S&P Global Ratings

Powered by **Shades of Green**

Second Party Opinion

NextEnergy Capital Green Finance Framework

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Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

Strengths

NextEnergy Capital (NEC) is a solar energy investment firm with granular supply chain management for the projects acquired by the funds it manages. NEC's Supplier Code of Conduct and its Sustainable Investment Policy govern its supply chain engagement, which includes transaction-level assessments, direct engagement, and traceability audits.

NextEnergy Group has committed to achieve carbon neutrality in 2024, a timeframe that we see as ambitious. The scope of this commitment excludes financed emissions from NextEnergy Capital's funds. NextEnergy Group will prioritize emissions mitigation strategies and will offset the carbon emissions it is not able to mitigate.

Weaknesses

No weakness to report.

Areas to watch

Solar photovoltaic (PV) assets can have adverse effects on local nature and biodiversity. NEC's managed funds finance projects in nine countries, some with a high level of biodiversity. NEC's NextPower V fund is currently developing a nature strategy that aims to mitigate these risks in the construction/supply chain, operational, and end-of-life phases for all projects. NEC is also an early adopter of the recommendations from the Taskforce on Nature-related Financial Disclosures (TNFD), and its nature conservation targets await validation to align with the Science Based Targets Network.

Expenses related to managing the fund are an eligible use of proceeds under the framework. Furthermore, temporary management of proceeds under the framework can include debt repayment. We expect minimal fund-related expenses and debt repayment, and both would still support NEC's funds' solar infrastructure investments.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Renewable Energy	**Dark green**
Development, deployment, maintenance, and generation of energy from renewable sources, including ancillary infrastructure	
Proceeds used for the purposes of financing acquisition premiums, construction-related capital expenditures, and other costs directly associated with bringing greenfield investments into operating brownfield sites	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Founded in 2007, NextEnergy Capital (NEC) is a subsidiary of the NextEnergy Group, a specialist solar investment and asset manager based in London. NEC is the group's global investment manager in the solar energy infrastructure sector, and the firm invests in solar energy and complementary technologies that facilitate the transition to clean energy, including energy storage. NEC currently has $4 billion in assets under management, has invested in 461 utility-scale solar projects since inception, representing an installed capacity of over 1.7 gigawatts (GW) across the U.K., Europe, North and South America, and Asia. The solar project of the funds managed by NEC provide solar energy to local grids or power purchasers where the projects are located.

Material Sustainability Factors

Climate Transition Risk

Power generation is the largest direct source of greenhouse gas emissions globally, making this sector highly susceptible to growing public, political, legal, and regulatory pressure to accelerate climate goals. Public awareness of the urgency for climate action has reached a turning point. As such, policymakers and regulators are more often pushing for faster transition to lower-carbon energy, especially as these technologies become more mature and cost competitive. Over the past decade, we have seen multibillion-dollar fines for the most-polluting assets, reflecting their weaker economic parameters as taxes increase and new, cleaner technologies displace them. In addition, more stringent decarbonization rules sometimes restrict their license to operate. The number of countries announcing pledges to achieve net-zero emissions over the coming decades continues to grow. With no direct emissions, renewable energy technologies play a vital role in reducing emissions associated with power and heat and keeping the global temperature from rising more than 1.5 C.

Physical Climate Risk

Investment managers finance a wide array of business sectors exposed to physical climate risks. Events are typically localized, so the magnitude of exposure is linked to the sites of activities and assets. We expect these dynamics to continue but vary regionally depending on regulatory responses. Power generators have fixed assets, leaving them relatively more exposed to physical climate risks than other sectors. For stakeholders, extreme weather (including wildfires, hurricanes, and storms) is becoming more frequent and severe and can result in power outages for large populations. This drives players to enhance asset resilience, as does regulatory pressure to preserve supply security.

Biodiversity and Resource Use

Investment managers contribute to sizeable resource use and biodiversity impact through the activities they fund or invest in. Renewable power, while expanding to meet climate goals, often requires large land areas in potentially sensitive habitats where they can alter ecosystems, harm threatened species, and compete with other valuable land uses (e.g., agriculture). The energy transition also relies on critical raw materials, and mining them may change land use and cause biodiversity loss. Awareness over the link between biodiversity and global productivity is increasing and is a material risk for power generators and, in turn, their investors.

Issuer And Context Analysis

The framework's eligible project category directly addresses climate transition risk, which we view as the most relevant sustainability factor for NEC. All of the power produced from the projects in NEC's managed funds are either connected to the local grid or subject to power purchase agreements (PPAs), increasing local availability of renewable energy. All PPAs will be subject to NEC's standard ESG due diligence process. NEC's managed funds invest strictly in solar energy and complementary technologies, including energy storage, transmission lines, and substations.

