



Second-Party Opinion

Hydro One Limited Sustainable Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the Hydro One Limited Sustainable Financing Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Clean Energy, Energy Efficiency, Clean Transportation, Biodiversity Conservation, Climate Change Adaptation, Socio-economic Advancement of Indigenous Peoples, and Access to Essential Services – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental and social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 8, 9, 10, 13 and 15.



PROJECT EVALUATION AND SELECTION Hydro One's Sustainable Finance Working Group is responsible for the evaluation and selection of projects in line with the eligibility criteria of the Framework. The Company has adopted internal environmental and social risk policies and guidelines which apply to all eligible projects. Sustainalytics considers the project selection process and the environmental and social risk management policies to be in line with market practice.



MANAGEMENT OF PROCEEDS Hydro One's Treasury Department will be responsible for tracking and managing proceeds through a Sustainable Financing Register. Hydro One intends to reach full allocation within 24 months of each issuance, and has a 24 month look-back period for refinancing. Pending allocation, unallocated proceeds will be held temporarily in cash equivalents, used to repay debt or invested in bank deposits. Sustainalytics considers this to be in line with market practice.



REPORTING Hydro One intends to report on allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as allocation per eligible category, share of unallocated proceeds, share of financing versus refinancing. In addition, Hydro One intends to report on relevant impact metrics. Sustainalytics views Hydro One's allocation and impact reporting as aligned with market practice.

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Report Sections

Introduction.....	2
Sustainalytics' Opinion	3

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¹ This document updates the Second-Party Opinion provided by Sustainalytics in January 2023.

Introduction

Hydro One Limited (“Hydro One” or the “Company”) is the largest electricity transmission and distribution provider in Ontario, Canada. The Company has approximately 9,700 employees serving approximately 1.5 million customers, and CAD 32.8 billion in assets as of December 2023.²

Hydro One has developed the Hydro One Limited Sustainable Financing Framework dated August 2024 (the “Framework”), under which the Company and its subsidiaries, including Hydro One Inc.,³ intend to issue sustainable, green or social bonds, loans and commercial papers (the “Sustainable Financing Instruments”) and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to support Ontario’s transition towards a low-carbon energy mix and provide equitable access to essential services.⁴ The Framework defines eligibility criteria in seven areas:

1. Clean Energy
2. Energy Efficiency
3. Clean Transportation
4. Biodiversity Conservation
5. Climate Change Adaptation
6. Socio-economic Advancement of Indigenous Peoples
7. Access to Essential Services

Hydro One engaged Sustainalytics to review the Hydro One Limited Sustainable Financing Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),⁵ Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP).⁶ The Framework has been published in a separate document.⁷

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁸ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.16, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

² Hydro One, “Hydro One Reports Fourth Quarter Results”, (2024), at:

<https://www.hydroone.com/investorrelations/Reports/Hydro%20One%20Limited%20Q23%20Results.pdf>

³ Hydro One has communicated to Sustainalytics that these subsidiaries are wholly owned by Hydro One, including Hydro One Inc. In addition, Hydro One has confirmed that it has operational control over the subsidiaries issuing Sustainable Finance Instruments using the Framework and that it will be responsible for ensuring continual alignment of any issuances with the criteria defined in the Framework.

⁴ Hydro One has communicated to Sustainalytics that it may obtain multi-tranche loans and revolving credits under the Framework. For multi-tranche loans, the Company will label only those tranches that finance projects eligible under the Framework as green, social or sustainable (GSS). The Company may label an entire loan as GSS if all tranches are dedicated to financing eligible projects. For revolving credits, the Company has communicated to Sustainalytics that it will continue publishing allocation reports, on an annual basis, until the maturity of the respective facilities.

