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Document type: Executive
Last updated: 20.02.2024

Eidsiva.

GROUP POLICY

FINANCING

Evaluation and selection of projects that can be financed with
green finance instruments

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INTRODUCTION

This policy document sets out the procedure for identifying and selecting projects that are eligible for financing through Eidsiva Energi's Green Finance Framework as updated in autumn 2021.

Eligible projects under Eidsiva's Green Finance Framework 2021 are:

- Energy efficiency: District heating, connecting renewable electrical energy production, upgrades and new investments in transmission and distribution networks, smart grids
- Renewable energy: Hydropower, wind power and related infrastructure
- Telecommunication networks: High-speed networks for electronic communications
- Clean transportation: Charging points and charging stations for vehicles and vessels

Eligible projects will be selected, evaluated and approved jointly by Finance and Control and the relevant business area at Eidsiva. Selection is to be carried out by a defined group/committee, and the committee's meetings are to be minuted. The business area's environmental specialist will always have the power of veto over projects that can be considered eligible, and is to work with others in the business area on the selection of projects.

The proceeds of green financial instruments are to be used exclusively for projects that satisfy the criteria in this document. For projects to be selected, there must be a high probability that they will deliver positive net environmental benefits in the long term.

Selection of eligible projects is a critical workflow in work on green finance instruments and documentation.

DEFINITIONS IN THIS POLICY

Power distribution assets: Electrical equipment and associated buildings and structures (including land) for the transformation, transmission and distribution of electrical energy at different voltages. These assets have the main function of transferring electrical energy from production units to end-users of electrical energy. The definition of power distribution assets also covers systems for managing, controlling, monitoring, measuring and enabling energy consumption/transmission.

District heating assets: Technical equipment and associated buildings and structures (including land) for the production, transmission and distribution of hot water or other heat carrier to external consumers. Includes production of electricity from fossil fuels. The definition of district heating assets also covers systems and equipment for managing, controlling, monitoring, measuring and enabling cooling and heating.

Hydropower assets: One or more power stations where electrical energy is generated, together with any regulation facilities such as dams, intakes, tunnels and pipelines. The definition of hydropower assets also covers systems for managing, monitoring,

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controlling and measuring energy production and any lines/cables leading to the power network.

Wind farms: One or more wind turbines where electrical energy is generated (including land). The definition of wind farms also covers systems for managing and monitoring and any lines/cables leading to the power network.

Related infrastructure: Transmission lines, distribution facilities and production lines for the transformation and transmission of renewable electricity production.

Renewable electrical energy production: Hydropower plants and wind farms with emissions below 100 g CO₂/kWh from a life-cycle perspective.

Fibre and broadband: Physical infrastructure for high-speed networks for electronic communications. Physical infrastructure other than the fibre cables includes trunking, masts, cable ducts and trenches, culverts, inspection wells, manholes, cabinets, buildings or access to buildings, connection points with electronics, antenna facilities, towers and poles.

Charging facilities for vehicles and vessels: Charging points and charging stations for vehicles and vessels, including cable ducts and trenches, buildings or access to buildings, land, connection points with electronics, etc.

Innovative solutions: Projects, development and research in the areas mentioned above that contribute to innovative new solutions that have the clear aim of reducing energy consumption or using renewable energy production, including but not limited to projects at Hafslund Ny Energi.

SELECTION CRITERIA

POWER DISTRIBUTION ASSETS

Power distribution assets form part of an interconnected and synchronised European system for transforming and transmitting electrical energy at different voltages. In principle, all projects involving power distribution assets are to be considered eligible projects – an inclusive approach – as envisaged by the Technical Working Group at the Climate Bonds Initiative and the classification of activities under the EU taxonomy (transmission and distribution networks).

