



HS VEITUR



# Green Financing Framework

September 2022



## HS Veitur – Introduction and commitment to sustainability

HS Veitur is an Icelandic electricity, hot water, and cold water utility service provider that operates in the Suðurnes region, many parts of southern Iceland and in the southern-most part of the capital area.

The company distributes geothermally produced electricity and traded electricity within the Icelandic grid which is sourced from 99% renewable energy.

The distribution is in Suðurnes region, Hafnafjörð, part of Garðabær, in Árborg and Vestmannaeyjar.

Distribution of hot- and cold water in Suðurnes region and Vestmannaeyjar.

HS Veitur is aware of its impact on the environment, society as a whole and responsible handling of the resources that the company works with. HS Veitur have established a sustainability and environmental policy and management systems in accordance with national standards. As part of its sustainability policy, HS Veitur have committed to minimize any negative impacts and maximise the positive impacts. The goal is to be a leader in sustainability and provide clear and reliable information on the performance of the company regarding these issues.

Regarding the environment, the company's goals are to distribute to homes, organisations and municipalities reliable and renewable energy. The company will also seek to educate its stakeholders about the importance of the aspects of sustainability related to the use of the company's products and services and encourage them to do well.

Further, HS Veitur strives to ensure that the effects of the company's operations minimize the disruption of the natural environment, animals, and vegetation. Regarding waste, efforts shall be made to reduce waste generation for landfills and to make the material generated as circular as possible. When this cannot be achieved any hazardous waste will be sent to licensed collection facilities. As a result of HS Veitur's efforts, several key goals have been achieved.

For example, HS Veitur has installed a heat pump station which is three times more efficient than a traditional electric boiler. become three times more energy efficient than the traditional electric boilers. Additionally, HS Veitur has completed the replacement of all meters for smart meters for water, heat, and electricity in the distribution system to support efficient, low-waste operations.





### HS Veitur further

HS Veitur has already nearly entirely electrified the company's light duty vehicle fleet. Only heavy duty combustion vehicles remain, and once the technology is available to convert these vehicles HS Veitur intends to do so.

### For society

HS Veitur works to provide a first class utility service and with the goal of ensuring these services are of outstanding quality, fairly priced and are delivered reliably and securely. Transparency is also a key pillar of HS Veitur's work, where the company works to ensure honest and flexible communication through community outreach.

HS Veitur additionally places great importance on the well being of the company's staff. HS Veitur emphasises the health of its employees, work life balance and active stakeholder engagement with all relevant parties.

In 2020, the company received equal pay certification. The company also ensures that high level of environmental and safety awareness exists. HS Veitur further operates in full accordance with legal requirements and a certified management system.

### Climate Risk Governance

While HS Veitur is required to provide utility services to new developments and thus does not have full control of where it the company has to build. However, once the site is selected, HS Veitur incorporates considerations for sea level rise [and other non climate related disasters] when siting the infrastructure.

For example, when providing energy distribution services at ports or the installation of substations, HS Veitur places these installations at the highest ground to avoid potential sea level rise risk.





## Reporting

While HS Veitur's sustainability reporting is still in its early stages as a small and medium-sized enterprise (SME) the company's scope 1 emissions can be found in the company's annual report.

## Governance

The Board of HS Veitur strives to maintain good governance and follows the "Guidelines on Corporate Governance" published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers. The Board has also established rules of procedure that are reviewed regularly. The board of HS Veitur approves the sustainability policy, but its owner is the CEO of HS Veitur, who is responsible for reviewing it every two years. The Chief Executive Officer is responsible for the implementation of the policy, but he will appoint a steering group consisting of, together with himself, the Chief Financial Officer and the Human Resources Manager. The Sustainability Committee is responsible for implementing the goals and actions of the policy, which consists of representatives from the company's management and employees. The committee will be responsible for following up the action plan that accompanies the policy and regular review.

HS Veitur supports the following SDGs, with a focus on the good health of people and the company's employees, gender equality, sustainable production and consumption, and both climate change mitigation as well as resiliency.



HS Veitur's goal is to create real value for our customers, our employees, our shareholders and society. The net proceeds from bond issuances under this Framework will assist HS Veitur in funding the projects and assets that align with the company's goal of distributing sustainable and renewable energy to the Icelandic population and are in line with the company's sustainability policy.





## Green Financing Framework

HS Veitur is establishing this Green Financing Framework to allow for the issuance of green debt financing, not only limited to bonds but also commercial papers, and loans (together referred to as Green Instruments), to finance Eligible Assets.

