

Second Party Opinion

Augstsprieguma tīkls AS' Green Bond Framework

Oct. 6, 2021

Augstsprieguma tīkls AS (AST) is a government-owned, independent electricity transmission system operator (TSO) that operates and develops electric power transmission in Latvia. AST has about 5,600 kilometers (km) of transmission lines that transmit approximately 8,700 gigawatt hours (GWh) of electricity through Latvia.

In our view, AST's green bond framework, published in October 2021, is aligned with:

 Green Bond Principles, ICMA, 2021

Issuer's Sustainability Objectives

As a government-owned electricity TSO, AST plays an important role in establishing a secure, sustainable, and efficient transmission network in Latvia. AST's strategy is to contribute to eight of the U.N.'s sustainable development goals (SDGs) as it works toward achieving Latvia's objective of becoming carbon neutral by 2050.

AST's sustainability objectives include developing energy- and cost-efficient infrastructure, especially for renewable electricity; deliver a continuous, efficient, and affordable energy transmission service; promote industry innovation development (such as systems digitalization); and introducing measures that help mitigate climate change. As a medium priority, AST is working toward responsible consumption and ensuring a minimal impact on the environment while ensuring sustainable working conditions within the company and across the value chain.

AST's projects--such as the Latvia-Estonia Third Interconnection project and its initiative to ultimately disconnect from Russia's and Belarus' fossil-intensive power sector--are aimed at ensuring a more reliable, green power supply as it connects with the EU's electricity market. Similarly, higher voltage lines via the Kurzeme Ring transmission project should increase grid strength and reliability, while promoting wind renewable capacity. Through its green bond framework, AST aims to raise funds that will directly contribute to its objective of ensuring the security of energy supply for Latvia.

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Second Party Opinion Summary

Use of proceeds

Alignment  AST's green bond framework is aligned with this component of the Green Bond Principles.

Score **Satisfactory** Strong Advanced

AST commits to utilizing the net proceeds of the financing instruments issued under the framework to fund eligible green assets. The company provides a clear description of eligible green projects.

Process for project selection and evaluation

Alignment  AST's green bond framework is aligned with this component of the Green Bond Principles.

Score **Satisfactory** Strong Advanced

AST outlines in its green bond framework the process for selecting green eligible projects. The framework specifies that a member of AST's board is responsible for approving a list of eligible green projects every quarter. The quality management department, together with the Treasury department, will recommend and update the list of eligible projects. AST specifies it has procedures in place to manage environmental and social risks related to eligible projects.

Management of proceeds

Alignment  AST's green bond framework is aligned with this component of the Green Bond Principles.

The green bond framework states that the net proceeds of the issuance will be credited to a designated sub-account to be tracked appropriately. AST monitors the use of proceeds on a regular basis. The framework specifies that unallocated proceeds will be placed in a liquidity reserve as a temporary measure.

Reporting

Alignment  AST's green bond framework is aligned with this component of the Green Bond Principles.

Score **Satisfactory** Strong Advanced

AST commits to reporting the allocation of proceeds across the eligible projects until full allocation on the portfolio level. Impact reporting will be conducted where possible. AST will publish a green bond report with all relevant information on an annual basis, and this will be available as a part of an annual report, sustainability report, or on its website.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 AST's green bond framework is aligned with this component of the Green Bond Principles.

Commitments score

Satisfactory

Strong

Advanced

We consider AST's overall use of proceeds commitments to be satisfactory.

We believe AST's framework aligns with the Principles because it commits to allocating all net proceeds toward financing and refinancing of eligible green projects. The framework identifies three eligible green project categories, namely, (i) renewable energy, (ii) energy efficiency, and (iii) quality, security, and resilience of electricity transmission infrastructure, to which the primary objectives of the selected projects must align.

The eligible projects include the Latvia-Estonia third interconnection, the Kurzeme Ring project, the EU synchronization project, and update of transmission lines and substations. In our view, these projects support efficient infrastructure, allowing AST to connect future renewable energy generation capacity (namely wind), reduce and eventually eliminate the need for fossil fuel to support additional energy demand, and provide better stability in AST's operations. Therefore, we believe these projects contribute to pollution prevention and control, as well as climate-change mitigation environmental objectives.

