Confirmation of innogy’s Green Bond Framework and the eligibility of projects in the grid business

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**Engagement Leader:** Trisha Taneja, trisha.taneja@sustainalytics.com; +1-647-317-3695; Lili Hocke, lili.hocke@sustainalytics.com; +31-202-050-040

**Introduction**

innogy SE is a European energy company divided into three distinct divisions: (i) Renewables, (ii) Grid and Infrastructure, and (iii) Retail. In October 2017, innogy SE developed a Green Bond Framework (GBF) under which it issued one green bond in October 2017. The innogy SE GBF allows the financing of Renewable Energy, Energy Efficiency, and Clean Transportation projects. The eligibility criteria from the 2017 GBF are described below. innogy had engaged Sustainalytics to provide a Second Party Opinion on the 2017 GBF.

On 11 March 2018 RWE and Eon announced a transaction that foresees that innogy’s renewables business will be transferred to RWE, while its grid and retail businesses will be moved to Eon. Furthermore, it is envisaged that innogy’s capital market debt, including the green bond, will move to Eon as well. That means that innogy’s inaugural green bond, which was fully allocated to refinance renewable energy assets, i.e. wind energy, will be separated from the renewable energy assets. innogy has identified projects in the grid business that meet the eligibility criteria of the 2017 GBF. This creates the option to replace the pool of renewable assets with grid assets.

In September 2018, innogy engaged Sustainalytics to:

(i) Review the grid projects identified that can be used to replace the renewable pool of assets financed by the inaugural green bond issuance;

(ii) Provide an opinion on the continued eligibility of these grid projects under the 2017 GBF;

(iii) Provide a confirmation on the continued validity of the second-party opinion on the 2017 GBF with respect to future green bond issuances.

**Eligibility Criteria**

Sustainalytics evaluated the compliance of the grid projects with the following eligibility criteria defined in innogy’s existing GBF:

Renewable energy projects: defined as investments in or expenditures for the acquisition, conception, construction, development and installation of renewable energy production units, as well as the connection of renewable energy production units to the electricity grid and the transportation through the network. Renewable energy sources include:

- On- and offshore wind energy
- Solar energy (photovoltaic and solar heat)
- Hydro (as defined in the Climate Bond Initiative taxonomy and aligned with Climate Bond Initiative standards, when available)
- Other sources of renewable energy if and whenever applicable (e.g. geothermal, tidal, new technologies)

Energy efficiency projects: investments in, or expenditures for projects that contribute to a more efficient use of energy (supply and demand side), such as but not limited to:

- Energy storage
- Combined Heat and Power (CHP) (excludes coal generated power)
- Smart grid, smart meters, smart home solutions
- Energy efficiency advisory
- Energy efficient lightning such as LED

Clean transportation projects: investments in, or expenditures for projects that contribute to a reduction of emissions in the transportation sector, e.g. charging infrastructure for electric vehicles.
Issuing Entity’s Responsibility
innogy is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including a description of eligible projects. This information was provided to Sustainalytics to support its review. innogy is also responsible for confirming to Sustainalytics that processes for project selection and management of proceeds for the inaugural and all future green bond issuances will remain aligned with the commitments described therein.

Independence and Quality Control
Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the innogy asset pool and provided an independent opinion. The work undertaken as part of this engagement included documentation from innogy employees and review of documentation to confirm the alignment with the 2017 Green Bond Framework. Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion
innogy’s eligible assets, (re)financed either by existing outstanding green bond or by future issuances, can be related to the following three eligible categories:

(i) Investments to connect renewables (above 30 kW) to the grid;

(ii) Grid investments related to the Energiewende (i.e. German energy transition), i.e. investments in the grid to cope with more and more fluctuating feed-in from renewables as well as consumption of electricity. innogy has confirmed to Sustainalytics that they will only count 50% of grid investments as eligible for green bond proceeds (see also Appendix);

(iii) Smart meter investments.

These types of investments are part of the eligible projects as defined in the 2017 GBF and are in line with the Green Bond Principles. In addition, Sustainalytics considers the listed types of expenses as contributing to the transition of energy systems towards renewable and low carbon energy: For additional information see Appendix.

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects that can be funded through proceeds of existing and future green bond issuances are not in conformance with the Use of Proceeds criteria outlined in the 2017 GBF. innogy has also confirmed to Sustainalytics that the proceeds of all green bond issuances will be managed in alignment with the commitments described in the 2017 GBF.
APPENDIX

Impact of use of proceeds: connection of renewables, grid improvements and smart meter investment

innogy intends to use the bond proceeds to connect renewable power generation facilities (above 30 kW) to the grid and for investments in the grid to cope with fluctuations caused by an increased influx of renewable energy into Germany’s energy grid. Sustainalytics is of the opinion that the use of the proceeds will contribute to the sustainable energy transition movement (Energiewende), as well as to Europe’s climate change 2030 targets, which include a 40% cut in greenhouse gas emissions (from 1990 levels) and a 27% share for renewable energy.\(^1\) Germany is aiming for a 61% CO\(_2\) reduction (compared to 1990) for its energy sector by 2030, and to generate 35% of its energy from renewable sources by 2020 and 50% by 2030.\(^2\) The connection of renewable energy sources to the grid is essential to allow additional renewable energy capacity to enter the grid and enable the energy transition. Therefore Sustainalytics considers investments in connecting renewable energy source to the grid to contribute to increasing the availability of renewable energy.

Due to the Energiewende and especially the increase in decentral renewable energy generation, the function of the German energy grid has changed from solely distributing energy to also enabling the feed-in and transport of decentralized renewable electricity production as well as managing its volatility. Previously, power from large-scale energy generation was fed into the transmission system operators (TSO) grid and from there into the distribution system operators (DSO) grid in order to ensure adequate distribution of energy. Due to the increase in decentralized renewable energy production, most renewable capacity in Germany is directly connected to the DSO grid, which increases its volatility.

The grid capacity determines the maximum amount of energy that can be distributed. The addition of renewable energy to the distribution grid necessitates investments to increase maximum possible capacity to accommodate peak load from sources that fluctuate, such as wind and solar. Another reason for which investments may be required is an increase in demand, although demand remained flat while renewables production connected to innogy’s grid increased between 2013 and 2017, according to numbers that were made available to Sustainalytics. Given this function of grid investments, Sustainalytics is of the opinion that the intended investments in Germany’s energy grid contribute to enabling the Energiewende and achieving Germany’s renewable energy and GHG reduction targets. In addition, Sustainalytics welcomes innogy’s confirmation that only 50% of the grid investments are eligible to be financed from green bond proceeds, as only one of the two drivers of grid investments are directly connected to the increase in decentralized renewable energy. Given that demand remained flat since 2013 but renewables’ capacity increased, Sustainalytics considers the 50% to be a conservative percentage.

In addition, proceeds of the green bonds may also finance smart meters, which have the potential to offer energy more efficiently to homes and buildings, and reduce energy consumption.\(^3\) Smart grids enable the use of energy adjusted to local circumstances by providing energy where needed and thus reduces inefficiencies in the network. Moreover, the fact that almost 21% of Germany’s electricity consumption in 2017 came from households\(^4\) indicates the potential impact of smart home solutions for the reduction of energy use in Germany.

\(^2\) German Climate Action Plan 2050;
\(^3\)https://www.bundesnetzagentur.de/DE/Sachgebiete/ElektrizitaetundGas/Verbraucher/NetzanschlussUndMessung/SmartMetering/SmartMeter_node.html
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Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)