

Environmental and Social Review Summary (ESRS) MPC 2 Tarifas Chile (Project Newen) – CHILE

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1. General Information of the Project

In August 2022, Law No. 21,472 (“MPC Act”), which establishes the creation of the Tariff Stabilization Fund (TSF) as well as a new transitional electricity price stabilization mechanism for clients under the price-regulated scheme, was published in the Official Gazette of the Republic of Chile. The MPC Act dictates the terms and conditions under which the electricity tariffs are to be stabilized and paid in the future. The TSF is intended to provide for the difference between the amount distribution companies (DisCos) are billing the end users for the energy and power component of the charge and the amount payable to the generation companies (GenCos) for the power supply under the currently in force contractual terms.

In January 2024, the government of Chile presented a new electricity tariff stabilization bill (“Message to the Senate No. 306-371”), which has been recently passed by Congress and will be shortly enacted into law. This amends the MPC Act to allow the TSF, which will be administered by Chile’s General Treasury, to regularly issue payment certificates with interest in favor of the GenCos for an additional amount of about USD 2.3 billion to be paid off by 2035. The TSF will cover these with the payments received from its regulated clients as collected by the DisCos.

This financial facility (the “Transaction”) is based on the management model adopted under Project “End-Users Stabilization Tariffs 2022” (14300-01), which is being disbursed by IDB Invest. Like its predecessor, the current Transaction will make resources available to purchase all the payment certificates under the RSF and will involve: (a) a committed purchase facility (“Facility A”) for more than 10% of the Transaction total, estimated to date at USD 230 million; and (b) a fully committed purchase facility for up to 90% of the Transaction total (“Facility B”), which will be provided for through a special purpose vehicle to be funded with the proceeds from a Bond B placement for the amount needed to reach the requirement. Unlike the previous transaction, the payment certificates will not be fully backed by the government, 30% of the principal and all interest will be guaranteed instead.

2. Scope of the Environmental and Social Review of IDB Invest

The environmental and social assessment of the proposed Transaction consisted of a desk review of the environmental and social performance of the GenCos (the “Clients”) over time, focused on their compliance with the following Performance Standards (PS): PS 1: Assessment and Management of Environmental and Social Risks and Impacts; PS2: Labor and Working Conditions; PS3: Resource Efficiency and Pollution Prevention; and PS4: Community Health, Safety and Security.

3. Environmental and Social Classification and Rationale

In compliance with IDB Invest's Environmental and Social Sustainability Policy, the Project has been classified as Category C, given the incremental impacts to be generated are null or negligible, and the proceeds from the Transaction will only be used to offer liquidity to the participating Clients, thanks to the acquisition of the payment certificates. No Project funds will be used to finance capital investments ("CAPEX").

4. Environmental and Social Risks

4.1 Assessment and management of environmental and social risks

All Clients have, if needed, valid environmental qualification resolutions (RCAs), which are equivalent to environmental licenses. These instruments include plans, programs, and actions to prevent, mitigate and compensate the environmental and social (E&S) risks and impacts that have been identified as relevant during their respective environmental assessments (Environmental Impact Assessments -EIAs or Declarations of Environmental Impact -DIAs). These prevention, restoration, mitigation, or compensation actions are being carried out by each Client through their E&S management systems.

Clients have substantially and consistently complied with the requirements in their RCAs and the applicable Chilean regulations.

4.2 Labor and Working Conditions

Labor matters are very well regulated in Chile under the legislation in force, in terms of working hours, salary, vacation, benefits and labor systems, among others.

As Chile is a signatory of Convention 105 of the International Labor Organization (ILO), its law prohibits child labor in general, except for minors between 15 and 18 employed in lightweight tasks under the following conditions: (i) the proposed tasks will not harm their health or physical or mental development; (ii) their parents, relatives or caretakers have authorized them to work; (iii) the proposed work will not interfere with their studies; (iv) the number of hours to be worked will not exceed 30 hours per week if the minor is still studying; and (v) the work time does not exceed 8 hours in any case. The law also expressly prohibits unpaid or forced labor, as well as discrimination of workers because of race, color of the skin, sex or sexual inclination, ancestry, marital status, religion, political involvement, and nationality, among others. Freedom of association and the creation of worker unions are constitutional rights in Chile.

The Clients comply with all of Chile's requirements in terms of labor and working conditions.

4.3 Resource Efficiency and Pollution Prevention

Most of the Clients produce clean energy from water, wind, photovoltaic, photothermal or geothermal sources. Some of them, however, derive a portion of their energy from renewable sources, as follows: i) Colbun has 3,419 MW installed capacity: 1,562 MW of it is provided by thermal power plants (1,104 from gas-fired, 350 MW from coal-fired and 108 MW diesel-fired plants); ii) Enel Generación Chile has

5,542 MW installed capacity: 3,418 MW of it corresponds to renewable energy from water sources, 82 MW from wind generation and 1,979 MW from thermal plants (gas or oil); iii) AES Andes has 3,752 MW of installed capacity in Chile: 1,921 MW of it is coming from coal-fired plants; iv) Engie Energía Chile has 2,684 MW installed capacity including its subsidiary Eólica Monte Redondo: 1,754 MW of it is provided by thermal plants (1,062 MW from coal-fired plants, 638 MW from gas-fired and 54 MW from diesel plants); and v) GM Holdings S.A. has 1,136 MW installed capacity in Chile: 480 MW of it correspond to renewable energy from photovoltaic sources, 514 MW from gas and steam combined-cycle plants and 142 MW from diesel-fired plants. These companies have voluntarily joined the efforts of the Chilean government to decarbonize its electric grid by decommissioning the first coal-fired generation units by 2025 and eliminating all coal-fired plants by 2040. The goal is to reach a carbon-neutral grid by 2050.

All Clients have been regularly reporting on their compliance with environmental, social, and work health and safety regulations as required by the law in force, to the Superintendencia de Medio Ambiente (“SMA”, the Chilean environmental authority) and the relevant sector authorities.

4.4 Community Health, Safety and Security

All Clients have their own emergency prevention and response plans, which are in effect and adequately approved through their RCAs. To date no situations have arisen within the Clients’ facilities that could have endangered the health or safety and security of the population.

5. Proposed Management Measures

The monitoring reports, which are periodically sent by the Clients to the SMA and the relevant environmental, social, and work health and safety sector authorities as required by the law and the RCAs, indicate that the management measures contained in their approved plans and programs are being executed as expected and reaching the desired goals. As such, no additional management measures are required.

6. Additional Information

For inquiries about the Project, please contact the Clients:

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For questions and comments to IDB Invest, contact:

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In addition, and as a last resort, affected communities can access the IIC's Independent Consultation and Investigation Mechanism (ICIM) as follows:

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