

# **AVANGRID FRAMEWORK FOR GREEN FINANCING**

**September 2021**

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# I. INTRODUCTION

## 1. Commitment to Sustainability

AVANGRID is a leading sustainable energy company at the forefront of the U.S. clean energy transition. As a New York corporation headquartered in Orange, Connecticut, with approximately \$38 billion in assets and operations in 24 states, AVANGRID employs over 7,000 people. Iberdrola S.A., a global leader in the energy industry, directly owns 81.5% of outstanding shares of AVANGRID common stock.

Within AVANGRID's [2020 Sustainability Report](#), CEO Dennis Arriola writes:

“AVANGRID is working to do its part to invest in infrastructure, sustainably rebuild our economy, and create a cleaner, healthier future. Every step of the way, our actions will be guided by our Environmental, Social, Governance and Financial Sustainability (ESG+F) framework, as a better and balanced way to do business – doing good by doing well for our customers, employees, communities and shareholders.

We are championing a cleaner energy future from all sides – deploying wind and solar nationwide, investing in the future of offshore wind, and building the stronger, more resilient grid that will serve as the backbone for this energy transition.”

To advance these vital initiatives, we have built a foundation that starts with strong corporate governance and a commitment to ethics and integrity, as well as our core commitment to safety, security and our employees. The concepts are embedded into every action and decision. AVANGRID continues to be recognized as a leader in sustainability:

- Part of the Carbon Disclosure Project, a global environmental disclosure system.
- Constituent of the FTSE4Good Index Series, which is designed to measure the performance of companies demonstrating strong ESG practices.
- Listed by Forbes and JUST Capital as one of the 2021 JUST 100, an annual ranking of the most just public companies in the U.S. AVANGRID was ranked best in the utility industry for our commitment to our communities and to the environment.
- Earned a place for the third year on the Global Clean 200 list, which includes 200 global, publicly-traded companies according to the size of “clean revenue” from products and services that provide solutions for the planet.
- Earned the prestigious Compliance Leader Verification status from the Ethisphere Institute, valid through 2021.
- Listed for the third consecutive year by the Ethisphere Institute as one of the World’s Most Ethical Companies® in 2021.

- Recognized by *World Finance Magazine* for “best corporate governance” in the United States in 2020.
- Named North American utility with the “best corporate governance” for 2019 by *Ethical Boardroom* magazine.

The company operates regulated utilities and electricity generation through two primary lines of business.

- **Avangrid Networks** includes eight electric and natural gas utilities, with a rate base of \$10.7 billion serving 3.3 million customers in New York and New England. Avangrid Networks contributes approximately 80% of the company’s earnings. We continue to place a strong emphasis on investing in the reliability and safety of our system to meet the current and future needs of our customers. We are actively replacing aging infrastructure with modern solutions, as well as using new technologies for enhanced storm resilience and to enable smarter customer energy management.
- **Avangrid Renewables** is the third largest wind operator in the U.S. It offers unique energy management services with highly developed expertise across all energy markets within the U.S., leading to the creation of customized energy products and solutions for customers. Avangrid Renewables owns and operates 8.5GW of electricity capacity, primarily through wind power, with a presence in 22 states across the United States. Most existing generation and all projects currently under construction feature long-term power sale agreements with utilities and industrial customers. Avangrid Renewables will add approximately 700 MW of new wind and solar in 2021 and plans to invest nearly \$8 billion over the next five years, expanding total installed capacity to over 13 GW by 2025.

AVANGRID is committed to transforming the current energy model towards one in which the priority is the well-being of people and the conservation of the planet. This commitment is reflected in our corporate purpose: Working together to deliver a more accessible clean energy model that promotes healthier, more sustainable communities every day. This purpose and our strategy and actions are inspired by, and built on, three core values:

**SUSTAINABLE:** We seek to be a model of inspiration for creating economic, social and environmental value in our communities, and we act positively to affect local development, generate employment and give back to the community.

**AGILE:** We act efficiently and with passion to drive innovation and continuous improvement at both the local and global level.

