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Second Party Opinion

Brookfield Renewable's Green Financing Framework

Jan. 4, 2024

Location: Canada

Sector: Power Generators

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See [Alignment Assessment](#) for more detail.

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**Medium
green**

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our [Shades of Green Analytical Approach](#) >

Strengths

Brookfield's renewable projects will help facilitate the decarbonization of the energy sector. We believe projects financed under this framework will contribute positively by expanding the company's footprint in a variety of green generation assets.

Project evaluation and selection benefits from the company's robust risk management frameworks. The company conducts comprehensive environmental and social risk analysis, including a publicly reported physical risk mitigation process against which it screens all material assets.

Weaknesses

No weaknesses to report.

Areas to watch

Many renewable technologies rely on inputs from value chains in geographies with weaker environmental and social protections. While the company conducts supplier due diligence in accordance with its risk management policies, raw materials used in solar panels, nuclear power generation, and other technologies may create negative environmental and social externalities in the area in which they are extracted.

There are environmental risks associated with the construction of some large energy infrastructure projects. The company has robust environmental risk management policies and operates in jurisdictions with developed environmental regulation, but there are land use tradeoffs to consider when building new assets.

Eligible Green Projects Assessment Summary

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

Renewable energy	  Dark to Medium green
Hydropower	
Solar energy	
Onshore and offshore wind energy	
Bioenergy (biomass) energy	
Non-fossil gaseous and liquids fuels	
Ocean energy technologies	
Green hydrogen	
Geothermal energy	
Nuclear energy	
Energy efficiency	 Medium green
Industrial efficiency: Manufacture and installation of energy efficient equipment and technologies	
Energy storage: Construction and operation of large-scale electricity storage (e.g., batteries, pumped hydro storage) that store electricity and return it at a later time in the form of electricity	
Building energy efficiencies: Efficient water usage, waste management, and energy consumption	
Building energy efficiencies: Energy efficiency and low carbon processes using renewable energy	
Building energy efficiencies: Retrofitting existing buildings to improve efficiency	
Circular economy adapted products, production technologies, and process	 Medium green
Collection and treatment of sewage and waste: Domestic waste and commercial waste recycling facilities	
Pollution prevention and control	  Dark to Medium green
Developing, expanding, or acquiring direct-air carbon or methane capture and storage projects	
Reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, and waste reduction	

Clean transportation	 Dark green
Electric or hydrogen vehicles and charging stations	
Electrified rails, trams and buses and charging stations	

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

Toronto-based Brookfield Renewable owns and operates renewable and transition assets. It generates approximately 62% of its revenue in North America, with Latin America and Europe contributing 20% and 16%, respectively. Presently, Brookfield derives 53% of its revenue from hydroelectricity, 20% from wind power, 15% from large-scale utility solar, and 12% from distributed energy and sustainable solutions. Brookfield Renewable is 60% owned by Brookfield Corp., an asset manager and REIT firm that focuses on real estate and infrastructure investments.

Material Sustainability Factors

Physical climate risk

Power generators have fixed assets, leaving the company relatively more exposed to physical climate risks compared with other sectors. For stakeholders, extreme weather events (including wildfires, hurricanes, and storms) are becoming more frequent and severe and can result in power outages for large populations. Water is often a significant resource for hydro, nuclear, and fossil-fuel based power plants, so exposure to flooding, drought, or warmer temperatures can also negatively affect operations. These dynamics, coupled with regulatory pressure to preserve security of supply, are driving players to enhance their assets' resilience. The physical climate risks generally involve significant financial losses for operators due to repairs, but more importantly from exposure to extreme spikes in prices or claims due to business disruption. We expect these dynamics to continue but vary regionally depending on regulatory responses.

Climate transition risk

Power generation is the largest direct source of greenhouse gas emissions globally, making this sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate climate goals. Public awareness of the urgency for climate action has reached a turning point. In turn, 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 impairments for most polluting assets, reflecting their weaker economics as taxes increase and they are displaced by new, cleaner technologies. In addition, more stringent decarbonization rules may 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 have a vital role to play in reducing emissions associated with power and heat, which will be vital for limiting global temperature rise to 1.5C.

Impact on communities

The need for renewable power development related to climate goals intensifies the materiality for stakeholders. Sites with high renewable potential are often in or near communities including indigenous groups, which can prompt strong local opposition.

