



# Green Financing Framework

nationalgrid

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# About National Grid – who we are<sup>1</sup>

National Grid plc is one of the largest investor-owned energy utilities and lies at the heart of a transforming energy system, spanning the UK and the US. Our businesses supply gas and electricity, safely, reliably and efficiently to millions of customers and communities. We also drive change through engineering innovation and by incubating new ideas with the power to revolutionise our industry.



<sup>1</sup> National Grid Annual Report and Accounts 2020/21, ("ARA 2020/21"), p.2-3. For more details on each business unit, please refer to pages 40 to 45 of the ARA 2020/21. <https://www.nationalgrid.com/document/142166/download>

Our vision is to be at the heart of a clean, fair and affordable energy future in an industry sector where the pace of change is accelerating with increasing focus on decarbonisation, digitalisation and decentralisation. In order to ensure that we can effectively and efficiently deliver the financial, customer and regulatory outcomes that will help us on our journey towards net zero, we are changing our operating model as a company. The building blocks of this new operating model will be six business units, which will each be run as end-to-end enterprises within the Group portfolio.

In the UK, we have a unique position at the heart of Britain's energy system, connecting people to the energy they use, safely. We keep the lights on and the gas flowing so people can go about their daily lives. And we're working to build a cleaner, fairer and more affordable energy system that serves everyone.

### UK Electricity Transmission

We own the high-voltage transmission network in England and Wales. We are responsible for ensuring electricity is transported safely and efficiently from where it is produced; reaching homes and businesses safely, reliably and efficiently. We also facilitate the connection of assets to the transmission system.

### UK Electricity System Operator (ESO)

Since 1 April 2019, the ESO operates as a separate company within National Grid. We are responsible for making sure supply and demand of electricity is balanced in real time across Great Britain (GB). While we operate as the ESO across Great Britain, we do not own the transmission assets in Scotland.

### UK Electricity Distribution

On 18 March 2021, we announced that we had agreed to buy Western Power Distribution ("WPD") from PPL Corporation ("PPL") and the purchase completed on 14 June 2021. WPD is the UK's largest electricity distribution business. Subject to the successful conclusion of the Competition and Markets Authority review of the acquisition, WPD will be included within the scope of this Framework.

### UK Gas Transmission

Our UK Gas Transmission business comprises both the gas transmission assets and an integrated gas system operator. We own and operate the high-pressure gas transmission network in Great Britain. We are responsible for making sure Great Britain's gas is transported safely and efficiently from where it is produced to where it is consumed. As the Gas System Operator we are also responsible for ensuring that supply and demand are balanced in real time on a day-to-day basis.

On 18 March 2021, we also announced that we will be initiating a sale process for a majority stake in our UK Gas Transmission business (including our UK metering business which currently forms part of NGV). The process is expected to start in the course of 2021<sup>2</sup>.

In the US, we are making energy more affordable, safe and reliable for our more than 20 million customers in the Northeast US. We're doing all this through strategic infrastructure investments, aggressive energy efficiency programmes and targeted economic development, while transitioning to a clean energy future for all<sup>3</sup>.

### New England

Hampshire, Vermont and Rhode Island. We also own and operate gas distribution networks across Massachusetts and Rhode Island.

Conditional on certain regulatory approvals, we have agreed to sell our Rhode Island electricity transmission and distribution and gas distribution businesses to PPL. The sale is expected to complete in the first quarter of 2022.



<sup>2</sup> See our press release dated 18 March 2021: [https://otp.tools.investis.com/clients/uk/national\\_grid2/rms/regulatory-story.aspx?cid=374&newsid=1461911](https://otp.tools.investis.com/clients/uk/national_grid2/rms/regulatory-story.aspx?cid=374&newsid=1461911)

<sup>3</sup> National Grid's website, « Our US businesses », <https://www.nationalgrid.com/our-businesses/our-uk-businesses>

## New York

We own and operate electricity transmission facilities and distribution networks across upstate New York. We also own and operate electricity generation facilities on Long Island, although under our new operating model they form part of NGV. We also own and operate gas distribution networks across upstate New York, in New York City and on Long Island.

## National Grid Ventures and other activities

National Grid Ventures (NGV) manages our diverse portfolio of energy businesses that are complementary to our core regulated operations. This operating segment represents our main strategic growth area outside


our regulated core business, in competitive markets across the US and the UK. The business comprises commercial operations in energy metering, electricity interconnectors, renewables development and the storage of liquefied natural gas (LNG) in the UK.

In the US, NGV includes National Grid Renewables (which includes the renewables development company formerly known as Geronimo), a leading wind and solar developer in North America, and partners with companies including NextEra, SunRun and RWE to develop and own high-quality renewable energy assets. It also owns non-controlling stakes in joint ventures including New York Transco and the Millennium Pipeline Company.