**COLLABORATIVE:** We work together toward a common purpose and mutual benefit while valuing each other and our differences.

AVANGRID has one of the cleanest generation portfolios in the industry, with a 90% balance of renewables and an emissions intensity that is over seven times lower than the U.S. utility average. In 2017, we pledged to be 100% carbon neutral in our Scope 1 CO<sub>2</sub> emissions by 2035, making AVANGRID the first U.S. utility to set a goal for carbon

neutrality. Last year, we reduced our CO<sub>2</sub> emissions intensity from generation activities by 30% compared with 2019, to 51.2 grams of CO<sub>2</sub> per kWh of electricity produced (112.9 pounds / MWh), seven times lower than the U.S. utility average<sup>1</sup>, and we furthered this commitment with a pledge to reduce Scope 1 greenhouse gas<sup>2</sup> emissions intensity 35% by 2025 (relative to 2015). AVANGRID remains committed to reducing its carbon footprint and contributing to a low-carbon and sustainable future, delivering clean, low emission energy, minimizing the environmental impact of our activities and supporting and promoting actions that address climate change.

Sustainability is firmly entrenched in the values and principles that guide our Board of Directors, and respect for people, safety, communities and the environment are key priorities driving our business strategy. AVANGRID seeks to create shared value in a sustainable manner, with a long-term vision that achieves a better future for employees, customers, shareholders and other stakeholders, and focuses on providing a high-quality service through the use of environmentally-friendly energy sources and other innovations. In this respect, AVANGRID strives for the sustainable development of the communities in which the AVANGRID Group does business and endeavors to foster local economic development, the generation of employment, and prosperity.

In 2018, AVANGRID incorporated the Sustainable Development Goals (SDGs) approved by the member states of the United Nations into the company's strategy and governance system. In line with this principle, AVANGRID focuses its efforts on affordable, clean energy while nurturing sustainable communities through investments in research, development and innovation. This is aligned with the company's continued stewardship for action on climate.

As a leading sustainable energy company, our activities are principally focused on SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action). These goals are fully integrated into AVANGRID's strategy and [sustainability policy](#).



**Affordable and Clean Energy (SDG 7):** AVANGRID's core energy generation activity is clean, emission-free wind and solar electricity. We are providing customers with cleaner, reliable, consistent energy, with renewables and traditional generation working together in the U.S. energy mix. The current target is to increase Avangrid Renewables' installed capacity by more than 100% by the end of 2025 compared to a 2015 baseline.



**Climate Action (SDG 13):** Increased use of renewables reduces the average emissions of U.S. energy. In addition to our growth in renewable energy capacity, we also seek to reduce our operational emissions and energy losses in transmission and distribution, which remain below 9%. We support policies that enable renewable energy and encourage low carbon energy. The current targets are to achieve a 35% decrease in Scope 1 greenhouse gas emissions

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<sup>1</sup> As reported by the U.S. Energy Information Administration through November 2020

<sup>2</sup> Scope 1 emissions includes all direct greenhouse gas emissions from sources that are owned or controlled by the AVANGRID Group such as power generation facilities, offices and fleet vehicles. Greenhouse gases include carbon dioxide (CO<sub>2</sub>), Sulfur hexafluoride (SF<sub>6</sub>), and methane (CH<sub>4</sub>).

intensity by 2025 (relative to 2015) and to be carbon neutral in our Scope 1 emissions by 2035.

AVANGRID's Outlook for 2021-2025 forecasts a net investment program of \$20.6 billion, including \$8.2 billion in renewable generation. We consider Green Financing to be a valuable tool in supporting funding for our investment program, for supporting AVANGRID's broader commitment to socially responsible business practices and for creating accountability with investors for achieving our ambitious goals.

We issued our first green bond in November 2017 and allocated the net proceeds of the \$600 million bond to three Avangrid Renewables projects with a total installed capacity of 339.25 MW: Amazon Wind Farm North Carolina – Desert Wind (NC), Powered by Avangrid Renewables, Gala Solar Plant (OR) and Twin Buttes II Wind Farm (CO). The net proceeds of our \$750 million second green bond issued in May 2019 has been allocated to four wind projects with a total installed capacity of 885 MW -- Montague (OR), Karankawa (TX), Patriot (TX) and Otter Creek (IL). On April 7, 2020, AVANGRID completed its third green bond issuance with a \$750 million 5-year bond, the proceeds of which are being allocated to projects that are expected to go into service during 2021 and 2022.

