

# 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 2021, Green Loan Principles 2021 and Social Loan Principles 2021. 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 impact 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 eligibility criteria under the Framework. The Company has adopted internal environmental and social risk policies and guidelines which are applicable to all eligible projects under the Framework. Sustainalytics considers the project selection process and the application of 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 issuance and 24 months of the look-back period for its refinancing activities. Pending allocation, unallocated proceeds will be temporarily held 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 the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as the allocation per eligible category, the share of unallocated proceeds, the share of financing vs. refinancing and the description of projects financed by the proceeds. In addition, Hydro One is committed to reporting on relevant impact metrics. Sustainalytics views Hydro One’s allocation and impact reporting as aligned with market practice.



<b>Evaluation Date</b>	January 4, 2023
<b>Issuer Location</b>	Toronto, Canada

### Report Sections

Introduction.....	2
Sustainalytics’ Opinion .....	3
Appendices .....	12

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## Introduction

Hydro One Limited (“Hydro One” or the “Company”), along with its wholly owned subsidiaries, including Hydro One Inc., is the largest electricity transmission and distribution provider in Ontario, Canada. The Company has approximately 9,300 employees serving approximately 1.5 million customers.<sup>1</sup>

Hydro One has developed the Hydro One Limited Sustainable Financing Framework (the “Framework”), under which the Company and its subsidiaries<sup>2</sup> intend to issue sustainable, green or social bonds, loans and commercial papers (the “Sustainable Financing Instruments”) and use the proceeds to finance and refinance, in whole or in part, existing or future projects that are expected to support Ontario’s transition towards a low-carbon energy mix. 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, dated January 2023, 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 2021 (SBP),<sup>3</sup> Green Loan Principles 2021 (GLP) and Social Loan Principles 2021 (SLP)<sup>4</sup>. The Framework has been published in a separate document.<sup>5</sup>

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>6</sup> 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 2021, as administered by ICMA, and the Green Loan Principles 2021 and Social Loan Principles 2021, 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 1.12, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

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

<sup>1</sup> Hydro One, “Sustainability Report”, (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>2</sup> Hydro One has confirmed that it has operational control over the subsidiaries issuing through the Framework and that it will be responsible for ensuring continual alignment of the issuances with the criteria defined with the Framework.

<sup>3</sup> 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/>

<sup>4</sup> 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/>

<sup>5</sup> The Hydro One Limited Sustainable Financing Framework is available on Hydro One Limited’s website at: <https://www.HydroOne.com/SustainableFinancing>

<sup>6</sup> 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.

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 which meets the following criteria: i) more than 67% of newly connected generation assets comply with the 100 gCO<sub>2</sub>e/kWh threshold over a rolling five-year period; or ii) an average system grid emission factor of lower than 100 gCO<sub>2</sub>e/kWh over a rolling five-year period.
    - Sustainalytics notes that Hydro One relies on the grid's average direct emission intensity for its financing under the Clean Energy category since the Province of Ontario reports direct emission factors. Sustainalytics acknowledges that this may cause a distortion compared to life cycle basis measurement. Yet, given the limited share of natural gas in Ontario's grid,<sup>7</sup> 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 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.

<sup>7</sup> IESO, "2021 year in review", at: <https://www.ieso.ca/en/Corporate-IESO/Media/Year-End-Data>

- 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.<sup>8</sup> Sustainalytics positively notes Hydro One's commitment to reduce GHG emission leaks, specifically for sulphur hexafluoride (SF<sub>6</sub>). Sustainalytics notes that SF<sub>6</sub> is widely used in T&D infrastructure and encourages the Company to consider moving to alternative solutions given the potential negative impact of SF<sub>6</sub>.<sup>9</sup>
  - 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 grid<sup>10</sup> 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 an emission intensity below 50 gCO<sub>2</sub>/pkm. Hydro One has confirmed that it intends to rely on the vehicle manufacturer's test procedure disclosures to measure emissions from hybrid vehicles under the Framework. Sustainalytics notes different test procedures can achieve varying results with respect to actual vehicles' CO<sub>2</sub> emissions, whether they intend to replicate real-driving conditions (such as WLTP) or are based on a theoretical driving profile (such as NEDC).<sup>11</sup>
  - 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 with proceeds raised 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.
  - The Company may also finance projects to reduce the spread of invasive species that could impair natural vegetation. Hydro One has developed an invasive species guidance document in line with the Invasive Species Act 2015 to identify and reduce the spread of invasive species.<sup>12,13</sup>
  - The Company communicated that such projects will be executed in collaboration with conservation authorities and Indigenous communities.
  - Sustainalytics views expenditures under this category to be in line with market practice.
- Under the Climate Change Adaptation category, Hydro One may finance projects to mitigate and adapt to the impact of climate change and extreme weather-related events and impact, such as severe windstorms, icing, wildfires and flooding. Eligible projects may include improving hardening in transmission and distribution networks. Sustainalytics notes that eligible projects will require a vulnerability assessment and an adaptation plan. This is aligned with market expectation.