Our other activities that do not form part of any of our core regulated businesses or NGV primarily relate to our UK property business together with insurance and corporate activities in the UK and US, and the Group's investments in technology and innovation companies, through National Grid Partners (NGP). National Grid created NGP to 'disrupt itself' and advance the energy systems of tomorrow. This includes incubating and investing in startups at the intersection of energy and emerging tech, launching new businesses from scratch, business development, and infusing an entrepreneurial culture into National Grid.





Overview of National Grid<sup>4</sup> as at 31 March 2021


 **23,683** employees worldwide.


**In the UK:**

 **4,496 miles (7,236 kilometres)** of overhead electricity lines.

 **1,744 miles (2,806 kilometres)** of underground electricity cables.


 **4,740 miles (7,627 kilometres)** of high-pressure gas pipes.

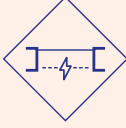
 **5 GW** capacity of interconnectors in operation, (additional **2.8 GW** by 2024).

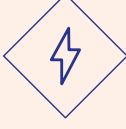
 **90%** of electricity imported by our electricity interconnectors will be from **zero carbon sources by 2030**.


<sup>4</sup> National Grid ARA 2020/21.

In the US


 **8,972 miles (14,439 kilometres)** of overhead electricity transmission lines.

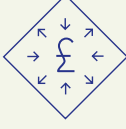
 **105 miles (169 kilometres)** of underground electricity transmission cables.


 **73,010 miles (117,498 kilometres)** of electricity distribution circuits.

 **35,761 miles (57,551 kilometres)** of gas pipelines.

National Grid Partners

 **23** companies.

 **4** fund investments.

 **£178 million** portfolio (fair value).



# National Grid's sustainability commitment

We believe businesses have a duty to contribute to society and the communities they serve. At National Grid, making a positive impact is essential to who we are and what we do, and we share the belief that we need to stand for something beyond profit.

We have a responsibility to demonstrate our contribution to society more broadly, whether this means helping young people to become the energy problem-solvers of tomorrow, supporting our customers to use energy efficiently, or tackling climate change by targeting net zero for our own emissions by 2050<sup>5</sup>.

## a) Our Responsible Business Charter<sup>6</sup>

Our ambition is to play a leading role in enabling and accelerating the transition to a clean energy system. The energy system will look very different in a net zero world, and we will work to accelerate the transition, while balancing decarbonisation, affordability and reliability. Our aim is to be a leading utility globally in demonstrating the technical and commercial solutions that will help achieve net zero for the energy sector.

We're committed to being a responsible business in everything we do, and our Responsible Business Charter, published in October 2020, is the articulation of what 'responsibility' means for us at National Grid.

We have identified the five areas where we can have a positive and material impact on society:

### The environment

We will enable a fair and affordable transition to a clean energy economy, and reduce our own emissions.



### Our people

We will develop the right skills to enable and accelerate the energy transition, and strive to build a diverse workforce and inclusive culture.



### Our governance

We will make sure our governance mechanisms reflect our commitments, and that the principles of responsibility guide us in everything we do.



### Our communities

We will deliver sustainable, affordable energy safely and reliably, ensuring no one gets left behind.



### The economy

We will power and heat society, and partner with regulators, our business partners, suppliers and other key stakeholders.



For each area, we have set out commitments and ambitions and how we will achieve them. We are reporting on our progress in our new annual Responsible Business Report, first published on 8 June 2021<sup>7</sup>.

Our Green Financing Framework supports one of these areas in particular, our ambitions and commitments towards the environment and our efforts in tackling the defining challenge of our generation: climate change.

<sup>5</sup> National Grid's website, "About us", <https://www.nationalgrid.com/about-us/our-vision-and-values>

<sup>6</sup> National Grid's Responsible Business Charter, <https://www.nationalgrid.com/document/134426/download>

<sup>7</sup> Responsible Business Report 2020/21: <https://www.nationalgrid.com/document/142021/download>

## Our environmental ambitions and commitments

|  |   |   |
|--|---|---|
| <b>Achieve net zero by 2050</b>  |    | We will reduce Scope 1 and 2 greenhouse gas (GHG) emissions 80% by 2030, 90% by 2040, and to net zero by 2050 from a 1990 baseline. This is equivalent to a 50% absolute reduction from a 2015 baseline.* |
| <b>Reduce Scope 3 GHG emissions by 37.5% by 2033</b>                     |    | We will reduce Scope 3 GHG emissions by 37.5% by 2033 from a 2018 baseline.*  |
| <b>Reduce SF<sub>6</sub> emissions from our operations 50% by 2030</b>   |    | We will reduce SF <sub>6</sub> emissions from our operations 50% by 2030, from a 2019 baseline.   |
| <b>Move to a 100% electric fleet by 2030 for our light-duty vehicles</b> |   | We will move to a 100% electric fleet by 2030 for our light-duty vehicles, and pursue the replacement of our medium- and heavy-duty vehicles with zero carbon alternatives.                               |
| <b>Reduce energy consumption in our offices 20% by 2030</b>              |  | We will reduce energy consumption in our offices 20% by 2030, from a 2019 baseline.   |
| <b>Improve the natural environment by 10% on the land we own by 2030</b> |  | Building on the work we've already done to increase the environmental value of more than 50 of our sites in the US and UK.  |
| <b>Achieve zero carbon emissions from business air travel</b>            |  | From this year (2020) onwards, we will reduce our annual air miles travelled by at least 50% from a 2019 baseline on an enduring basis, and we will offset any remaining emissions responsibly.           |