The entire NextEnergy Group has set a range of policies to reduce environmental risks and impacts across its value chain. NextEnergy Group comprises NextEnergy Capital, as well as a specialized asset manager (WiseEnergy), asset developer (Starlight), venture capital sustainability accelerator (NextSTEP), and international charity (NextEnergy Foundation). These companies cover all stages of the solar value chain, including construction, operational management, and decommissioning, which we believe allows them to have a holistic understanding of the full range of potential sustainability risks, differentiating NextEnergy Group from other renewable investment firms. Through their investments, the managed funds avoided 475,000t CO2e in 2021 and powered more than 280,000 homes across nine countries. The company assesses climate impacts and benefits of all assets annually and provides life-cycle analysis of each individual asset in the portfolio from an emission-avoided perspective. This information is then aggregated and reported at the portfolio/fund level. NextEnergy Group has committed to achieving net zero emissions by 2024 using verifiable offsets, excluding financed emissions. For 2023-2024, the offsets will be carbon removal credits connected to the Myanmar Mangrove Restoration Project.

NEC assesses acute and chronic physical climate risk as part of its ESG due diligence process, using a proprietary asset screening tool. The company is developing an agrivoltaics project in Italy that combines a utility-scale solar asset with sustainable agriculture, and it has identified other adaptation opportunities, such as water recycling solutions at solar farms prone to drought and small-scale wetlands around installations to mitigate flooding. Existing assets are subject to at least an annual review through recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). Physical and transitional risks from short to long term are considered in reference to the Intergovernmental Panel on Climate Change's (IPCC) climate profiles and scenarios. The company plans to report in line with the International Sustainability Standard Board's (ISSB) IFRS S2 standard.

NEC recognizes its operations can impact local biodiversity and nature and has developed a Biodiversity Position Statement (BPS) to outline its objective to develop a set of biodiversity targets. Nature is one of the three pillars of the entity's sustainability framework, and the BPS commits to developing performance indicators, an action plan, and measurable biodiversity targets that will align with the Taskforce on Nature-Related Financial Disclosures (TNFD) and the EU Sustainable Finance Disclosure Regulation (SFDR). NEC is an early adopter of the TNFD recommendations in their corporate reporting and has formally expressed interest in submitting science-based targets for nature following the release of Version 1 of the Science-based Targets Network standards. The NextPower V fund is in the process of developing a nature strategy that will define the fund's nature-related goals across the entire lifecycle for eligible projects, from material sourcing through decommissioning. NEC has also committed to not investing in projects that would risk impacting areas with high conservation values, such as UNESCO World Heritage Sites or areas with endangered species.

NEC successfully manages supply chain risks around raw material extraction and use through its ESG due diligence process, which assesses potential suppliers based on product and material origins and embedded carbon emissions, among other factors. NEC's ESG and Construction and Procurement teams assess each potential transaction for supply chain risk, which includes reviewing engineering, procurement, and construction (EPC) and operations and maintenance (O&M) contractors at the pre-investment stage. NEC aims to increase the visibility of its supply chain by conducting direct engagement and traceability audits of suppliers. The process also incorporates third-party life-cycle analysis documentation of key material equipment types. We believe these strategies enable the company to effectively manage its upstream sustainability risks and can promote supply chain best practices across the industry.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade, and the issuer commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds. The project categories include solar energy and complementary technologies, including energy storage, transmission lines, and substations. Additionally, net proceeds will also finance costs related to fund expenses, acquisition premiums, due diligence, advisor costs, and construction-related capital expenditures, primarily for solar plants or energy storage systems.

✓ Process for project evaluation and selection

The process for evaluating and selecting potential eligible projects lies with NextEnergy Group's ESG team. However, NEC's Investment Committee provides final approval of eligible projects that comply with NEC's ESG criteria. The NEC Investment Committee--comprising of the Head of ESG, senior leadership, and C-suite management members--is also the final decision maker, which we view as a strong market practice.

NEC conducts due diligence of all potential eligible projects and seeks to identify and manage potential environmental and social risks associated with these projects, in accordance with International Finance Corporation (IFC) performance standards and the Equator Principles. The issuer also aims to identify appropriate mitigating and adaptative actions if due diligence highlights risks with the eligible projects.