## 2. Scope

This **Framework** covers the selection, monitoring and reporting for Green Financing instruments for AVANGRID and its subsidiaries.

## 3. Principles and general guidelines

The aim of this Framework is to facilitate transparency, disclosure, integrity and quality in AVANGRID's Green Financing for interested investors and stakeholders. The framework is inspired by and follows the **Green Bond Principles** ("GBPs") published by the International Capital Markets Association (ICMA) and updated in 2021 and the **Green Loan Principles** ("GLPs") published by the Loan Syndications and Trading Association (LSTA) and updated in 2021. As a result, this Framework covers AVANGRID's procedures and commitments relating to the four core components of the GBPs:

1. **Use of Proceeds**
2. **Process for Projects Evaluation and Selection**
3. **Management of Proceeds**
4. **Reporting**

The Framework also covers:

5. **External Review**

## II. PROCEDURES

### 1. Use of Proceeds

The amount equal to the *net proceeds* of green financing instruments will be used to finance and / or refinance, in whole or in part, green projects, assets or activities that meet the eligibility requirements defined below in Section II. 2., (hereafter “Eligible Projects”). Eligible Projects will fall into four categories:

Eligible green project category	Eligibility criteria and example projects	Expected Impact Metrics
Renewable Energy	<ul style="list-style-type: none"> <li>• <b>Investments in the construction, development, operation and maintenance of renewable electricity production units</b> (limited to onshore and offshore wind, and photovoltaic and CSP solar)   <b>Examples include wind and solar generation plants</b></li> </ul>	<ul style="list-style-type: none"> <li>- Avoided GHG emissions (MT CO2e)</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Investments in transmission and distribution networks projects that connect renewable generation sources</b>   <b>Examples include transmission projects dedicated principally or solely to delivering renewable energy to load centers</b></li> </ul>	<ul style="list-style-type: none"> <li>- Avoided GHG emissions (MT CO2e)</li> <li>- New / total miles of transmission lines dedicated to delivering renewable power</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Investments in the transmission and distribution grid that enable distributed renewable generation and support the achievement of renewable portfolio / clean energy targets</b> (investments unrelated to increasing use of renewable generation sources will not be included)   <b>Examples include smart grid technologies, advanced metering infrastructure, distributed automation</b></li> </ul>	<ul style="list-style-type: none"> <li>- Avoided GHG emissions (MT CO2e) (where measurable and feasible), qualitative disclosure of network characteristics</li> </ul>

<p><b>Energy Efficiency</b></p>	<ul style="list-style-type: none"> <li>• <b>Investments in transmission and distribution networks projects that aim at improving system efficiency and / or energy use management</b></li> </ul> <p>Examples include automated metering, consumer demand response technologies, LED street lighting</p>	<ul style="list-style-type: none"> <li>- Automated meters installed</li> <li>- Avoided GHG emissions (MT CO2e)</li> <li>- Expected energy savings per year (MWh)</li> </ul>
<p><b>Climate Change Adaptation</b></p>	<ul style="list-style-type: none"> <li>• <b>Investments focused on resiliency and hardening in transmission and distribution networks focused on mitigating the impact of extreme weather events, e.g., severe windstorms, icing, flooding</b> (investment in normal aged asset replacement)</li> </ul> <p>Examples include SCADA controls, automated reclosers, circuit shortening, tree wire, selective undergrounding</p>	<ul style="list-style-type: none"> <li>- Number of grid devices installed</li> <li>- Qualitative disclosure of additions by type</li> </ul>
<p><b>Clean Transportation</b></p>	<ul style="list-style-type: none"> <li>• <b>Investments related to fleet vehicle electrification, charging station infrastructures and other supporting infrastructure</b></li> </ul> <p>Examples include fleet EVs, Charging stations</p>	<ul style="list-style-type: none"> <li>- Avoided GHG emissions (MT CO2e)</li> <li>- Charging stations supported (number of ports)</li> <li>- Electric vehicles added to fleet (number of vehicles)</li> </ul>