\* Our GHG emissions reduction targets have been approved by the Science Based Targets Initiative (SBTi)<sup>8</sup>.

For more information on our commitments, ambitions, or on the other 4 areas of our business responsibility, please refer to the [Responsible Business Charter](#).



**b) ESG External Performance**

External recognition of National Grid’s sustainability performance has increased in recent years distinguishing our strong performance in this area.

In 2020, we retained our position on CDP’s Climate Change ‘A list’ for a 5th consecutive year; we are one of 20 companies in the UK to be included on the A list, out of over 9,600 submissions.



We are a longstanding constituent of the FTSE4Good Index Series, which is designed to measure the performance of companies demonstrating strong (ESG) practices.



FTSE4Good

We’ve been recognised as one of ‘The World’s Most Ethical Companies’ again in 2021 – the tenth time we’ve received this accolade. Assessed on various measures of ethics, including governance and compliance, we’re one of just 135 companies globally to be included in the list.



**c) UN Sustainable Development Goals**

We support the United Nations Sustainable Development Goals (SDGs), focusing on the areas where we can make a material difference.

National Grid is a signatory to the United Nation’s Global Compact, which has a strategy to drive business awareness and action in support of achieving the Sustainable Development Goals (SDGs) by 2030. These goals promote prosperity while protecting the planet.

All 17 goals are important, of which 12 are particularly linked to our five responsible business focus areas<sup>10</sup>. We’ve highlighted the relevant UN SDGs for our Responsible Business programmes and actions in our [Responsible Business Charter](#).



<sup>9</sup> National Grid’s website, “Responsibility”, <https://www.nationalgrid.com/responsibility>

# National Grid Green Financing Framework

Climate change is the defining challenge of this generation. The decisions we take now will influence the future of our planet and life on earth.



## Rationale and scope of our Green Financing Framework

We must make significant changes to curb harmful emissions and enable the clean energy transition, delivered in a reliable, safe, fair and affordable way for all.

To do so, we are investing in the decarbonisation of our networks, and the issuance of Green Financing Instruments supports our efforts and reinforces our commitment to the clean energy transition.

Under our Green Financing Framework, National Grid plc and any of its entities<sup>10</sup> (collectively referred to as “National Grid”) will be able to issue green bonds, loans or other financial instruments (collectively the “Green Financing Instruments”) to finance our responsibility efforts. The Framework aims at facilitating disclosure, transparency, and integrity of our Green Financing Instruments for our investors.

We intend to follow best market practice and will communicate in a transparent manner on:

- I. Use of Proceeds
- II. Process for Project Evaluation and Selection
- III. Management of Proceeds
- IV. Reporting.

This Green Financing Framework is aligned with the ICMA Green Bond Principles published in June 2021<sup>11</sup> and the LMA Green Loan Principles published in February 2021<sup>12</sup>. In addition, the Green Financing Framework is aligned as closely as possible<sup>13</sup> with the EU Taxonomy Regulation<sup>14</sup> and the EU Taxonomy Delegated Acts<sup>15</sup> on Climate Change Mitigation and Adaptation. As the green finance market continues to evolve, National Grid’s Framework may be subsequently revised or updated to remain consistent with shifting expectations, best market practices and regulatory landscape.

We have engaged ISS-ESG to review and provide a Second Party Opinion on this Framework.



<sup>10</sup> Defined as a corporate entity that is directly or indirectly, wholly, majority or otherwise jointly owned by National Grid plc

<sup>11</sup> ICMA, Green Bond Principles, June 2021, <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

<sup>12</sup> LMA, Green Loan Principles, February 2021: <https://www.lsta.org/content/green-loan-principles/>

<sup>13</sup> Subject to the alignment of the laws of England and Wales, New York, Massachusetts, New Hampshire, Vermont, and Federal Laws of the United States of America with the laws of the European Union, where applicable.

<sup>14</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088




<sup>15</sup> [https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

# Use of Proceeds

An amount at least equivalent to the net proceeds from the issuance of the Green Financing Instruments will be used to finance or refinance, in whole or in part, new or existing green assets (“Eligible Green Projects”) from any of the Eligible Categories defined in the table below.

The key selection criteria of our Eligible Green Projects are their contribution to environmental sustainability, to fair and affordable transition to a clean energy economy, and to the reduction of our own emissions.