⁵ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association (ICMA) and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁶ The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications & Trading Association (LSTA) and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

⁷ The Hydro One Limited Sustainable Financing Framework is available on Hydro One’s website at: <https://www.hydroone.com/investor-relations/sustainable-financing>

⁸ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

As part of this engagement, Sustainalytics held conversations with various members of Hydro One's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Hydro One representatives have confirmed (1) they understand it is the sole responsibility of Hydro One to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information, and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Hydro One.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework are the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, Hydro One is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as a statement, representation, warrant or argument, either in favour of or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Hydro One has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Hydro One Limited Sustainable Financing Framework

Sustainalytics is of the opinion that the Hydro One Limited Sustainable Financing Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP, and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Clean Energy, Energy Efficiency, Clean Transportation, Biodiversity Conservation, Climate Change Adaptation, Socio-economic Advancement of Indigenous Peoples, and Access to Essential Services – are aligned with those recognized by the GBP, SBP, GLP and SLP.
 - Under the Clean Energy category, Hydro One intends to finance or refinance the maintenance, construction and operation of electricity transmission and distribution (T&D) infrastructure and equipment that meet the following criteria: i) over 67% of newly enabled generation capacity below a generation threshold of 100 gCO₂e/kWh, over a rolling five-year period; or ii) an average system grid emission factor lower than 100 gCO₂e/kWh over a rolling five-year period.
 - Sustainalytics notes that Hydro One relies on the grid's average direct emissions intensity in this category because the Province of Ontario reports direct emission factors. Sustainalytics acknowledges that this may be different from the market practice of using life cycle emissions intensities. Yet, given the limited share of natural gas in Ontario's grid,⁹ Sustainalytics considers the difference between direct and life cycle emission intensity results to be minor in this case.
 - The Framework also stipulates investments in R&D. The Company intends to invest in R&D projects to allow the integration of renewable energy into the electricity grid

⁹ Ontario Energy Board, "Overview of energy sector", at: <https://www.oeb.ca/ontarios-energy-sector/overview-energy-sector>

- through microgrids, energy storage and battery systems or an increase in the share of low-carbon electricity.
 - Sustainalytics views expenditures under this category to be in line with market practice.
- Under the Energy Efficiency category, Hydro One intends to finance or refinance systems or technologies that increase energy efficiency or reduce energy consumption, including smart grid technology, smart sensors and automation systems, such as advanced metering infrastructure. Sustainalytics notes that smart grid technology includes electrical energy delivered to Hydro One's customers with or by an active smart meter. Moreover, Hydro One has confirmed to Sustainalytics that proceeds raised under the Framework will not be directed to fossil fuel-reliant equipment nor dedicated to fossil power plants.
 - The Framework also stipulates investments and R&D in technologies directed towards the enhancements and upgrades of transmission and distribution lines, base stations, and equipment or assets to avoid energy losses and emission leaks in the grid. This also includes investments in monitoring equipment to assess and control leaks, including GHG.¹⁰ Sustainalytics notes positively Hydro One's commitment to reduce GHG emission leaks, specifically for sulfur hexafluoride (SF₆). Sustainalytics notes that SF₆ is widely used in T&D infrastructure and encourages the Company to consider moving to alternative solutions given the potential negative impact of SF₆.¹¹
 - Under this category, the Company may also invest in the acquisition, connection, construction, development and operation of energy storage and battery systems to support stabilizing the grid¹² and optimize power consumption through demand-supply balancing.
 - Sustainalytics views expenditures under this category to be in line with market practice.
- Under the Clean Transportation category, Hydro One intends to invest in the procurement, operation and maintenance of zero-emission vehicles and light-duty hybrid vehicles with emissions intensity below 50 gCO₂/pkm. Hydro One has confirmed that it intends to rely on the vehicle manufacturer's test procedure disclosures to measure emissions from hybrid vehicles. Sustainalytics notes different test procedures can achieve varying results with respect to actual vehicles' CO₂ emissions, whether they intend to replicate real-driving conditions (such as WLTP) or are based on a theoretical driving profile (such as NEDC).¹³
 - Hydro One may also invest in infrastructure to support EVs and hybrid vehicles, including charging stations. The Company has communicated to Sustainalytics that it will not finance parking facilities under the Framework.
 - Sustainalytics views expenditures under this category to be in line with market practice.
- Under the Biodiversity Conservation category, Hydro One may invest in projects to protect and restore terrestrial biodiversity and natural habitats, namely, natural habitat protection initiatives.
 - Financed projects include Hydro One Network Inc.'s Pollinator Program created to support Ontario provincial policy to protect bees and other pollinators by establishing pollinator sites comprised of pollinator-friendly species such as flowering plants on Hydro One's corridor lands.^{14,15}
 - Sustainalytics views expenditures under this category to be in line with market practice.
- Under the Climate Change Adaptation category, Hydro One may finance the development, operation and maintenance of projects to mitigate and adapt to the impacts of climate change and extreme weather-related events, such as severe windstorms, icing, extreme heat, wildfires and flooding. Eligible projects may include improving hardening in transmission and distribution networks, and monitoring and forecasting software. Hydro One has communicated to

¹⁰ Hydro One has shared the Company's guiding documents on GHG management and leak strategy and fill procedures for sulphur hexafluoride switchgear with Sustainalytics for assessment on a confidential basis.

