

## NORTHERN POWERGRID GREEN FINANCE FRAMEWORK

### DNV GL INDEPENDENT ASSESSMENT

#### Scope and Objectives

Northern Powergrid Holdings Company (henceforth referred to as "Northern Powergrid") owns the licensed utility companies which own and operate the electricity distribution network in North East England, Yorkshire and northern Lincolnshire. The company has a team of 2,700 employees and distributes power to 3.9 million homes and businesses through its network of more than 64,000 substations, over 96,000 km of overhead lines and underground cables, spanning almost 25,000 km.

Northern Powergrid has long-standing commitments to improve the environmental impact of the electricity network, including aiding in the transition to a low carbon economy, reducing its carbon footprint, using resources responsibly and protecting the natural environment.

Northern Powergrid has developed a Green Finance Framework (the "Framework") under which it can raise debt to support the financing and refinancing of activities of an environmentally sustainable nature, notably supporting Northern Powergrid's business plan developed to meet its obligations under Ofgem's RIIO-ED1 regulatory period and which is centred on creating a sustainable energy future. Northern Powergrid is on track to deliver on its environmental targets and has subsequently set stretch targets that go beyond its original business plan.

Northern Powergrid has also aligned its green categories with the United Nations Sustainable Development Goals (UN SDGs), including relevant underlying targets, and where appropriate to the Technical Annex to the EU Taxonomy Final Report (March 2020).

DNV GL Business Assurance Services UK Limited ("DNV GL") has been commissioned by Northern Powergrid to provide a review of the Framework. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of Bonds/Loans issued via the Northern Powergrid Framework, the value of any investments, or the long-term environmental benefits of the transaction. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

#### Responsibilities of the Management of Northern Powergrid and DNV GL

The management of Northern Powergrid has provided the information used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform Northern Powergrid's management, prospective investors and other interested stakeholders in the Framework as to whether the Framework is aligned with the International Capital Markets Association (ICMA) Green Bond Principles (GBP) 2018 and the Loan Markets Association (LMA) Green Loan Principles (GLP) 2018. In our work, we have relied on the information and the facts presented to us by Northern Powergrid. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by Northern Powergrid management and used as a basis for this assessment were not correct or complete.

## Basis of DNV GL's opinion

We have adapted our eligibility assessment methodology to create a Northern Powergrid specific Green Finance Framework Eligibility Assessment Protocol (henceforth referred to as "Protocol"). Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a bond/loan must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a bond/loan should outline the process it follows when determining eligibility of an investment using Green Bond/Loan proceeds and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a bond/loan should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond/loan investors should be made of the use of proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by Northern Powergrid in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a Northern Powergrid specific Protocol, adapted to the purpose of the Framework, as described above;
- Assessment of documentary evidence provided by Northern Powergrid on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of Northern Powergrid's published material with regards to environmental management activities relating to the company;
- Discussions with Northern Powergrid's management, and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

## Findings and DNV GL's opinion

DNV GL's findings are listed below:

### 1. Principle One: Use of Proceeds.

Northern Powergrid intends to issue green debt instruments at the level of its operating subsidiaries, Northern Powergrid (Yorkshire) plc and Northern Powergrid (Northeast) plc. Northern Powergrid intends to use the proceeds of securities issued under its Green Finance Framework to finance and re-finance environmental projects.

Assets, capital and operating expenditures falling within relevant green categories will be labelled "Eligible Green Projects" and will be aggregated to form the "Eligible Green Project Portfolio".

Northern Powergrid has confirmed that an amount at least equivalent to the net proceeds from the funds raised under the Framework will be allocated to finance or refinance new or existing eligible assets and expenditures. Northern Powergrid has stated that it aims to finance on-going and future Eligible Green Projects but, wherever possible, may also re-finance projects that have been completed or charged in the last three years.

DNV GL has reviewed evidence and can confirm that Eligible Green Projects will fall within one or several of the following categories:

- Renewable Energy
- Energy Efficiency
- Pollution prevention and control
- Clean transportation
- Environmentally sustainable management of living natural resources and land use
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes
- Green buildings

Northern Powergrid has listed example projects and the expected environmental benefits for each category within the Framework and summarised them in Schedule 1. Northern Powergrid has also provided mapping of its Eligible Green Projects categories against the UN SDGs and where appropriate to the Technical Annex to the EU Taxonomy.

DNV GL can also confirm the Framework and its associated Eligible Green Project categories are aligned with Northern Powergrid's broader sustainability strategy and supports the development of a low carbon economy.