Each Eligible Green Project falls into one of the following Eligible Categories, aligned to the Green Bond Principles and the Green Loan Principles, contributes to the following UN SDGs, and meets the corresponding Eligibility Criteria:

| GBP/GLP Category | Eligibility Criteria   | Contribution to UN SDGs  | EU Economic Activity <sup>16</sup>  | Contribution to EU's Environmental Objectives <sup>17</sup>   |
|------------------|--|--|---|---|
| Renewable Energy | <p><b>Investments and / or expenditures in projects or assets that increase the share of low carbon electricity below the threshold of 100g CO<sub>2</sub>e / kWh in our power network, such as:</b></p> <p><b>Connection infrastructure</b> for:</p> <ul style="list-style-type: none"> <li>Renewable energy* generation.</li> <li>Interconnectors that transport electricity between separate systems.</li> </ul> <p><b>Transmission and Distribution</b> projects or assets with the main purpose of integrating low carbon emission generation, such as:</p> <ul style="list-style-type: none"> <li>Development of the transmission and / or distribution networks to support low carbon energy supply.</li> <li>Management or control technology.</li> <li>Construction and operation of interconnectors.</li> <li>Research and development to maintain or increase the renewable energy feed-in in the grid.</li> </ul>  |  | <p>Transmission and distribution of electricity.</p>  | <p><b>Substantial contribution to climate change mitigation</b> (Art. 10)</p> <p><b>Sub-goals</b> 1.a and 1.g</p> |
|                  | <p><b>Transmission and Distribution</b> projects or assets maintaining and / or enhancing the capacity for renewable energy into the electricity grid in a safe and reliable way, such as maintenance capex or generic infrastructure capex.</p> <p>The whole investment, expenditure or asset value is eligible if aligned with either of the following two criteria:</p> <ul style="list-style-type: none"> <li>More than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100g CO<sub>2</sub>e / kWh, over a rolling five-year period.</li> <li>The grid's average emissions factor is less than 100g CO<sub>2</sub> / kWh, over a rolling five-year period.</li> </ul> <p>Otherwise, subject to the renewable energy capacity ratio (the “Green Ratio”) of the issuing company, applied to the full investment, expenditure or asset value.</p> <p><b>Renewable Energy generation:</b> acquisition, conception, construction, development, maintenance, expansion and/or operation of renewable energy generation infrastructure.</p> |  | <p>Electricity generation using solar PV or CSP technology, wind power.</p> <p>Market research, development and innovation.</p> | <p><b>Substantial contribution to climate change adaptation</b> (Art. 11)</p> <p><b>Sub-goals</b> 1.a and 1.b</p> |
|                  | <p>The whole investment, expenditure or asset value is eligible if aligned with either of the following two criteria:</p> <ul style="list-style-type: none"> <li>More than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100g CO<sub>2</sub>e / kWh, over a rolling five-year period.</li> <li>The grid's average emissions factor is less than 100g CO<sub>2</sub> / kWh, over a rolling five-year period.</li> </ul> <p>Otherwise, subject to the renewable energy capacity ratio (the “Green Ratio”) of the issuing company, applied to the full investment, expenditure or asset value.</p> <p><b>Renewable Energy generation:</b> acquisition, conception, construction, development, maintenance, expansion and/or operation of renewable energy generation infrastructure.</p>  |  |   |   |

<sup>16</sup> Supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. [https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

<sup>17</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending regulation (EU) 2019/2088. [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC)