¹¹ Ottersbach, N. (2019), "Grid switchgear uses SF₆, the world's most potent greenhouse gas. How do we regulate it?", Ventura, at:

<https://www.nuventura.com/post/grid-switchgear-uses-sf6-the-world-s-most-potent-greenhouse-gas-how-do-we-regulate-it>

¹² Sustainalytics notes that all activities relate to the operation of the Ontario grid, which is less than 100 gCO₂e/kWh.

¹³ European Commission, "From NEDC to WLTP: effect on the type-approval CO₂ emissions of light-duty vehicles", (2017), at:

<https://publications.jrc.ec.europa.eu/repository/bitstream/JRC107662/kjna28724enn.pdf>

¹⁴ Ontario, "Ontario Launches Action Plan to Protect Pollinators", (2016), at: <https://news.ontario.ca/en/bulletin/43131/ontariolaunches-action-plan-to-protect-pollinators>

¹⁵ Hydro One, "What's the Buzz around our Pollinator Habitat Program?", (2022), at: <https://www.hydroone.com/about/energizing-ontario/blog/pollinator-habitat-program>

Sustainalytics that eligible projects will require a vulnerability assessment and an adaptation plan. This is aligned with market expectation.

- Under the Socio-economic Advancement of Indigenous Peoples category, Hydro One intends to finance or refinance procurement from small and medium enterprises (SMEs)¹⁶ that are majority-owned and controlled (at least 51%) by Indigenous peoples¹⁷ or are defined as an Indigenous business by an Indigenous government. Hydro One confirmed to Sustainalytics that SMEs with products related to fossil fuels and hazardous chemicals are excluded.
 - Hydro One has communicated to Sustainalytics that the procurement activities under this category will largely comprise expenditures that are directly associated with T&D projects eligible under the Framework. Sustainalytics recognizes that expenditures directly associated with assets and activities providing clear environmental or social benefits are typically favoured by the sustainable bond market. For other procurement expenditures that are based on the identity of suppliers, and are not directly related to an eligible activity under the Framework, Sustainalytics views such expenditures as being less socially impactful. Sustainalytics nonetheless recognizes the benefits of supporting SMEs owned or operated by members of historically disadvantaged groups through procurement from them.
 - The Framework stipulates that in the case of a vendor subcontracting out a portion of the awarded contract to an eligible Indigenous business, only this portion would be prorated toward expenditures under this category.
- Under the Access to Essential Services category, Hydro One intends to invest in the construction, improvements and expansion of the transmission and distribution network, providing access to the electrical grid to remote or underserved communities with no access. These expenditures are subject to the eligibility criteria for Clean Energy projects set in the Framework.
 - The Framework also stipulates investments in the construction, improvement and expansion of infrastructure that enables the deployment of high-speed broadband internet access to remote or underserved communities with limited or no access as part of the Government of Ontario's broadband and cellular action plan.^{18,19, 20, 21}
 - Sustainalytics positively notes the social impact of enabling access to electricity and broadband internet to remote and underserved communities.
- Sustainalytics notes that Hydro One has processes in place to exclude T&D infrastructure for fossil fuel power plants or improvements of segments with any direct connection to fossil fuels from any financing under the Framework. Sustainalytics view this to be in line with market practice.
- Project Evaluation and Selection:
 - Hydro One's Sustainable Finance Working Group, which includes representatives from its Treasury, Sustainability, Operations and Environmental departments, is responsible for the evaluation and selection of projects per the criteria defined in the Framework.
 - Hydro One has adopted internal environmental and social risk policies and guidelines which are applicable to all eligible projects under the Framework. Sustainalytics considers these

¹⁶ Hydro One defines SMEs as businesses with up to 500 employees, in accordance with the definition set by the Government of Canada.