New investments and reinvestments in power distribution assets are considered critical for the decarbonisation of fossil energy consumption and the connection of new renewable production to the network. Decarbonisation might involve:

- connecting new renewable production
- enabling the connection of consumption based on fossilfree energy sources
- enabling reduced energy consumption/losses in own and customer facilities

There are nearly 140 renewable production units in Elvia's supply area with annual production of around 13 TWh. The transmission of renewable energy from these units is

the dominant function for the network in addition to importing and transferring energy from neighbouring and overlying networks with a high share of renewable production.

Connection of new production in the period 2015-2022 consisted of hydropower assets and wind farms with lifetime emissions below 100 g CO₂/kWh.

The following projects or parts of a project will **not** be included:

- Power distribution assets that connect production units with lifetime emissions above 100 g CO₂/kWh will not be included. For the time being, the measurement of lifetime emissions will be based on standard estimates from recognised independent sources (e.g. the Climate Bonds Initiative).
- Power distribution assets that connect nuclear power stations.
- Investments in SF₆ assets will not be defined as eligible assets from 2021.
- Investments in cables with oil insulation will not be included as eligible assets from 2021.

DISTRICT HEATING ASSETS

District heating has an important role to play in the transition to renewable energy consumption and the electrification of society. District heating involves using surplus energy resources that would otherwise have gone to waste, and distributing them in the form of district heating or district cooling. By exploiting the storage potential of biomass and the flexibility of bioenergy, district heating will also contribute to supply security as we gradually move over to more wind and solar power.

Eidsiva has district heating plants at sixteen sites in south-eastern Norway, each based on the types of surplus energy that can be found locally. Thanks to close collaboration with local suppliers, this ensures good local solutions and short transport distances.

Eidsiva's district heating activities are based on its raw material strategy which requires us to produce energy from feedstocks without any alternative value. In practice, this means by-products from forestry, timber and timber processing. Eidsiva has a waste incineration facility in Hamar which carries out statutory final treatment of waste from the region that cannot be recycled, and is therefore an important part of the circular economy. The heat recovered is used to produce district heating for the town of Hamar.

The following are defined as eligible projects:

- Distribution networks and related infrastructure for distributing and transforming heating and cooling.
- District heating plants using feedstocks consisting of more than 95% renewables as defined in the industry.
- Facilities for making use of waste heat from third parties.
- Electricity production based on feedstocks consisting of more than 95% renewables.

- Projects which support the waste hierarchy and the circular economy.
- Projects which reduce losses in heat production and distribution.
- Projects intended to reduce energy consumption internally and/or for customers.
- District heating assets also cover equipment and facilities for monitoring, measuring, controlling, transmitting, transforming and otherwise enabling the use of district heating for heating and cooling.

HYDROPOWER AND WIND POWER ASSETS

New investments and reinvestments in hydropower plants and wind farms are considered critical in replacing fossil energy production with renewable energy production.

The following are defined as eligible projects:

- Hydropower plants and wind farms with lifetime emissions below 100 g CO₂/kWh.
- With hydropower plants, there is also to be a special assessment of whether the use of the water resource can be considered sustainable. Emphasis is to be given to the environmental targets in the Water Framework Directive when assessing whether the use of a water resource can be considered sustainable.

FIBRE AND BROADBAND ASSETS

Onshore: High-speed networks for electronic communications allow large quantities of data to be transferred in an environmentally friendly way. Fibre and broadband infrastructure is being rolled out as an open medium where excess capacity is offered to the market. This enables energy-efficient transmission of data, and this in turn results in an efficient logistics chain or reduced consumption of fossil fuels for transport. Stable and robust fibre and broadband networks are critical infrastructure which is important for dealing with acute situations that might arise as a result of climate change (precipitation, wind, heat, cold, etc).

The expansion of fibre and broadband networks is to take the form of joint projects with other infrastructure providers where practically possible. Trenching is to be used in areas where this is possible. Agreements have been entered into on the return and recycling of electronic components (connection points, etc).

Offshore: The rollout of high-speed networks for electronic communications between countries and continents could pave the way for the construction of data centres in Norway where energy consumption and cooling can be based on renewable energy.

In principle, all projects for fibre and broadband assets are to be considered eligible projects – an inclusive approach.