Biodiversity and resource use

Renewable power, while growing to meet climate goals, requires large land areas that are often in sensitive habitats where they can alter ecosystems, harm threatened species, and compete with other valuable land uses (e.g., agriculture). The sector also contributes to biodiversity loss through its climate impact. Growing awareness over biodiversity's link to global productivity, coupled with significant biodiversity loss through its climate impact. The energy transition also relies on critical raw materials, and growing demand introduces scarcity risks that could stall climate goals.

Issuer And Context Analysis

The eligible project categories relate directly to Brookfield Renewable's mission. The company's goal is to "accelerate the world towards a sustainable, low-carbon future." The projects financed under each category of the framework will support its decarbonization and renewables expansion targets, with most projects contributing directly or indirectly to renewables development or technology enablement of renewable or low-carbon solutions. The financing's renewable energy, energy-efficiency projects, clean transportation, pollution prevention and control aim to address climate transition risk, a material sustainability factor for Brookfield and the broader power generation sector.

Brookfield Renewable has set targets to reduce operational and portfolio emissions that ultimately result in net-zero emissions in their businesses by 2030. As a renewable energy company, its commitment in investing in only clean technologies directly addresses its climate transition risks.

- Achieve net-zero scope 1 and 2 emissions in existing renewable operations by 2030. We note that this goal does not include scope 3 emissions. However, Brookfield does have a separate goal to have a scope 3 goal in place by 2030.
- Double its clean energy capacity by 2030, resulting in 21,000 MW more of new clean energy capacity.

Brookfield Renewable has been reporting sustainability metrics separate from its parent company since 2019. Brookfield follows the Greenhouse Gas Protocol (GHG) Protocol for emissions calculations and is also aligned with Task Force on Climate-Related Financial Disclosures (TCFD), Global Reporting Initiative (GRI), and Sustainability Accounting Standards Board (SASB). This historical reporting shows their Scope 1 and 2 emissions intensity has been decreasing, citing the use of renewable energy to power their assets and offices. Most recently, Brookfield started to report their Scope 3 emissions related to construction of new renewable energy and storage capacity, which we see as a material metric to track.

To address its physical risks, Brookfield has performed scenario analysis on each of its assets. Brookfield currently has in place or is in the process of developing climate change mitigation and adaptation plans for assets with high or moderate climate risks by these assessments. Additionally, Brookfield reported its results in its annual ESG Report according to principles of the TCFD and incorporates climate risk into due diligence, internal monitoring and reporting processes. In addition, physical climate risk is a relevant risk in the context of the framework, since some of the project categories, specifically renewable energy, are highly exposed to the impact of a changing climate.

The nature of the renewables business introduces risks to biodiversity and land use, along with Brookfield's relationship with local communities. The company has procurement policies for sourcing and due diligence processes for new investments that considers social risks. When considering new investments or building new facilities, Brookfield conducts assessments and due diligence to identify local stakeholders. According to Brookfield, the company consults and works proactively with them to ensure their interests are appropriately integrated into the decision making. Brookfield manages resources by, for example, developing water management plans for hydropower facilities that takes input from local and indigenous communities.

Alignment Assessment

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

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA, 2023

✓ Use of proceeds

We assigned green shades to all the framework's green project categories and the issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green projects. Brookfield Renewable will allocate an amount equal to the net proceeds from instruments issued under its green framework to finance projects aimed at promoting the transition to a low-carbon economy. The project categories include renewable energy, energy efficiency, circular economy, pollution prevention and control, and clean transportation projects. The framework allows a variety of financing instruments within its scope, such as bonds, debentures, and loans; it also expressly excludes instruments which fall outside the Principles' scope.

✓ Process for project evaluation and selection

In the framework, Brookfield Renewable clearly communicates the process by which it evaluates and selects projects and determines how the projects fit within the eligible project categories. Brookfield Renewable provides information on processes by which it identifies and manages perceived social and environmental risks associated with the eligible projects. This process includes physical risk assessment performed on all of its assets. The eligibility of investments will consider factors such as financial, technical/operating, market, legal, and environmental, social and governance (ESG) risks. In addition, Brookfield Renewable's Code of Business Conduct and Ethics and Health, Safety, Security, and Environmental Policy and ESG Policy set forth principles to guide behavior and standards that will inform the evaluation.

✓ Management of proceeds

Brookfield Renewable commits to allocating the proceeds issued under its green financing framework to assets in its green portfolio. The allocation of net proceeds will be tracked to ensure that they support only the financing of eligible projects. The proceeds will be deposited to Brookfield Renewable's general account. An amount equal to the net proceeds will be earmarked for allocation to eligible investments. The company will establish a Green Financing Register to record the allocation of the net proceeds to eligible investments on an ongoing basis. This register will be reviewed annually by Brookfield Renewable's capital markets and treasury team.