<sup>8</sup> 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.

<sup>9</sup> Ottersbach, N. (2019), "Grid switchgear uses SF<sub>6</sub>, the world's most potent greenhouse gas. How do we regulate it?", Energy Post, at: [https://energypost.eu/grid-switchgear-uses-sf6-the-worlds-most-potent-greenhouse-gas-how-do-we-regulate-it/#:~:text=Sulphur%20Hexafluoride%20\(SF6\)%20in%20the%20Switchgear%20Industry&text=Switchgear%20are%20vital%20components%20of,gas%20insulated%20switchgear%20\(GIS\)](https://energypost.eu/grid-switchgear-uses-sf6-the-worlds-most-potent-greenhouse-gas-how-do-we-regulate-it/#:~:text=Sulphur%20Hexafluoride%20(SF6)%20in%20the%20Switchgear%20Industry&text=Switchgear%20are%20vital%20components%20of,gas%20insulated%20switchgear%20(GIS))

<sup>10</sup> Sustainalytics notes that all activities relate to the operation of the Ontario grid, which is less than 100 gCO<sub>2</sub>e/kWh.

<sup>11</sup> European Commission, "From NEDC to WLTP: effect on the type-approval CO<sub>2</sub> emissions of light-duty vehicles", (2017), at: <https://publications.jrc.ec.europa.eu/repository/bitstream/JRC107662/kjna28724enn.pdf>

<sup>12</sup> Government of Ontario, "Invasive Species Act, 2015", at: <https://www.ontario.ca/laws/statute/s15022>

<sup>13</sup> Hydro One defines invasive species as non-native species of plants and animals whose introduction or spread threatens the environment, the economy or society, including human health. Hydro One has shared the Company's guidance document on invasive species directly with Sustainalytics for assessment on a confidential basis.

- Under the Socio-economic Advancement of Indigenous Peoples category, Hydro One intends to finance and refinance procurement from small and medium enterprises (SMEs)<sup>14</sup> that are majority-owned or -managed (at least 51%) by Indigenous peoples<sup>15</sup> or are defined as an Indigenous business by an Indigenous government. Hydro One confirmed to Sustainalytics that:
  - i) procurement expenditures represent less than 10% of the total allocation of net proceeds;
  - ii) SMEs with products related to fossil fuels and hazardous chemicals are excluded.
    - The Framework stipulates that in the case of a vendor subcontracting out a portion of the award to an eligible Indigenous business, only this portion would be pro-rated 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.<sup>16,17,18,19</sup>
  - Sustainalytics positively notes the social impact of enabling access to electricity and broadband internet to remote and underserved communities.
- Hydro One communicated that expenditures in R&D under the Framework would not exceed 10% of total net proceeds. Sustainalytics views this to be in line with market practice.
- Hydro One has confirmed that investments under this Framework will not finance T&D infrastructure for fossil fuel power plants or improvements of segments with any direct connection to fossil fuels or new nuclear plants. Sustainalytics notes that nuclear power, while a low-carbon source, is only an interim solution to aid the transition to a decarbonized energy system.
- Project Evaluation and Selection:
  - Hydro One's Sustainable Finance Working Group, which comprises 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 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 to the portfolio that matches the Sustainable Financing Instruments proceeds. The Company's Treasury Department will be responsible for tracking and managing proceeds.

<sup>14</sup> 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>

<sup>15</sup> 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 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 and controlled by Indigenous peoples. In cases of a partnership or joint venture, the structure must be at least 51% owned and controlled by an Indigenous business or peoples.