Exclusions:

- Activities related to the exploration, production or transportation of fossil fuels (e.g., coal, oil and gas)
- Consumption of fossil fuels for the purpose of power generation
- Nuclear energy
- Electric vehicle infrastructure does not include roads or parking garages

Eligible projects will contribute to achievement of one or more of the following overarching objectives: 1) AVANGRID's commitment to reduce emissions intensity by 35% by the end of 2025 (compared to a 2015 baseline) and to be carbon neutral by 2035, 2) to increase AVANGRID renewables installed capacity by more than 100% by the end of 2025 (compared to a 2015 baseline), 3) the clean energy objectives and/or renewable portfolio standards in the states in which our regulated utilities operate.

All projects to be financed, or refinanced, in whole or in part, using the proceeds of green financing instruments will be located in the U.S.

## 2. Process for Projects Evaluation and Selection

### A. Selection Process

- a. The selection process is carried out by the AVANGRID Green Financing Committee, chaired by the AVANGRID Vice President -Treasurer, and is populated by a management representative charged with production of the Sustainability Report, representatives from the Networks and / or Renewables business segments, a representative from the Legal staff and a representative from the CEO's staff.
- b. The Green Financing Committee will conduct a screening and selection process as shown in the diagram on page 9 of this Framework prior to each Green Financing event to identify Eligible Projects that will be financed with the net proceeds.
- c. The Green Financing Committee will monitor the selected Eligible Projects for continuing eligibility. Should a project fail one or more of the eligibility criteria during the life of the Green Financing to which it is allocated, the Green Financing Committee is charged with identifying and substituting an alternative Eligible Project.

### B. Eligible Projects must meet all of the following criteria:

- a. All Projects undergo an environmental risk assessment and the results thereof are used to determine whether the project will deliver *measurable* contributions toward AVANGRID's focus on reducing emissions intensity, building an affordable and clean energy supply (SDG 7) and acting for the climate (SDG 13).
- b. Projects, or portions thereof, not encumbered by third party financing or currently allocated to another Green Financing instrument issued by AVANGRID or its subsidiaries or affiliates or by AVANGRID's majority shareholder (IBERDROLA S.A.) or its affiliates.
- c. Projects already in operation, or expected to be in operation within 30 months, of the funding date and project expected life extends beyond maturity of expected Green Financing.
- d. All Projects will undergo an assessment to ensure that the development, construction and operation have been, and are being carried out, in accordance with AVANGRID's Corporate Governance and Regulatory Policies, Social Responsibility Policies and Compliance Policies.<sup>3</sup>
- e. An exclusion criteria is applied in the case of any material adverse events, defined as an event reportable to the U.S. Securities and Exchange Commission, related to AVANGRID's Corporate Governance and Regulatory Policies, Social Responsibility Policies and Compliance Policies at the Project level that result in litigation or material regulatory sanctions or fines.