Government of Canada, "SME Research and Statistics", at: <https://www.ic.gc.ca/eic/site/061.nsf/eng/home>

¹⁷ Hydro One has shared the following definitions for Indigenous peoples and Indigenous businesses with Sustainalytics: Indigenous peoples is a collective name for the original peoples of North America and their descendants. The Canadian Constitution Act (1982) recognizes three groups of Indigenous peoples: First Nations, Métis and Inuit. Indigenous business is a business which is at least 51% owned or controlled by Indigenous peoples. In cases of a partnership or joint venture, the structure must be at least 51% owned or controlled by an Indigenous business or peoples.

¹⁸ Government of Ontario, "Ontario Investing Nearly \$1 Billion to Expand and Improve Broadband and Cellular Access", (2020), at:

<https://news.ontario.ca/en/release/59057/ontario-investing-nearly-1-billion-to-expand-and-improve-broadband-and-cellular-access>

¹⁹ Hydro One has confirmed to expand and improve broadband access to underserved or unserved communities in accordance with the Ontario government's Broadband and Cellular Action Plan. The provincial government's plan aims to ensure access to high-speed internet and cellular services in underserved or unserved communities, which represent 12% of households in Ontario, mostly in rural, remote and northern communities. Moreover, the plan defines coverage for internet connections at a download speed of at least 50 Mbps and an upload speed of at least 10 Mbps.

²⁰ In the context of accessibility, Hydro One confirmed that the Canadian Radio-television and Telecommunications Commission (CRTC) is responsible for identifying the communities as part of its mandate.

²¹ Government of Ontario, "Governments of Canada and Ontario invest over \$6 million to bring high-speed internet to 1,191 rural households", (2022), at: <https://news.ontario.ca/en/release/1001856/governments-of-canada-and-ontario-invest-over-6-million-to-bring-high-speed-internet-to-1191-rural-households>

- environmental and social policies and procedures to be adequate and aligned with market expectation. For additional details, see Section 2.
- Based on the clear delineation of responsibility and the application of environmental and social risk management policies, Sustainalytics considers the Framework's project evaluation and selection procedures to be in line with market practice.
- Management of Proceeds:
 - Hydro One has confirmed to Sustainalytics that it will track the use of proceeds through the Company's Sustainable Financing Register and will maintain a level of allocation in the portfolio that matches the Sustainable Financing Instruments proceeds. The Company's Treasury Department will be responsible for tracking and managing proceeds.
 - Hydro One intends to fully allocate the net proceeds within 24 months of each issuance and has defined a 24-month look-back period for refinancing. Pending allocation, unallocated proceeds will be temporarily held in cash equivalents, used to repay debt or invested in bank deposits. Hydro One communicated to Sustainalytics that repayment of debt will relate only to operating the Ontario grid, which is less than 100 gCO₂e/kWh.
 - Based on the use of a Sustainable Financing Register and disclosure of temporary use of proceeds, Sustainalytics considers the Framework's management of proceeds to be in line with market practice.
- Reporting:
 - Hydro One will report on allocation on the Company's website within one year of the date of issuance of any Sustainable Financing Instruments and then on an annual basis until full allocation. Allocation reporting will include allocation per eligible category, share of unallocated proceeds and share of financing versus refinancing. Hydro One will also seek limited assurance over the allocation of proceeds.
 - Where feasible, Hydro One will conduct impact reporting, which is expected to include brief descriptions of selected projects as well as qualitative and quantitative impacts of the financed projects against respective key performance indicators, such as: i) new and total distance of transmission and distribution lines developed (in km); ii) annual GHG emissions reduced and avoided (in tCO₂e); iii) transmission and distribution line losses avoided (in MWh); iv) annual energy savings (in MWh); v) the reduction in absolute and relative energy usage (in %); vi) the number of eligible vehicles deployed; vii) number of charging stations installed; viii) number of Indigenous businesses supported; and ix) number of new communities connected.
 - Based on Hydro One's commitments to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Hydro One Limited Sustainable Financing Framework aligns with the four core components of the GBP, SBP, GLP and SLP.

