



# SSE GREEN BOND FRAMEWORK 2019

## BUILDING ON THE PAST TO CREATE A LOW CARBON FUTURE

SSE's heritage is built upon the hydro-electric revolution in the north of Scotland over 70 years ago. Today, electricity is an essential service, but one that must undergo a new transformation, driven by the imperative to cut carbon emissions, and create an electricity system that is flexible, dynamic and clean.

SSE seeks to take a leading role in the UK and Ireland, supporting the transition towards this low carbon future, through its plans to continue to invest in both renewable electricity and the infrastructure needed to transmit renewable power to the places it is needed.

## INTRODUCTION

**SSE plc is a FTSE 100 UK-listed energy company with operations and investments across the UK and Ireland. It is involved in the generation, transmission, distribution and supply of electricity, the production, storage, distribution and supply of gas and in the provision of energy-related services.**

SSE's vision is to be a leading company in a low-carbon world. Its purpose is to provide the energy needed today while building a better world of energy for tomorrow. Its strategy is to create value for shareholders and society from developing, operating and owning energy infrastructure in a sustainable way.

## SUSTAINABILITY AT SSE

SSE's Sustainability Framework is designed to ensure that in achieving its core business objectives, SSE conducts itself in a way that respects the social contract it has with society and creates long-term value. The framework features a core set of policies and procedures supported by a governance structure designed to ensure SSE addresses the most material issues to its stakeholders and wider society.

SSE's Sustainability Framework is underpinned by its defined core purpose, the SSE SET of values, of which Sustainability is a core component and a set of central policies reflected in its [Doing the Right Thing: a guide to ethical business conduct for employees](#). Furthermore and more specifically, SSE's [Environment and Climate Change Policy](#) outlines its approach to environmental protection and climate change mitigation.

Finally, SSE has set four 2030 business goals that are aligned to the UN's Sustainable Development Goals. They are:

- **Climate Action:** Reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150gCO<sub>2</sub>e/kWh.
- **Affordable and Clean Energy:** Develop and build by 2030 enough renewable energy to treble renewable output to 30 TWh a year.
- **Industry, Innovation and Infrastructure:** Build electricity network flexibility and infrastructure that helps accommodate 10 millions electric vehicles in GB by 2030.
- **Decent Work and Economic Growth:** Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

## THE TRANSITION TO A LOW CARBON ELECTRICITY SYSTEM

At the heart of SSE's Strategy is a commitment to contributing substantively to the transition to a low carbon electricity system.

In terms of electricity generation this has meant, and continues to mean, undertaking a strategic shift away from carbon intensive fossil fuel generation towards electricity generation from renewable sources.

In terms of electricity transmission and distribution it has meant, and continues to mean, enabling the connection of renewable sources of electricity to the network and optimising the networks as they adapt to a lower carbon future. In 2018/19, SSEN's transmission network connected 1GW of capacity for renewable energy to the electricity grid, and is continuing to invest in accommodating more renewable sources of energy in the future.

Overall, the company remains committed to developing and constructing new energy assets that are sustainable and progressive and contribute to the achievement of climate change related targets in the UK and Ireland and to being transparent in its carbon-related disclosures and objectives.

To bring about this strategic change the SSE Group has:

- **Invested significantly in renewable energy:** SSE has invested £3.9bn in renewables since 2010 and has the largest renewable energy capacity in the UK and Ireland at around 4GW.
- **Developed a pipeline of new renewable energy projects:** SSE has a wind development pipeline of over 8GW including 1GW of onshore projects and 7GW offshore.
- **Enabled more renewable generation to connect to the electricity network:** SSE has invested £2.7bn in the north of Scotland transmission network to enable more renewable generation to connect to the grid.

SSE's continues to support this strategy and aims to:

- **Progress its capital and investment expenditure:** SSE's continues to progress its £6bn investment programme between 2018 and 2023, of which 70% is expected to be focussed on electricity networks and renewable energy.
- **Increase renewable output:** Develop and build by 2030 enough renewable energy to treble renewable output to 30 TWh a year.