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CHARGING FACILITIES FOR VEHICLES AND VESSELS

Expanding the charging infrastructure is important for increasing the use of zero-emission vehicles and vessels. Introducing more charging points and charging stations for electric vehicles and vessels is also a good way of reducing local greenhouse gas emissions and transport pollution.

Development that contributes to innovative new solutions that have the clear aim of reducing (fossil) energy consumption or using renewable energy production, including but not limited to projects at Hafslund Ny Energi.

UNIVERSAL ASSESSMENT CRITERIA FOR ALL CATEGORIES OF PROJECT

The following projects require special consideration **before** being included as eligible projects:

- Projects to be carried out in or near protected areas (national parks, protected landscapes, protected biotopes, nature reserves).
- Investments in vehicles, equipment and tools using fossil fuels will not be included.
- Projects where a public authority has issued fines or penalties or ordered remediation.
- Projects that depart materially from recognised recommendations for the prevention of climate-related risks such as wind, snow, heat, cold, flooding, thunder and lightning, and can be expected to result in increased maintenance or a reduced lifetime for the project.
- Projects with serious incidents in terms of the health, safety and the environment (HSE). Completed projects may be disqualified from being eligible assets in the event of a serious HSE incident. The incident would need to be attributable to errors or shortcomings in design, planning or construction.
- Projects that can lock in energy consumption which is not sustainable in the long term, such as waste heat from non-renewable energy sources.
- Projects where a significant share of the population in the area affected by the project expresses justified dissatisfaction (controversies).

With large projects, some specific assets may be eligible for inclusion, while other assets are not (e.g. SF6 facilities, oil-filled cables, heating plants). In these cases, the assets included/excluded are to include a share of joint costs.

All projects are to be included in the database after deducting customer financing (connection charges, customer financing) and public subsidies (e.g. funding from ENOVA and the National Communication Authority (NKOM)). Co-investors' contributions to the financing of the project are also to be deducted.

PRINCIPLES FOR IMPACT REPORTING

We have not yet included any specific quantitative measures in the impact report for our investments in the distribution network. Components in the distribution network are replaced towards the end of their useful life to maintain or increase efficiency and service quality. In other cases, network infrastructure and management technology are updated to support the integration of renewable energy and new consumption of energy. The investments are often part of a larger refurbishment project where parts of the investment are not directly linked to a reduction in energy use but to the security of supply. When upgrading the distribution network from 66 kV to 132 kV, it is estimated that transmission losses are reduced by 75% with all other variables unchanged. New transformers will also reduce energy losses and operate more quietly than older ones. The section on the distribution network therefore includes qualitative information on how the investments enable the electrification of society.

For our investments in fibreoptic networks, we have not included any measures to address carbon emission reductions or other environmental impact measures. The baseline against which the environmental impact can be measured is not obvious. New fibre networks primarily replace legacy networks in addition to providing digital networks to customers without a fixed-line connection. The number of new connections to fibre networks and additional km of fibre networks are reported as alternative indicators.

The district heating and cooling systems are fundamentally local/regional and not interconnected on a Norwegian or Nordic basis, although the fuels used (bio, solid waste, fossil) may often be traded over long distances. The impact for district heating is calculated as new connections of end-users (GWh/yr) in addition to avoided emissions per year from the production of heating and cooling. When calculating avoided emissions (tonnes CO_{2e}), we have only included avoided emissions from alternative heating sources before the investment as the baseline. We have not included end-users' replacement of alternative energy in Eidsiva's calculation of avoided emissions.

The impact on Eidsiva's investments in renewable energy (hydropower and wind power) is compared against a baseline where no such investment exists. The impact is calculated as added new production (GWh/yr) in addition to avoided emissions per year (tonnes CO_{2e}). The baseline is a grid factor of 315 g CO₂/kWh for the EU mainland, UK and Norway as the default baseline emission factor (Nordic Position Paper on Green Bonds Impact Reporting 2020; not the updated document for 2021, 2022 and 2023 yet).