<sup>16</sup> 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>

<sup>17</sup> 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 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. Government of Ontario, "Up to Speed: Ontario's Broadband and Cellular Action Plan", at: <https://www.ontario.ca/page/speed-ontarios-broadband-and-cellular-action-plan#section-4>

<sup>18</sup> In the context of accessibility, Hydro One confirmed that CRTC is responsible for identifying the communities as part of its mandate.

<sup>19</sup> 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>



- Hydro One intends to fully allocate the net proceeds within 24 months of the issuance of Sustainable Financing Instruments and has defined a 24-month look-back period for its refinancing activities. 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 gCO<sub>2</sub>e/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 intends to report on the allocation and impact of proceeds on the Company's website within one year of the date of issuance of the Sustainable Financing Instruments and then on annual basis until full allocation. Allocation reporting will include details such as the allocation per eligible category, the share of unallocated proceeds, the share of financing vs. refinancing and the description of projects financed by the proceeds.
  - Where feasible, Hydro One will conduct impact reporting, which is expected to provide qualitative and quantitative impacts of the financed projects against respective key performance indicators, such as: i) the new and total distance of transmission and distribution lines developed (in km); ii) the annual GHG emissions reduced and avoided (in tCO<sub>2</sub>e); iii) the transmission and distribution line losses avoided (in MWh); iv) the annual energy savings (in MWh); v) the reduction in absolute and relative energy usage (in %); vi) the number of eligible vehicles deployed; vii) the number of charging stations installed; viii) the 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. For detailed information, please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Hydro One

### Contribution to Hydro One's sustainability strategy

Hydro One's sustainability strategy focuses on three areas: i) people, which addresses workplace safety, diversity, equity and inclusion; ii) planet, 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) community, which defines the Company's Indigenous and community partnerships.<sup>20,21</sup>

Hydro One aims to achieve net zero GHG emissions by 2050,<sup>22</sup> and to meet this goal, the Company targets a 30% reduction in scope 1 and 2 GHG emissions by 2030 compared to a 2018 baseline. It also intends to invest in efficient, smart and flexible energy system infrastructure to integrate additional renewable electricity-generating capacity and manage interconnections to ensure the security of supply and a resilient grid. Additionally, the Company aims to reduce emissions from diesel fuel electricity generation by 50% by connecting remote communities in northwestern Ontario to the Hydro One electricity grid and using renewable resources to generate electricity. Besides its commitment to reduce SF<sub>6</sub> emissions by 25%, Hydro One focuses on including climate considerations in the planning, design and operation of its electricity transmission and distribution infrastructure by developing climate scenarios and assessing potential impacts on its business. Hydro One aims to reduce fleet carbon emissions by 40%, in part by converting 50% of the Company's fleet of sedans and SUVs to electric vehicles or hybrid vehicles by 2025 and to 100% by 2030.<sup>23</sup>

<sup>20</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>21</sup> Hydro One, "Annual Report", (2021), at:

<https://www.hydroone.com/investorrelations/Reports/Hydro%20One%20Limited%20Annual%20Report%202021.pdf>

<sup>22</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>23</sup> Ibid.

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.<sup>24</sup> As part of the Company's community investment programme, Hydro One aims to ensure that 20% of corporate donations and sponsorships support Indigenous communities.<sup>25</sup> Additionally, the Company contributes to improving Ontario's connectivity to electrical infrastructure and expands broadband access to rural, remote and northern communities in line with the broadband deployment plans outlined by the Government of Ontario. Furthermore, Hydro One invests in battery storage solutions to improve power reliability to communities and rural customers who experience poor reliability.<sup>26</sup>

As of 2021, Hydro One reduced its scope 1 and 2 GHG emissions by 9% compared to a 2018 baseline and converted approximately 14% of its fleet of sedans and SUVs to EVs and hybrid vehicles.<sup>27</sup> The Company invested approximately CAD 2.1 billion (USD 1.53 billion) in 2021 to expand the electricity grid and to renew and modernize existing grid infrastructure, and deployed nearly 950 smart devices in Ontario communities to enable remote monitoring and control of the distribution grid. In terms of power reliability, Hydro One completed battery installations in approximately 29 homes in 2021, which are expected to reduce customer outage hours by up to 60%. In 2021, Hydro One spent CAD 58.3 million (USD 39.4 million) on Indigenous businesses.<sup>28</sup> Hydro One also launched a pilot project in 2022 to enable access to high-speed internet connectivity to nearly 1,450 underserved homes and businesses in the Brighton area of Ontario.<sup>29</sup>