SSE's Chief Executive has overall lead responsibility for sustainability, including at Board-level. The Executive Committee monitors the operational and financial performance of sustainability related activities across the organisation and reviews progress regularly.

SSE's performance in managing climate change mitigation led CDP to award SSE an A- rating in 2018.

## MOTIVATION FOR ISSUING A GREEN BOND

As a major investor in the UK and Ireland's renewable energy infrastructure, SSE believes that the issue of a Green Bond demonstrates its long-term commitment to the principles of sustainability and the transition to a low carbon economy. The issuance of a Green Bond will support SSE's strategy to support the transition to a low-carbon energy system as outlined above.

While environmental sustainability is core to SSE's purpose as an energy provider, it understands the critical importance of social and economic sustainability to its long-term future. In recent years SSE has implemented important policies to secure its social sustainability such as a firm commitment to the Living Wage in the UK and Ireland and a responsible tax policy resulting in the achievement of the independent Fair Tax Mark. The participation in Green Bond markets complements SSE's strategy for long term sustainability in its widest sense.

The Green Bond supports SDG 13 on action to combat climate change, as the bond finances renewable energy in the UK and Ireland and the connection of future renewable generation to the UK energy system. For further information about SSE's contribution to the SDGs refer to pages 8 and 9 of SSE's [Sustainability Report 2019](#).

## GREEN BOND PRINCIPLES

The aim of this Green Bond Framework is to facilitate transparency, disclosure, integrity and quality in SSE's Green Bonds for interested stakeholders.

The Framework is aligned with the ICMA Green Bond Principles, that after the 2018 update remain framed by four core components: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. This Framework replaces SSE's previous Green Bond Framework dated August 2017.

Proceeds from SSE Green Bonds issued in 2017 and 2018 were allocated fully to SSE's 1.5GW onshore wind farm portfolio as described in the 2017 Green Bond Framework and partly to the Caithness Moray high-voltage direct current (HVDC) Transmission project. Use of proceeds below have been updated accordingly to cover future Green Bond issuance.

### 1. USE OF PROCEEDS

The net proceeds from the issuance of Green Bonds will be used to finance or refinance Eligible Green Projects that are expected to complete in the next 24 months or have completed in the previous 24 months and that fall into the following accepted categories according to the Green Bond Principles:

#### RENEWABLE ENERGY PRODUCTION: WIND FARMS

##### I. Offshore Equity Investments

The Beatrice offshore wind farm (588MW – SSE share 40%) was completed in May 2019. SSE will operate and maintain the entire asset on behalf of the Joint Venture, Beatrice Offshore Wind Farm Ltd.

The UK Government has committed to auctions for CfDs to support 1-2 GW per year of renewables deployment through the 2020s. The CfD Allocation Round 3 (AR3) took place in 2019. SSE is actively involved in two offshore prospects. The two offshore projects are:

- Seagreen Phase 1 (up to 1,050MW), consists of the Alpha and Bravo projects. Seagreen is wholly owned by SSE following its acquisition of Fluor Ltd.'s 50% share of the joint venture in September 2018; and
- Dogger Bank (up to 3.6GW), is a 50:50 joint venture with Equinor to develop three projects in the Dogger Bank zone – Creyke Beck A, Creyke Beck B and Teesside A. The projects are being progressed in preparation for the CfD auction.

Viking Wind Farm will also be eligible to complete in AR3 as “remote island wind”.

SSE also has interests in the following further offshore projects in development:

- Seagreen Phases 2 & 3 (up to 3,200MW)
- Greater Gabbard Extension (up to 504MW– SSE share 50%)
- Arklow Bank Wind Park in Ireland (800MW)

This means that, overall, SSE has an offshore wind development pipeline of over 7GW at varying stages of development.