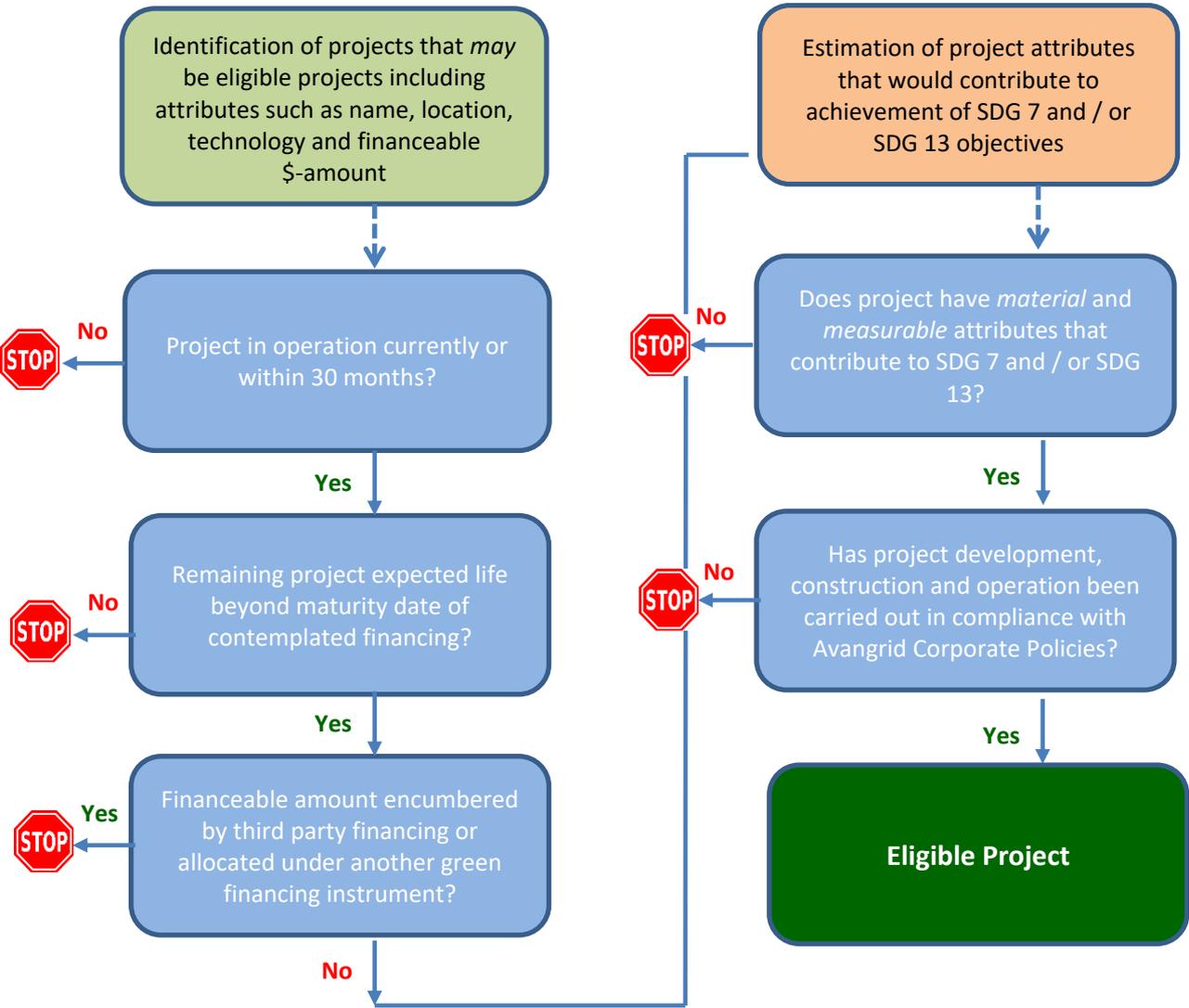
### **C. Project Substitution**

In the event that the Green Finance Committee cannot confirm the continuing eligibility of any project, the Committee will substitute an Eligible Project. A substitution and the reason therefore will be reported in the Sustainability Report.

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<sup>3</sup> These policies are available at:  
<https://www.avangrid.com/wps/portal/avangrid/corporategovernance/CorporateGovernanceSystem/CorporatePolicies>.

**Diagram: Process for Project Evaluation & Selection**



### 3. Management of Proceeds

- The financeable amount of the Eligible Projects associated with each Green Financing will equal or exceed the net proceeds of the financing.
- All net proceeds will be allocated to the Eligible Projects at settlement or within 30 months thereof.
- In circumstances where, because a project is under development or construction, the net proceeds are not allocated at the financial closing, AVANGRID will track and report on proceeds disbursement in its Sustainability Report until all net proceeds are disbursed.
  - When net proceeds flow into the general corporate treasury, unallocated funds will be tracked in the Company's accounting and management reporting systems in which expenditures on Eligible Projects can be identified. Unallocated funds would be used to improve AVANGRID's liquidity position by reducing revolving borrowings or investment in safe, liquid short-term investments.
  - When net proceeds flow into a company established to hold specific Eligible Projects assets (i.e., a "project financing"), AVANGRID will establish separate accounts to hold unallocated funds from which disbursements would be made. Unallocated funds would be invested in safe, liquid short-term investment instruments or used to temporarily reduce AVANGRID's short-term borrowings.
- Upon full allocation, an independent party will verify that the net proceeds have been allocated to Eligible Projects.