| GBP/GLP Category  | Eligibility Criteria   | Contribution to UN SDGs  | EU Economic Activity <sup>16</sup>  | Contribution to EU's Environmental Objectives <sup>17</sup>  |
|-------------------|--|--|---|--|
| Energy Efficiency | <p><b>Investments and / or expenditures in projects or assets that reduce energy consumption, improve network energy efficiency and/or reduce electricity grid losses, such as:</b></p> <p><b>Power Control devices:</b> equipment or assets to increase the controllability and observability of the electricity system, balancing efficiency, and / or flexibility and technical availability of the grid, such as:</p> <ul style="list-style-type: none"> <li>• Sensors and measurement tools.</li> <li>• Communication and control equipment.</li> <li>• Development and/or use of data-driven solutions enabling GHG emission reductions.</li> </ul> <p><b>Storage systems:</b> acquisition, conception, construction, development and/or operation of electricity storage equipment or assets.</p> <p><b>Retrofits:</b> replacements and / or improvements to reduce energy losses, improve resilience of the grid, improve energy efficiency, and/or use sustainably-sourced materials, such as:</p> <ul style="list-style-type: none"> <li>• Investment in installation or replacement of energy efficient light sources e.g. LED lighting.</li> <li>• Installation, replacement, maintenance and repair of ventilation systems.</li> </ul> <p><b>Smart Equipment:</b> assets, or equipment and / or infrastructure to carry information to users for remotely acting on consumption, and/or to allow for the exchange of renewable electricity between users, including:</p> <ul style="list-style-type: none"> <li>• Smart grids</li> <li>• Smart meters</li> <li>• Smart city energy solutions.</li> </ul> <p>Construction or operation of facilities <b>that produce heating/cooling from geothermal energy, and that have life-cycle GHG emissions lower than 100g CO<sub>2</sub>e/kWh.</b></p> | <br><br> | <p>Transmission and distribution of electricity.</p> <p>Storage of electricity.</p> <p>Installation, maintenance and repair of energy efficiency equipment.</p> <p>Production of heat/cool from geothermal energy.</p>  | <p><b>Substantial contribution to climate change mitigation</b> (Art. 10)</p> <p><b>Sub-goals</b> 1.a, 1.b, 1.d, and 1.g</p> |
|                   | <p><b>Investments and / or expenditures in projects or assets that reduce greenhouse gas emissions from transport, such as:</b></p> <p><b>Infrastructure for clean transportation:</b> construction, development, operation, acquisition and / or maintenance of infrastructure supporting sustainable mobility and low-carbon vehicles, including:</p> <ul style="list-style-type: none"> <li>• Electric vehicle charging stations.</li> <li>• Network extensions or capacity upgrades supporting low-carbon transportation.</li> </ul> <p><b>Renewal of the Group's fleet,</b> including passenger cars, light commercial vehicles and large vehicles:</p> <ul style="list-style-type: none"> <li>• Purchase of zero tailpipe emission light-duty vehicles (electric vehicles).</li> <li>• Purchase of zero or low tailpipe emission heavy-duty vehicles (electric/hydrogen vehicles).</li> </ul>  |    | <p>Transmission and distribution of electricity.</p> <p>Transport by motorbikes, passenger cars and light commercial vehicles.</p> <p>Infrastructure enabling low-carbon road transport and public transport.</p> <p>Installation, maintenance and repair of charging stations for electric vehicles.</p> | <p><b>Substantial contribution to climate change mitigation</b> (Art. 10)</p> <p><b>Sub-goal</b> 1.c</p>                     |

| GBP/GLP Category   | Eligibility Criteria   | Contribution to UN SDGs  | EU Economic Activity <sup>16</sup>  | Contribution to EU's Environmental Objectives <sup>17</sup>  |
|--|--|--|---|--|
| Pollution Prevention and Control   | <p><b>Investments and / or expenditures in projects or assets that reduce waste and greenhouse gas emissions, as well as preventing or reducing environmental pollution, such as:</b></p> <p>The construction, development, operation and / or maintenance of facilities, systems or equipment aiming at <b>reducing greenhouse gas emissions</b>, including:</p> <ul style="list-style-type: none"> <li>• Replacement of equipment or assets containing SF<sub>6</sub> for a cleaner alternative.</li> <li>• Research and development on solutions to reduce greenhouse gas emissions, such as the g3 technology.</li> </ul>  |    | Production of heat/cool using waste heat.   | <p><b>Substantial contribution to climate change mitigation</b> (Art. 10)</p> <p><b>Sub-goals</b> 1.e and 1.g</p>                                      |
|  | <p><b>Monitoring equipment to control leaks and GHG emissions.</b></p>   |    | Material recovery from non-hazardous waste.   | <p><b>Substantial contribution to the transition to a circular economy</b> (Art. 13)</p> <p><b>Sub-goals</b> 1.e, 1.f, 1.g, 1.h, 1.i, 1.j, and 1.k</p> |
|  | <p><b>Waste prevention, reduction and recycling:</b> projects and programmes aimed at reducing, reusing and / or recycling office and industrial recovered assets and waste.</p> <p>Works aimed at <b>preventing or reducing any risk of environmental pollution</b>, such as the treatment and disposal of hazardous materials and / or waste.</p> <p><b>Transforming technology:</b> projects aimed at using and recycling energy and material wastes to reduce our emissions and carbon footprint, including:</p> <ul style="list-style-type: none"> <li>• Heat-to-energy facilities and technologies.</li> </ul>   |    | Data-driven solutions for GHG emissions reductions.   | <p><b>Substantial contribution to pollution prevention and control</b> (Art. 14)</p> <p><b>Sub-goal</b> 1.a</p>  |
| Environmentally sustainable management of living natural resources and land use ("Environmental Sustainability") | <p><b>Investment and/or expenditures on projects or assets that reduce the impact on land and terrestrial biodiversity, such as:</b></p>   |    | Transmission and distribution of electricity.   | <p><b>Substantial contribution to climate change mitigation</b> (Art. 10)</p> <p><b>Sub-goal</b> 1.f</p>   |
|  | <p><b>The sustainable management and value enhancement of our land</b>, through the maintenance and / or increase of the soil/land quality and value, and/or protection of the local biodiversity.</p> <p><b>The preservation and restoration of natural landscapes</b>, including through:</p> <ul style="list-style-type: none"> <li>• The intentional restoration/rehabilitation to initiate or accelerate the recovery of an ecosystem from a degraded state.</li> <li>• The conservation of biological diversity, including works in wildlife reserves, key habitats and forests, designated wildlife and habitat protection.</li> </ul> <p><b>Grid improvements aiming at rehabilitating the natural landscape and environment</b>, such as substitution of overhead lines with underground cables in protected areas.</p> | Not covered, but supporting the DNSH criteria of other activities that are EU Taxonomy aligned.  | <p><b>Substantial contribution to the protection and restoration of biodiversity and ecosystems</b> (Art. 15)</p> <p><b>Sub-goals</b> 1.a and 1.b</p> |  |
| Green Buildings  | <p><b>Investments and / or expenditures in new or existing buildings, and/or in projects that improve the energy efficiency performance of buildings, such as:</b></p>   |    | Construction of new buildings.  | <p><b>Substantial contribution to climate change mitigation</b> (Art. 10)</p> <p><b>Sub-goal</b> 1.b</p>   |
|  | <p><b>The acquisition or construction of:</b></p> <ul style="list-style-type: none"> <li>• Buildings built before 31 December 2020 either with an EPC label ≥ "A" or belonging to the top 15% of the national building stock.</li> <li>• Buildings built after 31 December 2020 with energy performance lower of at least 10% than the threshold set for nearly zero-building (NZEB) requirements.</li> </ul>  | Renovation of existing buildings.  | Installation, maintenance and repair of energy efficiency equipment.  | <p><b>Sub-goal</b> 1.b</p>   |
|  | <p><b>Renovations of existing buildings and individual measures</b> to improve energy performance and achieve energy savings of at least 30% in comparison to the baseline performance before the building renovation.</p>   | Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings. | Installation, maintenance and repair of renewable energy technologies.  | Acquisition and ownership of buildings.  |