Section 2: Sustainability Strategy of Hydro One

Contribution to Hydro One's sustainability strategy

Hydro One's sustainability strategy focuses on three areas: i) diversifying its workforce; ii) reducing its environmental footprint, which includes the Company's decarbonization plans linked to the energy system and transportation matters, as well as climate change adaptation and mitigation efforts; and iii) strengthening Indigenous and community partnership.²²

Hydro One aims to achieve net zero GHG emissions by 2050. To meet this goal, the Company targets a 30% reduction in GHG emissions by 2030 compared to a 2018 baseline. The Company also aims to reduce emissions from diesel fuel electricity generation in remote communities in the next few years. In 2023, Hydro One facilitated the connection of 10 remote communities to Ontario's electricity grid. In the same year, the Company converted approximately 35% of its fleet of sedans and SUVs to electric vehicles or hybrid vehicles, towards the goal of converting 100% of its fleet to EVs or hybrid vehicles by 2030.²³

Hydro One is committed to increasing its procurement of materials and services from Indigenous-led businesses to 5% of the Company's total purchases by 2026, whereas in 2023, the Company reached 5.7% of

²² Hydro One, "Sustainability Report 2023", (2024), accessible at: <https://www.hydroone.com/sustainability/>

²³ Ibid.

its total spend for Indigenous procurement. Additionally, the Company, in collaboration with the Government of Ontario and internet service providers, is engaged in ongoing investments to develop and expand broadband-enabling infrastructure into rural communities.²⁴

The Company reports on its sustainability performance in alignment with the GRI and SASB standards, and the TCFD recommendations. As of 2023, Hydro One reduced its scope 1 GHG emissions by approximately 24% compared to a 2018 baseline, and reported a 26% increase in its scope 2 GHG emissions compared to the same baseline, as result of line losses. The Company invested approximately CAD 2.5 billion globally in 2023 to expand the electricity grid and to renew and modernize existing grid infrastructure. In the same year, the Company reported a total procurement spending of approximately CAD 142.3 million from Indigenous-led businesses.²⁵ Hydro One launched a pilot project in 2022 that is expected to enable cost-effective access to broadband in Brighton and surrounding areas. The pilot will use the reach of existing electrical infrastructure, Acronym's existing telecommunication network, and a new network of fibre cables to make high-speed internet available to nearly 1,450 homes and businesses in the area.^{26,27}

Sustainalytics is of the opinion that the Hydro One Limited Sustainable Financing Framework is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the Sustainable Financing Instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues related to emission leaks, grid resilience, land use and biodiversity risks associated with large-scale infrastructure development, hazardous and non-hazardous waste, GHG leakages, occupational health and safety, community relations and stakeholder participation, and business ethics.

Sustainalytics is of the opinion that Hydro One is able to manage or mitigate potential risks through the implementation of the following:

- To tackle risks associated with emission leaks, Hydro One has a process to ensure compliance with applicable Canadian environmental laws and regulations, and provincial occupational health and safety laws and regulations; to identify and replace equipment that contributes to emission leaks; and to eliminate the usage of SF₆ in Hydro One's equipment whenever possible.²⁸ Additionally, Hydro One monitors each piece of equipment that emits SF₆ to meet improved monitoring standards.²⁹
- To improve grid resilience, the Company established the "Plan, Design and Build a Grid for the Future" strategic priority, as part of which the Company developed design standards to improve pole line resiliency for extreme weather events and updated engineering design standards to mitigate related risks.³⁰
- To address land use and biodiversity issues, Hydro One has established an environmental policy to prevent pollution, optimize resource use and promote environmental stewardship, among other commitments.³¹ Furthermore, the Company developed a contaminated lands management plan to effectively manage contaminated lands and identify, assess and minimize probable health and environmental risks associated with contaminations.³² Hydro One has adopted a guidance document with requirements and accountabilities for compliance with the Invasive Species Act and associated regulations when planning and executing company projects.³³ Further, the Company has an avian protection plan to protect birds and their nests.³⁴
- Regarding waste handling, Hydro One has developed a standard operating procedure with oversight from a dedicated waste management team, which applies to all of its business lines, as well as to contractors. The Company also has a resource management plan that focuses on hazardous and

²⁴ Hydro One, "Sustainability Report 2023", (2024), accessible at: <https://www.hydroone.com/sustainability/>

²⁵ Ibid.

²⁶ Hydro One, "Sustainability Report", (2022), at: https://www.hydroone.com/Sustainability/Documents/CSR_2022/HydroOne_CSR_2022.pdf

²⁷ Hydro One, "Hydro One to energize high-speed internet in the Municipality of Brighton", (2022), at: <https://www.newswire.ca/news-releases/hydro-one-to-energize-high-speed-internet-in-the-municipality-of-brighton-823183635.html>

²⁸ Hydro One has shared the Company's SF₆ Management Policy, greenhouse gas management policy and the strategy document to address SF₆ leakages directly with Sustainalytics for assessment on a confidential basis.