✓ Reporting

Brookfield Renewable commits to publishing an allocation report annually on its website until full allocation of proceeds. This report will include a description of the projects at the category level, the net proceeds from the green bond issuances, the aggregate amounts of proceeds allocated to each eligible category, and the balance of unallocated proceeds at the time of reporting. In addition, the issuer will report the actual environmental impact of projects until full allocation. We view positively that Brookfield Renewable intends to appoint a qualified independent third party to provide assurance over the allocation of proceeds to eligible investments as defined in the framework.

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.

For each financing under the framework, Brookfield Renewable expects to allocate the proceeds in line with its business expansion plans. It will likely allocate most of the financing to renewable energy projects but this could vary considerably for each transaction.

The eligible assets will include those for which the company has commenced operations or placed in service prior to the applicable sustainable financing, unless otherwise noted in the respective financing documents.

Overall Shades of Green assessment

Based on the project categories detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in the Green Financing Framework, we assess the framework to be Medium green.

Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

[Our Shades of Green Analytical Approach >](#)

Green project categories

Renewable energy	
Assessment	Description
Dark to Medium green	Investments that help supply energy from renewable and low-carbon sources including the design, development, acquisition, construction, operation, transmission, distribution, maintenance, repowering, refurbishment, and modernization of: - Hydropower (hydroelectricity) - Run-of-river hydroelectricity facilities - Other hydroelectricity facilities. Other hydroelectricity facilities refer to investments in hydroelectricity facilities that are > 25 MW. In these cases, Brookfield will assess the size, location, carbon intensity scoring and risk (including environmental and social risks) associated with the investments. The company will screen out investments that have carbon emissions of ≥ 100 gCO₂e/kWh and/or reservoir power density of < 5 W/m². The company's assessment will be subject to a separate project level green evaluation by a reputable third party. - Solar energy - Electricity generated from utility solar facilities - Distributed generation from solar for commercial and residential real estate use - Onshore and offshore wind energy - Electricity generated from wind power - Bioenergy (biomass) energy - Electricity generated exclusively from biomass, biogas or bioliquids (including from agricultural activities, forest biomass) - Biomass generation feedstock will be limited to sources that do not deplete existing terrestrial carbon pools, such as agricultural or forestry residue

- Investments in these technologies/processes will seek to consider specifications in alignment with activity level technical screening criteria for climate mitigation as recommended within the EU Taxonomy
5. Non-fossil gaseous and liquid fuels
- Manufacturing of biofuel and renewable natural gas
 - Investments in these technologies/processes will seek to consider specifications in alignment with activity level technical screening criteria for climate mitigation as recommended within the EU Taxonomy
6. Ocean energy technologies
- Electricity generated from ocean energy (e.g., tidal power)
7. Green hydrogen
- Production of green hydrogen
 - Investments in these technologies/processes will seek to consider specifications in alignment with activity level technical screening criteria for climate mitigation as recommended within the EU Taxonomy
8. Geothermal energy
- Electricity generated from geothermal
 - Investments in these technologies/processes will seek to consider specifications in alignment with activity level technical screening criteria for climate mitigation as recommended within the EU Taxonomy
9. Nuclear energy
- Nuclear power facilities
 - Electricity generated from nuclear power
 - Research and development of advanced technologies for nuclear power generation and/or the secure management/storage of radioactive waste

Analytical considerations

- Renewable energy is a key element in a low-carbon energy sector, but it can affect biodiversity in project areas.
- Hydropower can entail significant emissions from construction and from water reservoirs. It is therefore positive that a threshold for lifecycle emissions or power density is included for plants that are not run-of-river (without reservoirs). Biomass generation feedstock can deplete existing terrestrial carbon pools. It is therefore positive that Brookfield notes that their biomass generation feedstock will be limited to sources that do not deplete existing carbon pools. With nuclear-related activities, there are unresolved issues around the long-term storage of nuclear waste and uranium sourcing impacts though adherence to strict regulatory protocols supports adequate management of these issues.
- Renewable energy projects entail construction and lifecycle emissions. Brookfield aims to limit these emissions, for instance, Brookfield's hydropower projects >25 MW will have emissions equal or less than 100g CO₂e/kwh. For nuclear activities, there are remaining uncertainties with social and environmental issues in the nuclear supply chain.
- Given the ongoing and future impacts of a changing climate, physical risk assessments, which Brookfield undertakes, are necessary for compressive asset and capital planning especially for hydroelectric generation assets.
- Hydropower can have adverse impacts on biodiversity and ecosystems, for example on water flows and fish migration. Run-of-river plants without artificial reservoirs, which are also included in the framework, typically have a lower impact on surrounding biodiversity. Overall, we believe the company's impact avoidance policy is sufficient in managing the adverse impacts on biodiversity.