The Green Instruments can be issued by HS Veitur and each instrument shall refer to this Framework. This aligns with the shareholders' and the management's vision to further contribute towards sustainable development at a local and global level. By establishing this Green Financing Framework HS Veitur offers investors the opportunity to support the transition to carbon neutrality and a climate resilient future as well as allow them further insight into its sustainability strategy. This Framework may at times be updated to comply with future changes to green financing guidelines and taxonomies as well as to general green financing market practices and/or changes in HS Veitur's own operation. This framework intends to take a balance sheet approach in which, due to HS Veitur's operation being entirely directly or indirectly related to green activities (also referred to as 'Pure Play') i.e. where greater than 90% of the company's revenue comes from the distribution of electricity, heat, and potable water services for Icelandic society, in the context of Iceland's virtually entirely renewable grid, it can be considered that all projects undertaken outside of the exclusion criteria can be financed using green instruments. Non-green assets, captured by HS Veitur's exclusion criteria, will not be funded with green instruments. For HS Veitur, the only expected exclusions will be those vehicles which are currently difficult to electrify, such as trucks and SUVs needed for operations, and the purchase of emergency backup generators and powering fossil fuels (these are minute and used only to avoid risk of outages). This will be ensured through HS Veitur's Management of Proceeds approach described below.

**Table 2** shows the connection of the HS Veitur's operations and respective project categories related to the core operations of HS Veitur and their alignment with Green Bond Principles/E.U. taxonomy project categories. This connection is used to explain its qualification as a green company which allow HS Veitur to take a balance sheet approach.



<sup>1</sup> Using the European Commission's [definition of a SME](#)

<sup>2</sup> This Framework has been benchmarked to the following: the Green Bond Principles (2021), Green Loan Principles (2020).

Sustainability Bond Guidelines (2021), The Climate Bond Initiative Standard (v 3.0), the EU Green Bond Standard (2019) and the EU Taxonomy (as a work in progress).



### Use of Proceeds - Eligible Assets

An amount equal to the net proceeds of the Green Instruments will be used to finance or refinance, investments, and expenditures, in whole or in part, for Eligible Assets.

Net proceeds can finance both existing and new Eligible Expenditures. New financing refers to expenditures disbursed to activities and/or projects initiated in the same year as financing has taken place, or later. Refinancing refers to activities and/or projects initiated in the previous calendar year or earlier. Net proceeds will not be placed in assets, projects, or in entities related to the following activities focused on fossil energy generation or use, nuclear energy generation, research and/or development within weapons and defence, environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling, or tobacco.





Table 2. Eligible Green Assets on the balance sheet of HS Veitur

Green Bond Principles categories and criteria.	SDGs	Indicators
<b>Clean transportation</b> <ul style="list-style-type: none"> <li>— EU Taxonomy category 6.5, criteria b: for vehicles of category L, the tailpipe CO<sub>2</sub> emissions equal to 0CO<sub>2</sub>e/km calculated in accordance with the emission test laid down in Regulation (EU) 168/2013.</li> <li>— HS Veitur is supporting the transition of the company's car fleet to become a zero-emission car fleet. HS Veitur will only use green financing in this category for the purchase of fully electric or hydrogen vehicles with zero tailpipe emissions.</li> </ul>	7, 13	— Number of clean vehicles purchased
<b>Energy distribution infrastructure and management</b> <p>Electricity distribution</p> <ul style="list-style-type: none"> <li>— EU Taxonomy category 4.9, criteria 1.c: the average system grid emissions factor, calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system, is below the threshold value of 100 gCO<sub>2</sub>e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period;</li> <li>— The average emission factor for the Icelandic grid in 2021 was 9.8 gCO<sub>2</sub>e/kWh(e) .</li> </ul> <p><b>Thermal energy [district heating] distribution</b></p> <ul style="list-style-type: none"> <li>— EU Taxonomy category 4.15, criteria (a) and (b): the construction and maintenance of 'efficient district heating and cooling' means a district heating or cooling system using at least 50% renewable energy, 50 % waste heat, 75% cogenerated heat or 50% of a combination of such energy and heat</li> <li>— The Icelandic thermal energy system uses 97.6% renewable geothermal energy, placing it far above the stated threshold .</li> <li>— Heat pumps would be operated by electricity from renewable energy sources will also be considered.</li> </ul> <p>Smart Metering applications</p> <ul style="list-style-type: none"> <li>— EU Taxonomy category 4.9, criteria 2.f: the installation of equipment such as, but not limited to future smart metering systems or those replacing smart metering systems in line with Article 19(6) of Directive (EU) 2019/944 of the European Parliament and of the Council<sup>3</sup>, which meet the requirements of Article 20 of Directive (EU) 2019/944, able to carry information to users for remotely acting on consumption, including customer data hubs.</li> </ul>	7, 9, 12, 13	<ul style="list-style-type: none"> <li>— Meters of electricity infrastructure newly installed</li> <li>— Hot water infrastructure newly installed</li> <li>— Number of smart meters installed</li> </ul>
<b>Sustainable water management</b> <ul style="list-style-type: none"> <li>— All expenses supporting the development and operation of systems to deliver potable water, along with water conservation.</li> <li>— While HS Veitur is missing the data necessary to ensure compliance with the energy efficiency target of the EU Taxonomy (&lt;0.5 kWh per cubic meter produced water supply), HS Veitur's water utility runs on a near-zero emission electricity in a grid of abundant renewable energy, and thus in terms of emission efficiency per m<sup>3</sup> water supplied, HS Veitur considers that its water management practices are globally sustainable.</li> </ul>	6, 13	— Meters of water infrastructure newly installed

<sup>3</sup> In 2021, electricity and thermal distribution services accounted for ~92% of income and potable water the remaining ~8%. Annual report HS Veitur 2021.