DNV GL concludes that the eligible categories outlined in the Framework (and the example projects provided to DNV GL) are consistent with the categories outlined in the GBP and the GLP and will provide clear environmental benefits.

### 2. Principle Two: Process for Project Evaluation and Selection.

Northern Powergrid has established a dedicated working group, the Green Finance Committee, to evaluate and select, for inclusion within the use of proceeds, suitable assets meeting the Framework's criteria. The representatives forming the Committee come from a variety of functions

across the business: Treasury, Regulation, Investment Planning and subject matter experts, and have committed to meet at least on an annual basis.

In addition to assessing eligibility for inclusion in the Eligible Green Project Portfolio, it will be the responsibility of the Green Finance Committee to manage updates to the Framework, ensure the rotation of expired and new projects for funding, and preparing allocation and impact reports.

Northern Powergrid has also shared with DNV GL company policies and reports detailing its sustainability commitments and initiatives, including its Environment and Stakeholder Reports for 2018-2019, which provides additional reassurance that the Framework is in line with Northern Powergrid's wider approach to managing its environmental impacts.

DNV GL concludes that Northern Powergrid's Green Finance Framework appropriately describes the process of project evaluation and selection and is in line with the requirements of the GBP and GLP.

### **3. Principle Three: Management of Proceeds.**

Northern Powergrid plans to manage the proceeds arising from green financing using a portfolio approach. DNV GL can confirm that the tracking of the proceeds will be supported by Northern Powergrid's internal tracking and accounting systems, ensuring the accuracy of information and the avoidance of double counting. Northern Powergrid will ensure over the long term it achieves a level of allocation for the Eligible Green Project Portfolio that matches or exceeds the balance of net proceeds from its outstanding green debt instruments raised under the Framework. In the event that proceeds are unallocated, Northern Powergrid has committed to managing these for either debt repayment and/or within its treasury liquidity portfolio as per its treasury policies.

DNV GL has reviewed evidence and can confirm Northern Powergrid has committed to appropriately managing the proceeds arising from future issuances in line with the requirements of the GBP and GLP.

### **4. Principle Four: Reporting.**

Northern Powergrid has committed to providing information annually to its stakeholders on the allocation and impact of environmental projects financed through the Framework. Reporting will be presented in an aggregated manner and will be made available publicly on the company's website.

Northern Powergrid has committed to report within its Allocation report, total amounts allocated to each Eligible Category, the share of financing and refinancing, the year of investment and the balance of unallocated proceeds.

Impact reporting will be presented in a dedicated report where Northern Powergrid will demonstrate the impact of environmental projects using a wide range of metrics. Examples of metrics are listed in the Framework; these align with Northern Powergrid's Eligible Green Project categories. Northern Powergrid may also include supporting information such as case-studies and methodologies used.

DNV GL can confirm Northern Powergrid has committed to producing appropriate reporting on the environmental impacts of its investments made under the Framework in line with the requirements of the GBP and GLP.

On the basis of the information provided by Northern Powergrid and the work undertaken, it is DNV GL's opinion that the Framework meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the ICMA Green Bond Principles 2018 and green loans within the LMA Green Loan Principles 2018.

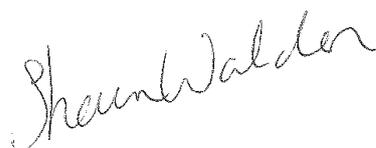
**for DNV GL Business Assurance Services UK Limited**

London, 29<sup>th</sup> May 2020



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**About DNV GL**

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## SCHEDULE 1: DESCRIPTION OF CATEGORIES TO BE FINANCED THROUGH THE FRAMEWORK

Environmental categories	Examples of associated activities
<b>Renewable energy</b>	Development and distribution of low carbon electricity generated via renewable technologies (e.g. connection of renewable energy generation such as PV, wind).
<b>Energy efficiency</b>	High-efficiency upgrades to existing assets and smart grid technologies (e.g. reliability and efficiency grid upgrades, smart equipment enhanced network operation and flexibility or allowing higher distribution, battery replacements).
<b>Pollution prevention and control</b>	Infrastructure upgrades to reduce losses, waste and greenhouse gas emissions (e.g. equipment replacement/refurbishment that reduces loss of oil and/or reduce CO2 or SF6).
<b>Clean transportation</b>	Increase in the number of electric vehicles via EV charging and vehicle-to-grid technology (e.g. EV charging facilities and electric vehicles).
<b>Environmentally sustainable management of living natural resources and land use</b>	Restoration and protection of natural habitats and rewilding projects, particularly in Areas of Outstanding Natural Beauty (e.g. moving overhead lines underground).
<b>Sustainable water and wastewater management</b>	Protection and enhancement of the resilience of operational aspects against climate change-related risks (e.g. flood defences).
<b>Climate change adaptation</b>	Reliability and safety of the network against extreme weather events (via vegetation management, Earthing System improvements) and shift towards low-carbon technologies (e.g. solar storage).
<b>Eco-efficient and/or circular economy adapted products, production technologies and processes</b>	Increased recycling, reuse and resource-efficient activities in a product's lifecycle and design (e.g. changing materials used in substation buildings).
<b>Green buildings</b>	Building-level improvements with high-efficient equipment and achievement of green certifications such as BREEAM "Very Good", LEED "Gold" or similar (e.g. LED upgrades).