Energy efficiency

Assessment

 **Medium green**

Description

Investments that help reduce energy consumption or help manage and store energy including:

1. Industrial efficiency

- Manufacture and installation of energy efficient equipment and technologies (e.g., air conditioning/cooling HVAC systems, non-fossil fuel powered heating, smart meters, smart grids, and peak demand management technology etc.)

2. Energy storage

- Construction and operation of large-scale electricity storage (e.g., batteries, pumped hydro storage) that store electricity and return it at a later time in the form of electricity

3. Building energy efficiencies

- Efficient water usage, waste management, and energy consumption
- Energy efficiency and low carbon processes using renewable energy
- Retrofitting existing buildings to improve efficiency

Analytical considerations

- For existing buildings, high energy performance is important to a low-carbon economy. In new construction, we believe improving energy performance is a key step to addressing their carbon footprints. For all buildings, mitigating exposure to physical climate risk is crucial to improving climate resilience. Energy storage is crucial for facilitating greater integration of renewables and it is part of a 2050 solution. However, certain technologies in this category may entail risks to climate warming and climate-resilience (in terms of possible water-related impacts) that are not yet fully understood, which are reflected in the shading.
- A smart power grid is essential to grid resiliency and electrification.
- In addition to pumped hydropower, electricity storage can entail the use of batteries, compressed air, flywheels, thermal energy conversion, and power-to-gas technology.
- There are no specific criteria related to mitigation of physical climate risks of the financed assets at a project level, however, the entity has a robust physical risk management process in place which helps mitigate this concern.

Circular economy adapted products, production technologies, and process

Assessment

 **Medium green**

Description

Investments that help reduce, recycle, and prevent waste including the development, construction, operations and/or manufacturing of products, production technologies, and facilities from:

Collection and treatment facilities

- Domestic and commercial sewage and waste collection, treatment and/or recycling facilities

Analytical considerations

- Well-conceived water and wastewater projects that are not powered directly by fossil fuels are important climate adaptation projects.
- Investments in waste and commercial waste recycling are part of a circular economy which prevents unnecessary creation of waste.

Pollution prevention and control	
Assessment	Description
 Dark to Medium green	Investments that prevent or control and prevent pollution, including: 1. Emission capture: Developing, expanding, or acquiring direct-air carbon or methane capture and storage projects 2. Emission and pollution reduction: Reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, and waste reduction

Analytical considerations

- Direct-air carbon or methane capture and storage projects are an important component of a sustainable low-carbon future.
- Projects aimed at reducing air, water, and soil pollution are also an important component of a sustainable low-carbon future by supporting overall environmental quality and reducing local pollution, though this category leaves some uncertainties around risks and required benefits of projects without specific thresholds available.
- All physical assets are exposed to physical climate risks considered as part of the issuer's overall physical risk management practices.

Clean transportation	
Assessment	Description
 Dark green	Investments that facilitate clean private and public transportation: Charging stations: 1. Electric or hydrogen vehicles and charging stations 2. Electrified rails, trams and buses and charging stations

Analytical considerations

- Electric vehicles and other zero-emission transport solutions are part of a 2050 solution.
- Electrified rail, tram, and bus transport is a climate friendly and low-pollution mode of land transportation.
- Transportation assets are exposed to physical climate risks considered as part of the issuer's overall physical risk management practices.
- Battery component sourcing can have environmental and social impacts for local communities.

S&P Global Ratings' Shades of Green

Assessments					
 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

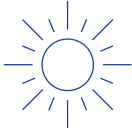
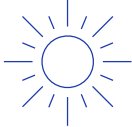
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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*	13. Climate action
Energy efficiency		
	7. Affordable and clean energy*	
Circular economy adapted Products, production technologies, and process		
	12. Responsible consumption and production*	13. Climate action
Pollution prevention and control		
	11. Sustainable cities and communities*	13. Climate action

Clean transportation



11. Sustainable cities and communities*



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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Second Party Opinion: Brookfield Renewable's Green Financing Framework

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