Accessible at: <https://www.hsveitur.is/media/71415/hs-veitur-netu-tga-fa-2021.pdf>

<sup>4</sup> Icelandic Environment Agency (2021). Losunarstudlar.

Accessible at: [https://ust.is/library/Skrar/loft/NIR/Losunarstudlar\\_UST.v4.0.1.pdf?fbclid=IwAR0MnnN75Fb3qAGtueaAWJ8Fji0sZQPTq9cshdHox9LTI-5tjWvcdGnW0Y8](https://ust.is/library/Skrar/loft/NIR/Losunarstudlar_UST.v4.0.1.pdf?fbclid=IwAR0MnnN75Fb3qAGtueaAWJ8Fji0sZQPTq9cshdHox9LTI-5tjWvcdGnW0Y8)



### Governance: evaluation and selection

Following the Pure Play approach, all projects and assets undertaken and invested in by HS Veitur are considered green (except for those captured by the exclusion criteria). HS Veitur will therefore maintain a green registry of green assets on the balance sheet categorized by the Green Bond Principles project categories to allow for impact reporting.

HS Veitur's CEO is responsible for sustainability in the company's general operations. HS Veitur's Executive Management Committee will be responsible for reviewing the Sustainability Registry and validating and categorizing the Assets listed in it. Evaluation and selection of Eligible Green Assets will be overseen by the Environmental and Finance departments. All Eligible Green Assets are subject to robust environmental impact assessment processes.

In evaluating and selecting Eligible Assets and allocating Sustainable Financing, the Environmental and Finance departments will also consider aspects such as human and labour rights and the avoidance of significant harm to the other environmental objectives as defined in the EU Taxonomy, international and local environmental and social standards, and with local laws and regulations to the greatest extent possible.

### Management of proceeds

HS Veitur intends to fully allocate the proceeds from any financing within 36 months of the date of funding. HS Veitur strives to achieve a level of allocation of the fair market value for the Eligible Green Asset Portfolio which matches or exceeds the balance of net proceeds from its outstanding instruments. Unallocated net proceeds may temporarily be placed in cash, cash equivalents, or other liquid marketable instruments.

<sup>5</sup> Where this definition is defined in Article 2, point 41, of Directive 2012/27/EU

<sup>6</sup> Orkustofnun [Icelandic Energy Agency] (2022). OS-2022-T002-01: Final Heat Use in Iceland 2020 by District Heating Area.

Accessed at: <https://orkustofnun.is/gogn/Talnaefni/OS-2022-T002-01.pdf>

<sup>7</sup> Where Directive (EU) 2019/944 highlights how "smart metering systems empower consumers because they allow them to receive accurate and near real-time feedback on their energy consumption or generation, and to manage their consumption better, to participate in and reap benefits from demand response programmes and other services and to lower their electricity bills.





Reporting and Transparency

HS Veitur will provide an Annual Allocation and Impact Report to its investors and other stakeholders as a part of its Annual Report until net proceeds are fully allocated. In the Annual Impact Reports, the allocation of financing to Eligible Assets will be categorized by project categories in order to maintain consistency and measure the impact indicators. The report will be publicly available. The reporting will be conducted in line with best market practice and international guidelines and protocols at an aggregated level and on a portfolio basis and will include at least the below information:

Allocation reporting	Impact reporting
<ul style="list-style-type: none"><li>• Summary of financing activities</li><li>• Types of financing instruments</li><li>• Outstanding amounts</li><li>• Balance of unallocated proceeds</li><li>• New vs. refinancing ratio</li><li>• Project category allocation</li><li>• An example list of projects financed</li></ul>	<ul style="list-style-type: none"><li>• Methodologies</li><li>• Impact indicator results</li></ul>

External parties

To ensure alignment with international guidelines and best practices this Green Financing Framework followed the most relevant green bond standard developments such as The Green Bond Principles (2018), Green Loan Principles (2021), and the Climate Bonds Standard (v. 3.0 2019). It has also been benchmarked, to the extent possible, to the EU Sustainable Finance Taxonomy, a draft of EU’s Green Bond Standard to the extent possible and according to the data available, as well as benchmarked to other Green Financing Frameworks.

A pre-issuance independent external second-party opinion has been obtained on this Framework from CICERO Shades of Green which is publicly available. HS Veitur intends to request an independent external party to provide limited assurance, verification, and/or consulting to prepare and/or assure, verify, or confirm its post-issuance Allocation and Impact Reporting.





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<sup>8</sup> This may include alignment with: E.U. Green Bond Standard developments, Multilateral Development Banks's Proposal for a harmonized framework for impact reporting on Renewable Energy/Energy Efficiency projects (2015), International Capital Markets Association's Handbook on Harmonized Framework for Impact Reporting (2020) and Nordic public sector green bond issuers' Position Paper on Green Bonds Impact Reporting (2020).

<sup>9</sup> The impact assessment is provided subject to the availability of information and baseline data. This may also be subject to confidentiality agreements, competitive considerations, and other such factors, which may limit the scope of impact reporting.



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