²⁹ Hydro One, "Sustainability Report 2023", (2024), accessible at: <https://www.hydroone.com/sustainability/>

³⁰ Ibid.

³¹ Hydro One, "Environmental Policy", (2023), at:

<https://www.hydroone.com/abouthydroone/corporatesocialresponsibility/Documents/Environmental%20Policy.pdf>

³² Information shared with Sustainalytics confidentially.

³³ Ibid.

³⁴ Ibid.

non-hazardous waste and recyclables, among other considerations. The approach is to simplify the identification, operation, control, maintenance and disposal of resources needed or affected in order to deliver electricity transmission services.³⁵

- Regarding GHG leakages, Hydro One has prepared a GHG management policy and a determined procedure to address SF₆ leakages.³⁶ The Company focuses on identifying and replacing equipment that contributes to leaks, improving gas handling through training and eliminating the usage of SF₆ in the Company's equipment whenever possible. Moreover, the Company is focusing on strategies and approaches to mitigate climate change effects related to fossil fuel and SF₆ use.³⁷
- Hydro One has a health, safety and environment management system in line with the ISO 45001 to manage or mitigate workplace injuries and hazards.^{38,39} The Company's Health and Safety Policy sets expectations and rules eliminating life-altering and life-threatening injuries, as well as fatalities.⁴⁰ Hydro One additionally has an employee-led Safety Improvement Plan to improve its safety practices on a regular basis.⁴¹
- As part of its community relations and stakeholder dialogue, Hydro One has a community relations team responsible for community-specific engagement plans and a community investment policy to strengthen its relationship with local communities. Additionally, Hydro One has an Indigenous procurement procedure developed by the Company's Indigenous relations team. Hydro One engages with NGOs, customers, investors, industry associations and other stakeholders through engagement initiatives, such as focus groups, townhalls and pulse surveys.⁴²
- Regarding business ethics, the Company's Code of Business Conduct addresses the implementation of customer relationship guidelines, compliance with laws and regulations related to business ethics and workplace discrimination and harassment. Hydro One has a process in place for anonymous reporting on violations of this code.⁴³

Based on these policies, standards and practices, Sustainalytics is of the opinion that Hydro One has implemented adequate measures and is well positioned to manage or mitigate environmental and social risks commonly associated with the eligible projects.

Section 3: Impact of Use of Proceeds

All use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP and SLP. Sustainalytics focuses below on two categories, where the impact is specifically relevant in the local context.

Importance of investing in transmission systems for the integration of renewables in Canada

As a signatory to the Paris Agreement, the Government of Canada has committed to achieving net zero emissions by 2050.⁴⁴ In 2022, the government set a target to achieve a net zero emissions grid by 2035.⁴⁵ In this context, the Canadian government invested more than CAD 960 million in the development of renewable energy and grid modernization projects in 2021, aiming to increase access to clean and affordable electricity options in the country.⁴⁶ New technology is currently being adopted to improve the traditional grid to allow reduced GHG emissions, upgraded infrastructure, meet increased electricity demand and reduce operating costs.⁴⁷ In this context, smart grid development is a key technology for monitoring and adjusting intermittencies in energy supply and demand through measures such as increased communication, more efficient transmission routing and improved demand management.⁴⁸ As such, smart grids are especially

³⁵ Information shared with Sustainalytics confidentially.

³⁶ Ibid.

³⁷ Hydro One, "Sustainability Report 2023", (2024), accessible at: <https://www.hydroone.com/sustainability/>

³⁸ ISO, "ISO 45001– Occupational health and safety management systems", at: <https://www.iso.org/standard/63787.html>

³⁹ Shared with Sustainalytics confidentially.

⁴⁰ Hydro One, "Health and Safety Policy", (2023), at: https://www.hydroone.com/poweroutagesandsafety/_Documents/Health_Safety_Policy.pdf

⁴¹ Hydro One, "Sustainability Report 2023", (2024), accessible at: <https://www.hydroone.com/sustainability/>

⁴² Ibid.