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 impact. 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 in place to identify and replace equipment that contributes to emission leaks and to eliminate the usage of SF<sub>6</sub> in Hydro One's equipment whenever possible.<sup>30</sup>
- To improve grid resilience, the Company has developed design standards to improve pole line resiliency for extreme weather events and updated engineering design standards to mitigate risks occurring due to basement flooding, wind and ice damage on substations, lightning strikes on substations or large volumes of snow accumulation.<sup>31</sup>
- 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.<sup>32</sup> 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.<sup>33</sup> Hydro One has a guidance document in place to outline requirements and accountabilities to ensure compliance with the Invasive Species Act and

<sup>24</sup> Hydro One, "Annual Report", (2021), at:

<https://www.hydroone.com/investorrelations/Reports/Hydro%20One%20Limited%20Annual%20Report%202021.pdf>

<sup>25</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>26</sup> Ibid.

<sup>27</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>28</sup> Hydro One, "Annual Report", (2021), at:

<https://www.hydroone.com/investorrelations/Reports/Hydro%20One%20Limited%20Annual%20Report%202021.pdf>

<sup>29</sup> 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>

<sup>30</sup> Hydro One has shared the Company's greenhouse gas management policy and the strategy document to address SF<sub>6</sub> leakages directly with Sustainalytics for assessment on a confidential basis.

<sup>31</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>32</sup> Hydro One, "Environmental Policy", (2021), at:

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

<sup>33</sup> Hydro One has shared the Company's contaminated lands management plan directly with Sustainalytics for assessment on a confidential basis.

associated regulations when planning and executing company projects.<sup>34</sup> Further, the Company has an avian protection plan in place to protect birds and their nests.<sup>35</sup>

- Regarding waste handling, Hydro One has developed a standard operating procedure with oversight from a dedicated waste management team, which is applicable to all its business lines, including contractors. The Company has also implemented a resource management plan that focuses on hazardous and 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.<sup>36</sup>
- Regarding GHG leakages, Hydro One has prepared a GHG management policy and a determined procedure to address SF<sub>6</sub> leakages.<sup>37</sup> The Company focuses on identifying and replacing equipment that contributes to leaks, improving gas handling through training and eliminating the usage of SF<sub>6</sub> in the Company's equipment whenever possible. Moreover, the Company's climate change committee is supported by working groups on SF<sub>6</sub> use and management, focusing on strategies and approaches to mitigate climate change effects related to fossil fuel and SF<sub>6</sub> use.<sup>38</sup>
- Hydro One has a health, safety and environment management system in place in line with the ISO 45001 standards to manage or mitigate workplace injuries and hazards.<sup>39,40</sup> The Company has also put in place a Health and Safety Policy to set expectations and provide leadership to ensure life-saving rules are applied at all times and to eliminate life-altering and life-threatening injuries, as well as fatalities.<sup>41</sup> Hydro One has also established an employee-led Safety Improvement Team to improve its safety practices on a regular basis.<sup>42</sup>
- As part of its community relations and stakeholder dialogue, Hydro One has established 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, town halls and pulse surveys.<sup>43</sup>
- Regarding business ethics, the Company developed a Code of Business Conduct to address health and safety issues, avoid discrimination and workplace harassment, safeguard Hydro One's assets, and implement relationship guidelines and compliance with corresponding laws and regulations. Hydro One has a process in place for anonymous reporting on violations of this code.<sup>44</sup>
- The Company reports on its sustainability performance in alignment with the GRI and SASB standards, and the TCFD recommendations.<sup>45</sup>

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 categories.

### Section 3: Impact of Use of Proceeds

All seven 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.

<sup>34</sup> Hydro One has shared the Company's invasive species guidance document directly with Sustainalytics for assessment on a confidential basis.

<sup>35</sup> Hydro One has shared the Company's avian protection plan directly with Sustainalytics for assessment on a confidential basis.

<sup>36</sup> Hydro One has shared the Company's resource management plan directly with Sustainalytics for assessment on a confidential basis.

<sup>37</sup> Hydro One has shared the Company's greenhouse gas management policy and the strategy document to address SF<sub>6</sub> leakages directly with Sustainalytics for assessment on a confidential basis.