\* Includes solar PV technology, concentrated solar power, wind power, ocean energy, and hydropower.

Eligible Green Projects' assets or expenditures to be part of the use of proceeds of any of our Green Financing Instruments are net of:

- Customer contributions to construction.
- Fast money, the part of our expenditure that is funded in-year as defined in the RIIO-T2<sup>18</sup> and RIIO-ED1 price controls. This is only applicable to our UK electricity transmission and UK electricity distribution regulated businesses. The share of fast money removed from our Sub-Portfolios is detailed in our Green Financing Report.

- Expenditures recovered through rates in the short term, applicable to our US regulated business.

While under the EU Taxonomy the entire interconnected European System, which includes the United Kingdom's system, is eligible, we decided to apply a Green Ratio to our generic transmission and distribution projects or assets in order to capture the portion of our work dedicated to enhancing and/or maintaining the capacity for renewable energy into the electricity grid.

The Green Ratio of our UK electricity transmission business is defined as the share of renewable generation transmission entry capacity versus the total generation transmission capacity on the electricity transmission networks of England and Wales<sup>19</sup>. The Green Ratio of our US electricity business is defined as the share of installed renewable nameplate capacity versus the total peak load on our electric networks in the respective US jurisdictions of our US Operating Companies<sup>20</sup>. The Green Ratios of our UK and US businesses are based on publicly available information.



The datasets used to calculate our Green Ratios are publicly available – please see the latest [Green Financing Report](#).

<sup>18</sup> RIIO-2 Final Determinations – Core Document (REVISED), 3 February 2021, Ofgem. [https://www.ofgem.gov.uk/system/files/docs/2021/02/final\\_determinations\\_-\\_core\\_document\\_revised.pdf](https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_core_document_revised.pdf)

<sup>19</sup> Transmission Entry Capacity (TEC) defines a generator's maximum allowed export capacity onto the transmission system. This information is published annually by the UK Government's Department for Business, Energy and Industrial Strategy in the Digest of UK Energy Statistics (DUKES) in the Electricity chapter: <https://www.gov.uk/government/collections/digest-of-uk-energy-statistics-dukes>.

<sup>20</sup> The Green Ratio of our US Operating Companies is calculated as:

- the sum of (A) the distribution active demand response (our ability to shift customer demand of electricity based on available supply), and
- (B) the installed renewable resources nameplate capacity of electricity generators connected to our transmission and distribution systems (excluding large-scale hydro-electricity plants (>25MW)), each located within our service territory (the intended full-load sustained output of a generation facility connected to our transmission or distribution networks. Generation resources in our distribution systems consist of small and geographically dispersed generation sources such as solar, energy storage, and demand response resources located on the distribution system)
- divided by (C) the total projected peak load forecasts (weather and econometric-adjusted customer demand, net of distributed energy resources)

The dataset used for the Green Ratio calculation are publicly available – please see the latest Green Financing Report (<https://www.nationalgrid.com/investors/debt-investors/green-financing>)

# Process for project evaluation and selection

A dedicated Green Financing Committee oversees the governance of our Green Financing Programme. The Committee is chaired by the Group Treasurer, and comprises representatives from:

- Sustainability
- UK Regulated Business
- US Regulated Business
- National Grid Ventures
- Finance.