✓ Management of proceeds

NEC intends to allocate the proceeds issued under its framework to eligible projects that contribute to climate change mitigation. The allocation will be monitored using an internal tracking system. We understand the loan will only be drawn down when acquisition or investment in an eligible project is confirmed; hence, unallocated proceeds will be minimal. If the drawdown from net proceeds is higher than investments in eligible projects, the funds managed by NEC will hold proceeds in cash for six months, after which the unallocated amount will be used to repay debt.

✓ Reporting

NEC commits to annual allocation and impact reporting until full allocation. The report will include a brief description of projects at portfolio level, including location, types, and sector of the companies, amount financed, and unallocated proceeds. For impact reports, metrics include greenhouse gas emissions reduced/avoided and energy generation in megawatt-hours (MWh) or gigawatt-hours (GWh). The framework includes a commitment to provide information on methodology and assumptions used to evaluate the impacts. Nonetheless, we note that NEC does not commit to a third-party audit of its allocation reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

NEC's Green Finance Framework will apply to all funds managed by the entity, including NextPower V and its subsidiaries. NextPower V is NEC's most recently launched Article 9 fund focused on solar energy and complementary technologies. The fund is targeting capital commitments of $1.5 billion with a $2 billion ceiling, and currently has a size of $745 million.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in NextEnergy Capital's Green Finance Framework, we assess the framework as Dark green.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

Green project categories

Renewable Energy

Assessment	Description
Dark green	Development, deployment, maintenance, and generation of energy from renewable sources, including ancillary infrastructure, including, but not limited to, development of land transmission lines and substations for each renewable energy project. Proceeds used for the purposes of financing acquisition premiums (as well as the associated due diligence and advisor costs), construction related capital expenditures, and other costs directly associated with bringing greenfield investments into brownfield sites.

Analytical considerations

- Renewable energy projects, such as solar PV and concentrated solar power (CSP), wind, and hydroelectric, are key to limiting global warming to well below 2 C, provided their negative impacts on the local environment and physical risks are sufficiently mitigated.
- Eligible investments under this framework include solar projects and their associated equipment and components, as well as battery storage systems. These investments support the Paris Agreement modelled pathways, which imply that almost all electricity is supplied from zero- or low-carbon sources by 2050. In addition, the company has policies to address physical risks, impacts on biodiversity, and circularity in the solar value chain through its Sustainable Investment Policy and Responsible Supply Chain Approach. As a result, we assign a shade of Dark green to these projects.
- Renewable energies like solar PV are vital to a low-carbon future, but their infrastructures, which typically have an extended footprint, can affect local biodiversity and be subject to physical climate risks if not managed property. All projects financed under the framework are subject to an ESG due diligence process that evaluates the impacts and opportunities of all potential transactions and includes considerations around biodiversity, in line with the Kunming-Montreal Global Biodiversity Framework. This process aligns with the IFC Performance Standards and the Equator Principles and contributes to creating an asset-specific environmental action plan for the construction, operation, and decommissioning stages of the assets in question. In addition, the funds that NEC manages do not knowingly invest in solar plants where there is evidence of harm to endangered and critically endangered species, or critical habitats identified on the Red List of the International Union for Conservation of Nature.
- The funds managed by NEC currently invest in solar assets in eight countries (Italy, the U.K., Portugal, the U.S., India, Chile, Poland, and Spain), exposing the portfolio to a range of physical climate risks. If the due diligence process identifies exposure to physical climate risks for any asset, NEC will review further, which may involve third-party tools or specialists to identify mitigating actions.

- Transmission lines and substations are eligible uses of proceeds under the framework, and NEC has clarified that this ancillary infrastructure would be dedicated connections to eligible solar assets. Energy storage solutions can help mitigate the volatility of renewable energy systems, including solar, against climate risks such as extreme changes in weather. These investments therefore contribute to a low-carbon and climate-resilient future, supporting the Dark green shade. That said, mining lithium and other ingredients used in batteries (e.g., cobalt and nickel) can have severe environmental impacts due to extensive digging, and highly toxic and water-intensive production processes. However, we note that NEC assesses these risks as part of their supply chain due diligence process.
- NEC's supply chain due diligence process for solar PV modules and battery energy storage systems includes a proprietary tool that assesses product and material origins, upstream impacts on nature, and emissions profiles, including embedded emissions of manufacturing processes for suppliers, which we view positively. If a supplier does not meet NEC's standards, NEC seeks to engage with the entity to promote transparent and sustainable practices. This can include third-party traceability reports and audits, as well as in-person visits to supplier sites.

S&P Global Ratings' Shades of Green

	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Renewable energy	**7. Affordable and clean energy***	**9. Industry, innovation and infrastructure***	**13. Climate action**

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

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