In addition, each year, AST will disclose the proportion of proceeds allocated to refinanced projects as part of its sustainability and annual reports, available on its website, which we view as a strength.

However, the framework does not specify any look-back period for refinanced projects.

Process for project selection and evaluation

The Principles make optional recommendations for stronger structuring practices, which informs our commitments opinion as satisfactory, strong, or advanced. For process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance.

 AST's green bond framework is aligned with this component of the Green Bond Principles.

Commitments score

Satisfactory

Strong

Advanced

We consider AST's overall process for project selection and evaluation commitments to be satisfactory.

AST's green bond framework provides a description of the process for project selection and evaluation as per the principles' requirements. The quality management department together with the Treasury department will analyze and recommend projects that comply with the stated criteria on a quarterly basis. A member of the board approves the final list of eligible green projects. The treasurer and treasury department will maintain an updated list of eligible green projects. The framework further specifies that the proceeds will not be used for energy generation through fossil fuel or nuclear sources.

The framework states that the process for project selection and evaluation complies with the issuer's environmental and corporate social responsibility policies, both of which are available in AST's sustainability report. Therefore, all eligible projects will be screened through internal environmental and social risk assessment procedures and may be additionally examined by an independent external specialist.

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However, while the framework mentions an intent to follow developments in industry standards and might refer to different standards in the future, currently it does not incorporate any taxonomies, standards, or certifications as part of the project selection process. In addition, the company does not have a defined process to identify mitigants to negative social and environmental impacts that arise from the selected projects.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✓ AST's green bond framework is aligned with this component of the Green Bond Principles.

We believe the company's framework aligns with the principles, since AST commits to transferring the proceeds of issuance under this framework into a separate sub-account for tracking purposes. Because all issuances will be tracked at the portfolio level, the company will ensure that sufficient eligible green projects are available in the portfolio and can remove or add projects when needed. In the event of any unallocated proceeds, AST will temporarily place them in liquidity reserves.

However, the framework does not specify the timeframe by which all funds should be allocated to eligible projects.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ AST's green bond framework is aligned with this component of the Green Bond Principles.

Disclosure score

Satisfactory

Strong

Advanced

We consider AST's overall reporting practices to be satisfactory.

We believe the company's framework aligns with the principles because it commits to annual reporting on allocation of proceeds and impact reporting at the portfolio level. The framework states that the yearly sustainability and annual reports will each contain a section on green bond reporting, which is to include: (i) the total amount of proceeds; (ii) share of proceeds used for financing/refinancing; (iii) share of proceeds across identified eligible green project categories, and (iv) examples of eligible green projects.

AST will report, as far as feasible, on certain quantitative environmental metrics associated with green projects, such as estimated megawatts of energy and carbon dioxide saved annually, and access to/or newly made connections to renewable generation capacity, among others.

In addition, the framework stipulates that, to further promote transparency in the management of proceeds, AST may engage an external party to verify the use of proceeds after issuance, on an annual basis.

Tempering our assessment is that AST's framework does not disclose the key underlying methodology used to calculate the quantitative performance measures. In addition, AST does not commit to having an independent third-party verification or audit of its impact reporting after issuance.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), set up by the U.N. in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

AST's green bond framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Renewable energy				
	*12. Responsible consumption and production	13. Climate action	15. Life on land	
Energy efficiency				
	*7. Affordable and clean energy	*9. Industry, innovation and infrastructure	15. Life on land	
**Quality, security, and resilience of electricity transmission infrastructure				
	7. Affordable and clean energy	9. Industry, innovation and infrastructure	8. Decent work and economic growth	17. Partnerships for the goals

*The eligible project categories link to these SDGs in the ICMA mapping.

**Quality, security and resiliency of electricity transmission infrastructure is not a distinct project category in the GBP and in the ICMA mapping.

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