
5.	Årsredovisning 2014, Aligera Holding AB (publ)
6.	Aligera Code of Conduct, 2014-01-25

Selection of Eligible projects

Aligera’s CEO together with the Financial Department select projects that comply with Eligible Project criteria and thus shall be financed from proceeds of the Green Bond.

Transparency

To enable investors to follow the development and provide insight to prioritised areas, Aligera will provide an annual report that will be included in quarterly reports and made publicly available at Aligera’s web page. The information will consist of a list of projects financed, a selection of project examples, and a summary of Aligera’s Green Bond developments.

3. Assessment of Aligera’s Green Bond framework and environmental policies

Governance capacity and structure

Aligera documents through their environmental policies and strategies that environmental impacts and concerns are integrated into its operations. Suppliers are involved in the sustainability and environmental considerations. Precautions are taken to prevent damages on wildlife and surrounding nature. Only personnel and contractors with a long track record proving compliance with requirements and environmental and other laws are hired. The UN Global Compact 2000 is followed.

Eligible projects under the Green Bond framework

The eligible projects listed in the Green Bonds framework are supportive of Aligera’s identified objective of promoting a transition to low-carbon and climate-resilient growth, see Table 2.

Table 2. Likelihood of meeting objectives of a low carbon and climate change resilient future.

Eligible project types		Likelihood of meeting objective
• Renewable energy	Wind power	• Dark Green.

Strengths

A strong emphasis on environmental aspects, including climate impacts, of investment decisions is well integrated in the company profile and its activities. The Green Bond Framework and strategy fits well into this picture.

Aligera's CEO together with the Financial department analyse all current projects of the Aligera Group and recommend projects that comply with Eligible Project criteria and thus shall be financed from proceeds of the Green Bond.

Aligera evaluate environmental risks for each project that are considered for financing under the green bond framework. Environmental impact and requirements are evaluated and supervised at all stages of the project development, including supervision of subcontractors.

Weaknesses

There are no specific weaknesses in Aligera's Green Bond Framework.

Pitfalls

Beyond the consideration of specific project types, it is important to evaluate the potential for macro-level impacts of climate activities.

Impacts beyond the project boundary

Due to the complexity of how socio-economic activities impact the climate a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be environmentally friendly, and thus need to be considered with regards to the net environmental impacts of investments. Life-cycle perspectives and supply chain considerations are helpful in that regard.

Rebound effects

Another macro-level concern is the potential for rebound effects. This can occur when emission reductions result in a net increase in emitting activities. For example, energy efficiency improvements that lower energy costs, inducing more energy use and partially offsetting energy savings. This can have the end result of lower reduction in emissions than anticipated. While these effects can never be entirely avoided, it is recommended to be aware of possible rebound effects and avoid investing in projects where the risk of such effects is particularly high. We cannot see that the risk for substantial rebound effects is high in the case of Aligera's Green Bond framework.

Transparency and monitoring, reporting and verification

The reporting and validation procedures are described well in the Green Bond framework and other documents. We encourage that project achievements are evaluated by independent verifiers and according to procedures included in established environmental and project management systems.

Aligera's policies support regular and transparent updates to investors and the public. Aligera Group will annually issue a Green Bond investor letter including a list of the projects financed from Green Bond proceeds, as well as examples of project achievements, and Green Bond developments. This information will be publicly available on the web.

References

IPCC (2013). Climate Change 2013: The Physical Science Basis, Fifth Assessment Report, Intergovernmental Panel on Climate Change.