## RENEWABLE ENERGY TRANSMISSION

### II. Transmission Network Infrastructure – Scottish Hydro Electric Transmission plc (SHET)

The latest investments in transmission networks in the north of Scotland are primarily required to provide energy transportation between Scottish renewable generation supply and the UK electricity customer demand. Since April 2013 SHET has invested around £2.7bn, including £1.1bn in the [Caithness Moray](#) high-voltage direct current (HVDC) connection, which was completed, commissioned and energised in January 2019 and will enable the connection of up to 1.2GW of generation capacity in the far north of Scotland. Installed renewable electricity generation capacity connected to the SHET's transmission network has grown from 3.3GW in April 2013 to over 6GW and is forecast to grow to over 6.5GW by March 2021 with a healthy pipeline of transmission projects, and a total planned investment of over £600m.

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

The exercise of project evaluation and selection is carried out by SSE's Tax and Treasury Committee led by the Finance Director of SSE. The members of this committee represent the key departments within SSE (Corporate Finance, Group Treasury and Tax) that are responsible for the liquidity of the company. This Committee has ultimate responsibility for reviewing all of SSE existing projects which have been completed in the past 24 months or will be completed in the near future and determining those which could be eligible in the Green Bond Framework for refinancing. The main selection criteria for a project to be eligible is that it must contribute to a positive environmental impact, support SSE's commitment to the ongoing reduction of the carbon intensity of its electricity generation and support SDG 13 (take urgent action to combat climate change and its impacts).

This Committee will also review on an annual basis the ownership of all existing projects included in the Green Bond Framework, as well as any new project which may be eligible to be included within the portfolio of projects for future Green Bond refinancing.

SSE strives to bring about positive environmental impacts from its operational and capital activities, and may update its selection criteria in accordance with any developments in SSE's sustainability and environmental policies.

In addition to the Tax and Treasury Committee review, for any investment of greater than £10m, SSE operates its Large Capital Project Governance Framework. This Framework ensures through a gate process that all large capital investment projects for the SSE are governed, developed, approved and executed in a consistent and effective manner, with consideration of best practice in project delivery, safety and sustainability (economic, environmental and social).

## 3. MANAGEMENT OF PROCEEDS

The proceeds of the next Green Bond issuance are to be used for the refinancing of eligible projects. The proceeds from the bond issuance will be directly allocated to the refinancing of the projects at settlement and, in the unlikely event the whole proceeds can not be allocated to refinancing projects, SSE will temporarily hold the funds in either deposits within its relationship banking group or liquid money market fund. This event would then be monitored until resolved by the Tax and Treasury Committee led by the Finance Director of SSE.

In the event of divestment of any included project, either completed or under construction, SSE will include other Eligible Projects in the same categories outlined in Section 1, which are aligned with the Green Bond Principles. Where possible, SSE will seek to maintain a ratio of 1.2:1 of over collateralised of eligible Green Bond assets to Green Bonds issuance. Auditors or any other third party appointed by SSE will verify the internal tracking method and the allocation of funds from the Green Bond proceeds to the Eligible Green Projects.

## 4. REPORTING

### Allocation Reporting

Allocation reporting will be available to investors within one year from the date of the Green Bond issuance. There will be one report after issuance, as the proceeds will be used for the refinancing of projects, thus the whole amount raised will be employed at settlement. Where SSE refinances its equity share within a joint venture it will be reported on an equity stake basis. Should there be any variance in the initial allocation reporting, such as divestments, SSE will duly update the allocation report within one year.

### Impact Reporting

SSE will annually, and until the maturity of the Green Bond issue, provide investors with information on its [investor website](#) and within its Annual Sustainability Statement on [SSE's website](#) regarding the environmental impact of the category of projects. This reporting will include relevant environment metrics related to the Eligible Green Bond Projects, for example the expected annual carbon saved, expected electricity capacity and output, and electricity flows from transmission investments.

## 5. EXTERNAL REVIEW

### Verification

SSE has appointed DNV GL to independently verify SSE's Green Bond Framework and underlying assets. DNV GL has reviewed the Framework content and underlying assets and has confirmed its alignment with the Green Bond Principles and claims made by the issuer, providing SSE and investors with a Verification Report. The Verification Report as well as the Green Bond Framework can be found on [SSE's website](#).

### Annual Report

Auditors or any other third-party appointed by SSE will verify the internal tracking method and the allocation of funds from the Green Bond proceeds to the Eligible Green Projects.