Other representatives of the Company may attend as required as subject matter experts.

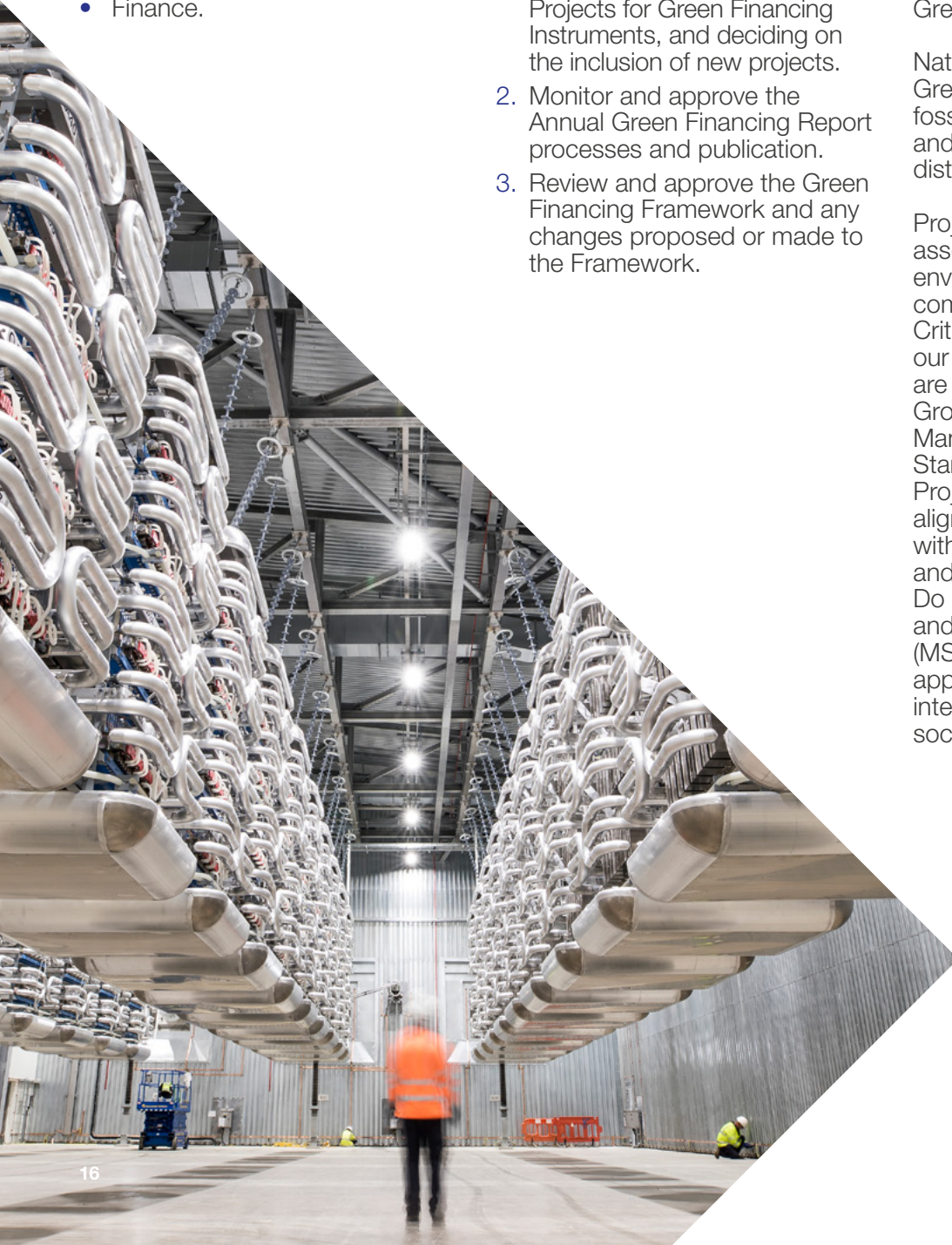
The Committee's primary objectives are to:

1. Carry out the process of project evaluation and selection. This includes reviewing on a quarterly basis the Sub-Portfolios of Eligible Green Projects for Green Financing Instruments, and deciding on the inclusion of new projects.
2. Monitor and approve the Annual Green Financing Report processes and publication.
3. Review and approve the Green Financing Framework and any changes proposed or made to the Framework.

New projects are identified by the respective operational and/or finance teams of the UK Regulated, US Regulated, and NGV businesses. The Group Treasury team then coordinates the submission of the identified projects to the Green Financing Committee, who evaluates their eligibility and decides on their integration to the dedicated Sub-Portfolios of Eligible Green Projects.