<sup>38</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>39</sup> ISO, "ISO 45001 – Occupational health and safety management systems", at: <https://www.iso.org/standard/63787.html>

<sup>40</sup> Hydro One has shared the Company's health, safety and environment management system document directly with Sustainalytics for assessment on a confidential basis.

<sup>41</sup> Hydro One, "Health and Safety Policy", (2021), at: [https://www.hydroone.com/poweroutagesandsafety/Documents/Health\\_Safety\\_Policy.pdf](https://www.hydroone.com/poweroutagesandsafety/Documents/Health_Safety_Policy.pdf)

<sup>42</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)

<sup>43</sup> Ibid.

<sup>44</sup> Hydro One, "Code of Business Conduct", at:

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

<sup>45</sup> Hydro One, "Sustainability Report", (2021), at: [https://www.hydroone.com/Sustainability/Documents/CSR\\_2021/HydroOne\\_CSR\\_2021.pdf](https://www.hydroone.com/Sustainability/Documents/CSR_2021/HydroOne_CSR_2021.pdf)



### 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.<sup>46</sup> In 2022, the government set a target to achieve a net zero grid by 2035.<sup>47</sup> In this context, the Canadian government invested more than CAD 960 million (USD 700 million) in the development of renewable energy and grid modernization projects in 2021, with the aim to increase the access to clean and affordable electricity options in communities across the country.<sup>48</sup> New technology is currently being adopted to improve the traditional grid to allow reduced GHG emissions, upgraded infrastructure, the ability to meet increased electricity demand and reduced operating costs.<sup>49</sup> Smart grid development is key technology to monitor energy flows and adjust to changes in the energy supply and demand through measures such as increased communication, more efficient transmission routing and improved demand management.<sup>50</sup> Smart grids are especially relevant for integrating various renewable energy sources and providing adequate energy storage capabilities while maintaining the energy system's stability and efficiency.<sup>51</sup>

The implementation of new grid technology and the assurance of grid reliability requires research, development, demonstration and deployment efforts.<sup>52</sup> The Independent Electricity System Operator (IESO) is working towards decarbonizing Ontario's grid on the recommendation of the provincial Minister of Energy, and IESO intends to share the analysis by the end of 2022.<sup>53,54</sup> Furthermore, the majority of Ontario municipalities have called on the provincial government to phase out gas-fired electricity generation by 2030.<sup>55</sup> Due to the variable nature of wind and solar electricity generation, renewable energy sources will need to be combined with sufficient energy storage resources.<sup>56</sup> 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, as well as ensure long-term innovation and sustainability across the electricity sector.<sup>57</sup>

Considering the above, Sustainalytics expects the investments carried out 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

There are 1.8 million Indigenous peoples living in Canada as of 2021, accounting for 5% of the country's total population, and they may represent a growing segment of the labour market and local economy as a large share of the non-Indigenous population nears retirement age.<sup>58</sup> 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.<sup>59</sup> As of 2020, 1.1% of SMEs in Canada were majority owned by Indigenous persons.<sup>60</sup> In addition, Indigenous peoples contribute more than CAD 31 billion (USD 22.55 billion) annually to Canada's GDP.<sup>61</sup> Nevertheless, Indigenous businesses face a number of challenges, including limited internet access, access

<sup>46</sup> 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>

<sup>47</sup> 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>

<sup>48</sup> 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>

<sup>49</sup> 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>

<sup>50</sup> Ibid.

<sup>51</sup> IEA, "Smart Grids", (2022), at: <https://www.iea.org/reports/smart-grids>

<sup>52</sup> 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>

<sup>53</sup> 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>

<sup>54</sup> IESO, "Resource Eligibility Interim Report", (2022), at: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/resource-eligibility/resource-eligibility-interim-report.ashx>

<sup>55</sup> 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](https://www.cleanairalliance.org/wp-content/uploads/2022/01/Zero-Emissions-Report-2022-jan-19-v_01.pdf)

<sup>56</sup> Ibid.

<sup>57</sup> Ontario Energy Board, "Strategic Plan", (2022), at: <https://www.oeb.ca/sites/default/files/OEB-Strategic-Plan-2021-22-to-2025-26.pdf>

<sup>58</sup> 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>

<sup>59</sup> Ibid.