## SCHEDULE 2: NORTHERN POWERGRID SPECIFIC GREEN FINANCING FRAMEWORK ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Types of Financing Framework	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> <li>• Use of Proceeds Bond</li> <li>• Use of Proceeds Revenue Bond</li> <li>• Project Bond</li> <li>• Securitized Bond</li> </ul> <p>Green loans are defined as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with Northern Powergrid. Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9 (Northern Powergrid’s Green Finance Framework)</li> <li>• Interviews with Northern Powergrid management</li> </ul>	<p>The Framework outlines the type of Bonds and Loans expected to be issued under the Framework such as, but not limited to:</p> <ul style="list-style-type: none"> <li>• Green Bonds</li> <li>• Green Loans</li> <li>• Other unspecified financing instruments</li> </ul> <p>The specific type of bond/loan will need be further assessed on an individual basis.</p>
1b	Green Project Categories	<p>The cornerstone of a Green bond/loan is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Interviews with Northern Powergrid management</li> </ul>	<p>We conclude that the Framework appropriately describes the proposed utilisation of proceeds. The specific utilisation of proceeds of each issuance will need to be further assessed on an individual basis.</p>
1c	Environmental benefits	<p>All designated Green Project categories should provide clear environmentally sustainable or social benefits, which, where feasible, will be quantified or assessed by the issuer.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Northeast Analysis v0_99 (eligible green project pool tab)</li> <li>• Interviews with Northern Powergrid management</li> </ul>	<p>The Framework outlines the expected environmental benefits that will be realised by any Bonds/Loans issued under the Framework. Specific quantifiable benefits of each issuance will be agreed on a case by case basis and subject to further assessment.</p>

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Investment-decision process	The issuer of a Green Bond/Loan should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Interviews with Northern Powergrid management</li> </ul>	We conclude that the Framework appropriately describes the process of project selection. The specific issuances will need to be further assessed on a case by case basis.
2b	Issuer's environmental and governance framework	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Northern Powergrid.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Northeast Analysis v0_99</li> </ul> <p>We also reviewed environmental governance documentation:</p> <ul style="list-style-type: none"> <li>• 2018-2019 Environment Report</li> <li>• RRP Tables (annexes to Environment Report)</li> <li>• DSO v1.1 Distribution System Operator Development plan (Oct.2019)</li> <li>• Stakeholder Report 2018-2019: Delivering on our promises</li> <li>• 'Maximising the value from EVs for our customers' report (Sept.2019)</li> <li>• Community energy engagement strategy 2020-2023</li> </ul>	We conclude that from the information provided, the Framework is in line with Northern Powergrid's wider approach to managing environmental sustainability.

### 3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of a Bond/Loan should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for Green Projects.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Northern Powergrid.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Interviews with Northern Powergrid management</li> </ul>	We find that Northern Powergrid has made appropriate plans to track the use of proceeds in and attested to by a formal internal process.
3b	Tracking procedure	So long as the Bond/Loans are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Interviews with Northern Powergrid management</li> </ul>	We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.
3c	Temporary holdings	Pending such investments or disbursements to eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> <li>• Interviews with Northern Powergrid management</li> </ul>	We conclude that Northern Powergrid has appropriately disclosed how it will manage any unallocated proceeds within its liquidity portfolio.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Bond and where appropriate Loan proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Pennon. Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• May20_NPg Green Finance Framework_NWM v9</li> </ul>	We confirm Northern Powergrid has committed to annual green reporting which will be made available as either a stand-alone report or Annual Report or Sustainability Report which will provide investors with information on the selected projects and include quantification of the environmental benefits of the selected projects. In order to make the benefits quantifiable, Northern Powergrid has provided examples of potential KPIs.