⁴³ Hydro One, "Code of Business Conduct", at:

<https://www.hydroone.com/abouthydroone/CorporateInformation/Documents/Code%20of%20Business%20Conduct.pdf>

⁴⁴ Government of Canada, "Net-Zero Emissions by 2050", (2022), at: <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050.html>

⁴⁵ Government of Canada, "Canada launches consultations on a Clean Electricity Standard to achieve a net-zero emissions grid by 2035", (2022), at: <https://www.canada.ca/en/environment-climate-change/news/2022/03/canada-launches-consultations-on-a-clean-electricity-standard-to-achieve-a-net-zero-emissions-grid-by-2035.html>

⁴⁶ Natural Resources Canada, "Canada Invests Over \$960-Million in Renewable Energy and Grid Modernization Projects", (2021), at: <https://www.newswire.ca/news-releases/canada-invests-over-960-million-in-renewable-energy-and-grid-modernization-projects-880196618.html>

⁴⁷ Wadhwa, A. et al. (2018), "Smart Grid in Canada", Natural Resources Canada, at:

<https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/canmetenergy/pdf/Smart%20Grid%20in%20Canada%20Report%20Web%20FINAL%20EN.pdf>

⁴⁸ Ibid.

relevant for integrating various renewable energy sources and providing adequate energy storage capabilities while maintaining the energy system's stability and efficiency.⁴⁹

The implementation of new grid technology and the assurance of grid reliability requires research, development, demonstration and deployment efforts.⁵⁰ Ontario's Independent Electricity System Operator (IESO) is working towards decarbonizing the province's grid on the recommendation of the provincial Minister of Energy.^{51,52} Additionally, most Ontario municipalities have called on the provincial government to phase out gas-fired electricity generation by 2030.⁵³ Due to the variable nature of wind and solar electricity generation, renewable energy sources will need to be combined with sufficient energy storage resources.⁵⁴ The Ontario Energy Board views aging infrastructure as a significant source of risk for grid reliability, and aims to deliver increased efficiency and clean technology and ensure long-term innovation and sustainability across the electricity sector.⁵⁵

Considering the above, Sustainalytics expects the investments in transmission systems under the Framework to contribute to meeting Canada's renewable energy and grid infrastructure targets, improve grid resiliency, and facilitate the integration of renewable energy into the Canadian energy grid.

Importance of socioeconomic advancement of Indigenous populations in Canada

The 1.8 million Indigenous peoples in Canada make up 5% of the country's total population representing a growing segment of the labour market and local economy, while a large share of the non-Indigenous population nears retirement age.⁵⁶ The Indigenous population is growing, albeit not as rapidly as in the past: self-identified Indigenous peoples have increased by 9.4% between 2016 and 2021.⁵⁷ As of 2020, 1.1% of SMEs in Canada were majority owned by Indigenous persons.⁵⁸ In addition, Indigenous peoples contribute more than CAD 31 billion annually to Canada's GDP.⁵⁹ Nevertheless, Indigenous businesses face a number of challenges, including limited access to the internet, finance and infrastructure needs, and lack of business networks.⁶⁰ One potential solution that has been identified by the Canadian government is to facilitate increased Indigenous participation in the procurement of products and services, which is expected to provide increased opportunities for Indigenous communities and entrepreneurs.⁶¹

In 2021, a collaboration between Public Services and Procurement Canada, Indigenous Services Canada (ISC) and the Treasury Board of Canada Secretariat aimed to implement a mandatory requirement for federal government departments to ensure that at least 5% of the total value of contracts are held by Indigenous businesses.⁶² In addition, ISC plans to invest CAD 35.2 million over the coming years to modernize the Procurement Strategy for Aboriginal Business.⁶³ The 2024 federal budget has proposed to launch the Indigenous Loan Guarantee Program with up to CAD 5 billion in loan guarantees to support Indigenous businesses' access to capital and create economic opportunities for Indigenous communities.⁶⁴

⁴⁹ IEA, "Smart Grids", (2022), at: <https://www.iea.org/reports/smart-grids>

⁵⁰ Wadhera, A. et al. (2018), "Smart Grid in Canada", Natural Resources Canada, at:

<https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/canmetenergy/pdf/Smart%20Grid%20in%20Canada%20Report%20Web%20FINAL%20EN.pdf>