<sup>60</sup> Government of Canada, "SME Profile: Ownership demographics statistics 2022", (2022), at: [https://www.ic.gc.ca/eic/site/061.nsf/eng/h\\_03166.html](https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03166.html)

<sup>61</sup> 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](https://www.ccab.com/wp-content/uploads/2019/02/Digital-Directions-TCS-Report-Digital-Full-Report_AA-FINAL.pdf)

to financing, infrastructure needs and lack of business networks.<sup>62</sup> 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.<sup>63</sup>

In 2021, the 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.<sup>64</sup> In addition, ISC plans to invest CAD 35.2 million (USD 25.65 million) over the coming years to modernize the Procurement Strategy for Aboriginal Business.<sup>65</sup> As part of the 2022 federal budget, the ISC, National Aboriginal Capital Corporations Association and Métis Capital Corporations are providing Indigenous SMEs up to 50% of loan forgiveness to support their economic recovery in the wake of the COVID-19 pandemic.<sup>66</sup>

Based on the above context, Sustainalytics expects the investments carried out under the Framework to contribute to 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

<sup>62</sup> 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](https://www.international.gc.ca/trade-commerce/inclusive_trade-commerce_inclusif/indigenous-autochtone/indigenous_sme-pme_autochtones.aspx?lang=eng)

<sup>63</sup> Government of Canada, "Modernization of Indigenous participation in procurement: discussion paper", (2019), at: <https://www.sac-isc.gc.ca/eng/1554219055004/1612130030035>

<sup>64</sup> 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>

<sup>65</sup> Ibid.

<sup>66</sup> Government of Canada, "Government of Canada announces up to 50% loan forgiveness to support economic recovery of Indigenous businesses", (2022), at: <https://www.canada.ca/en/indigenous-services-canada/news/2022/10/government-of-canada-announces-up-to-50-per-cent-loan-forgiveness-to-support-economic-recovery-of-indigenous-businesses.html>

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 intends to issue Sustainable Financing Instruments and use the proceeds to finance or refinance projects in 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 projects are expected to provide positive environmental and social impact.

The Hydro One Limited Sustainable Financing Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes 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 funded by the proceeds.

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 (2021), Green Loan Principles (2021) and Social Loan Principles (2021).

## Appendices

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name:	Hydro One Limited
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Hydro One Limited Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	January 4, 2023
Publication date of review publication:	
Original publication date <i>[please fill this out for updates]</i> :	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

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 or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 8, 9, 10, 13 and 15.

#### Use of proceeds categories as per GBP:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy  | <input checked="" type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input checked="" type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): Clean Energy                        |

If applicable please specify the environmental taxonomy, if other than GBPs:

#### Use of proceeds categories as per SBP:

- |   |   |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure  | <input checked="" type="checkbox"/> Access to essential services                        |
| <input type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment           |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):  |



If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

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

### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available                | <input type="checkbox"/> Other (please specify):  |

### Information on Responsibilities and Accountability

- |   |   |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):  |   |

## 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Hydro One's Treasury department will be responsible for tracking and management of proceeds through the Company's Sustainable Financing Register. Hydro One intends to reach full allocation within 24 months of issuance and with 24 months of lookback period for its refinancing activities. Pending allocation, proceeds will be temporarily held in cash equivalents, used to repay debt or invested in bank deposits. Sustainalytics considers this to be in line with market practice.

### Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds

Other (please specify):

**Additional disclosure:**

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify):  |

**4. REPORTING**

Overall comment on section (if applicable):

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, the share of unallocated proceeds, the share of financing vs. refinancing and description of projects financed by the proceeds. In addition, Hydro One is committed to reporting on relevant impact metrics. Sustainalytics views Hydro One's allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

**Information reported:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Allocated amounts  | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (please specify):<br>outstanding amount of net proceeds yet to be allocated; the share of proceeds used for financing vs refinancing, brief description on selected projects |   |

**Frequency:**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Impact reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings  Energy Savings
- Decrease in water use  Number of beneficiaries
- Target populations  Other ESG indicators (please specify):

**Frequency:**

- Annual  Semi-annual
- Other (please specify):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report
- Information published in ad hoc documents  Other (please specify): Company's website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)****SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- Consultancy (incl. 2<sup>nd</sup> opinion)  Certification
- Verification / Audit  Rating
- Other (please specify):

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's

overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.



## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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