## 4. Reporting

**AVANGRID will report on its Green Financings annually in its annual Sustainability Report. The Report will provide:**

The identifying characteristics of each green financing instrument:

- Issuing entity
- Issue date
- Issue identification number (e.g., ISIN, CUSIP)
- Face value
- Maturity date
- Coupon
- Amount of unallocated proceeds

The Eligible Projects to which the net proceeds of the Green Financing instrument are allocated and certain identifying characteristics thereof:

- Business segment in which the asset is located
- Type of asset (e.g., Networks, Onshore wind)
- Name of the project
- Project location (County and State)
- Start-up year
- Amount allocated to project
- % of the project owned by AVANGRID
- Refinancing share (%) at portfolio level

Production and Sustainability indicators for the group of projects allocated under each Green Financing instrument, for example:

For projects producing of Renewable energy:

- Installed capacity (MW)
- GWh produced
- CO<sub>2</sub> avoided

For networks transmission and distribution projects:

- Automated meters installed
- New / total miles of transmission lines dedicated to delivering renewable power

Appropriate impact indicators will be specifically selected for each unique project prior to any financing.

In addition, AVANGRID will report on the allocation of Green Financing net proceeds that occurred during the last fiscal year and on the disposition of any unallocated net proceeds.

## 5. External Review

For each Green Financing, AVANGRID will make commitments to provide one or more of the following forms of External Reviews:

**1) Second Party Opinion on the Green Financing Framework**

An independent party will provide an opinion in connection with a specific Green Financing on AVANGRID's Green Financing Framework for its suitability in conducting Green Financings that align with the Green Bond Principles (GBP) or Green Loan Principles (GLP).

**2) Second Party Opinion on the alignment of the Green Financing to the GBP**

An independent party will provide an opinion in connection with a specific Green Financing in connection with AVANGRID's alignment with the GBP or GLP, its Green Financing Framework and on the Eligible Projects associated with the financing.

**3) Verification of Funds Disbursement / Allocation**

Upon full allocation, an independent party will verify that the net proceeds have been allocated to Eligible Projects. Such verification will be published on AVANGRID's website.

## DISCLAIMER

Certain statements in this document may relate to our future business and financial performance and future events or developments involving us and our subsidiaries that are not purely historical and may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terms such as “may,” “will,” “should,” “would,” “could,” “can,” “expect(s),” “believe(s),” “anticipate(s),” “intend(s),” “plan(s),” “estimate(s),” “project(s),” “assume(s),” “guide(s),” “target(s),” “forecast(s),” “are (is) confident that” and “seek(s)” or the negative of such terms or other variations on such terms or comparable terminology. Such forward looking statements include, but are not limited to, statements about our plans, objectives and intentions, outlooks or expectations for earnings, revenues, expenses or other future financial or business performance, strategies or expectations, or the impact of legal or regulatory matters on our business, results of operations or financial condition and other statements that are not historical facts. Such statements are based upon the current reasonable beliefs, expectations and assumptions of our management and are subject to significant risks and uncertainties that could cause actual outcomes and results to differ materially. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, without limitation, the risks and uncertainties set forth under the section entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2019, which is on file with the U.S. Securities and Exchange Commission (SEC) and available on our investor relations website at [www.Avangrid.com](http://www.Avangrid.com) and on the SEC website at [www.sec.gov](http://www.sec.gov). Additional information will also be set forth in subsequent filings with the SEC. You should consider these factors carefully in evaluating forward looking statements. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results may vary in material respects from those expressed or implied by these forward-looking statements. You should not place undue reliance on these forward-looking statements. We do not undertake any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this presentation whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.