⁵¹ IESO, "IESO Recommends Shift to Grid-Scale Storage in Ontario, Relying on Natural Gas Expansions to Ensure Reliability in Near-Term", (2022), at: <https://www.ieso.ca/Corporate-IESO/Media/News-Releases/2022/10/Grid-Scale-Storage-in-Ontario-Natural-Gas-Expansions-to-Ensure-Reliability-in-Near-Term>

⁵² IESO, "Resource Eligibility Interim Report", (2022), at : <https://www.ieso.ca/-/media/Files/IESO/Document-Library/resource-eligibility/resource-eligibility-interim-report.ashx>

⁵³ Ontario Clean Air Alliance Research, "Getting Ontario to a Zero-Carbon Electricity Grid by 2030", (2021), at: https://www.cleanairalliance.org/wp-content/uploads/2022/01/Zero-Emissions-Report-2022-jan-19-v_01.pdf

⁵⁴ Ibid.

⁵⁵ Ontario Energy Board, "Strategic Plan", (2022), at: <https://www.oeb.ca/sites/default/files/OEB-Strategic-Plan-2021-22-to-2025-26.pdf>

⁵⁶ Statistics Canada, "Indigenous population continues to grow and is much younger than the non-Indigenous population, although the pace of growth has slowed", (2021), at: <https://www150.statcan.gc.ca/n1/daily-quotidien/220921/dq220921a-eng.htm>

⁵⁷ Ibid.

⁵⁸ Government of Canada, "SME Profile: Ownership demographics statistics 2022", (2022), at: https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03166.html

⁵⁹ Canadian Council for Aboriginal Business, "Digital Directions: Towards skills development and inclusion of Indigenous Peoples in the new economy", (2019), at: https://www.ccab.com/wp-content/uploads/2019/02/Digital-Directions-TCS-Report-Digital-Full-Report_AA-FINAL.pdf

⁶⁰ Government of Canada, "Indigenous-Owned Exporting Small and Medium Enterprises in Canada", (2019), at: https://www.international.gc.ca/trade-commerce/inclusive_trade-commerce_inclusif/indigenous-autochtone/indigenous_sme-pme_autochtones.aspx?lang=eng

⁶¹ Government of Canada, "Modernization of Indigenous participation in procurement: discussion paper", (2019), at: <https://www.sac-isc.gc.ca/eng/1554219055004/1612130030035>

⁶² Government of Canada, "Government of Canada announces federal-wide measures to increase opportunities for Indigenous businesses", (2021), at: <https://www.canada.ca/en/public-services-procurement/news/2021/08/government-of-canada-announces-federal-wide-measures-to-increase-opportunities-for-indigenous-businesses.html>

⁶³ Ibid.

⁶⁴ Government of Canada, "Budget 2024: A Fair Future for Indigenous Peoples", (2024), at: <https://www.budget.canada.ca/2024/report-rapport/chap6-en.html>

Based on the above context, Sustainalytics expects the financing of procurement expenditures from SMEs led by Indigenous peoples under the Framework to contribute to the socio-economic advancement of Indigenous communities in Canada.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The Sustainable Financing Instruments issued under the Hydro One Limited Sustainable Financing Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Biodiversity Conservation	15. Life on Land	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened
Climate Change Adaptation	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Socio-Economic Advancement of Indigenous Peoples	8. Decent Work & Economic Growth for All 10. Reduced Inequalities	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial service 10.2 By 2030, empower and promote the social, economic, and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Access to Essential Services	7. Affordable and Clean Energy	7.1 By 2030, ensure universal access to affordable, reliable, and modern energy services

Conclusion

Hydro One has developed the Hydro One Limited Sustainable Financing Framework, under which it and its subsidiaries intend to issue Sustainable Financing Instruments, and use the proceeds to finance or refinance projects in specific environmental and social areas, including clean energy, energy efficiency, clean transportation, biodiversity conservation, climate change adaptation, socio-economic advancement of

Indigenous Peoples and access to essential services. Sustainalytics considers that the eligible projects are expected to provide positive environmental and social impacts.

The Hydro One Limited Sustainable Financing Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 8, 9, 10, 13 and 15. Additionally, Sustainalytics is of the opinion that Hydro One has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Hydro One Limited is well positioned to issue Sustainable Financing Instruments and that the Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2023), Green Loan Principles (2023) and Social Loan Principles (2023).

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