National Grid's Eligible Green Projects exclude fossil fuel generation plants and gas transmission and distribution infrastructure.

Projects are considered and assessed based on their environmental impact, their compliance with our Eligibility Criteria, their contribution to our sustainability strategy, and are expected to adhere to the Group's policies and Business Management System (BMS) Standards. The Eligible Green Projects are also expected to be aligned as closely as possible with the EU Taxonomy Regulation and Delegated Acts, including Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria, and to comply with applicable national, European and international environmental and social standards and regulations.





## Our standards and policies

Our comprehensive 20 group-wide BMS Standards ensure a stringent management of any potential negative environmental, safety and social impact associated with our activities, by defining the areas of greatest risk and value, our business is expected to comply with and establishing the minimum requirement we must follow. Business areas across National Grid monitor their performance against the BMS, with outcome measures being updated and communicated through Quarterly Business Reviews (QBR). Our BMS Standards include:

- The Environmental Sustainability Standard, underpinned by our ISO14001:2015 certified Environmental Management System (EMS) that provides us with the framework we need to manage our environmental impacts, meet the requirements of applicable regulations, and assist in the continual improvement our environmental performance. Our ISO14001:2015 EMS certificate is publicly available and audited annually by external auditors. This standard establishes minimum environmental compliance and environmental sustainability performance requirements for all operational and non-operational activities to be delivered by our leadership teams; it also sets out our expectations for those working on our behalf.

- Asset Management and Engineering Standard, that enables a common approach towards addressing the most important asset management issues and opportunities.
- Enterprise Risk Management Standard, that enables greater visibility to risk in all our business processes – controlling threats and maximising opportunities.
- Ethics Standard, to maintain stakeholder confidence in our ability to deliver our ethical commitments – putting our Values into action by doing the right thing. The Ethics Standard ensures the implementation of our Code of Ethics<sup>21</sup>, which outlines ways we can ensure we always operate with integrity. It covers 5 distinct areas: acting responsibly, people and behaviours, conflict of interest, anti-corruption and transparency, and information and communication.
- Occupational Safety Standard, that ensures all employees or contractors can expect to receive the same consistent and high level of protection for their safety.
- Process Safety Standard, that ensures we protect people and the environment from the risk of major accidents through our process safety management system and the right safety focused culture.
- Stakeholder Engagement Standard that establishes performance requirements for digital and physical external stakeholder engagement - enabling a consistent approach.

The BMS Standards are further supported by additional policies, such as the Environmental Sustainability Policy, Occupational Safety Policy, Process Safety Policy, and Wellbeing & Health Policy<sup>22</sup>. We also implemented a specific standard for establishing and evaluating compliance with our legal, moral and financial duty. In line with our Environmental Sustainability Policy and the regulation, we conduct various impact assessment to ensure that our large projects are aligned with our objectives to preserve the environment, biodiversity and human rights.



<sup>21</sup> National Grid's Code of Ethics : <https://www.nationalgrid.com/document/121191/download>

<sup>22</sup> Available on National Grid's website: <https://www.nationalgrid.com/about-us/corporate-information/corporate-governance>

We do not have direct operations in countries of high concern with respect to human rights, therefore we do not have a specific policy relating to human rights. However, respect for human rights is incorporated into our employment practices and our values, which are integral to our Code of Ethics.

We acknowledge that there may be potential risks in our wider supply chain, and we ensure that the expectations outlined in our Supplier Code of Conduct relating to respecting, protecting and promoting human rights regarding our suppliers are proactively promoted. The relationship we have with our suppliers can influence how they support our commitment to acting responsibly.

Our Supplier Code of Conduct is updated and communicated to our suppliers annually and clearly sets out our expectations to share our commitment to respecting, protecting and promoting human rights.

This includes alignment to the UN Guiding Principles, the 10 Principles of the United Nations Global Compact, the International Labour Organisation (ILO) minimum standards, the Ethical Trading Initiative (ETI) Base Code, the UK Modern Slavery Act 2015, the US Trafficking and Violence Protection Act 2000, the US Department of State Principles Combatting Human Trafficking and, for our UK suppliers, the requirements of the Living Wage Foundation.

In addition, we are signatories to the UK Construction Protocol, which is a joint agreement with many of the largest firms in the UK construction sector focused on eradicating modern slavery and exploitation in the building industry. We are also founding signatory members of the People Matter Charter which was created to help organisations up and down the supply chain to bring challenges related to decent work together into one workforce strategy. Finally, we are members of the UNGC Modern Slavery working group and actively involved in the UK Utilities Sector Modern Slavery Working Group which is aimed at working together to eradicate slavery and exploitation in the UK Utilities Sector and its supply chains.



# Management of proceeds

The net proceeds from each of National Grid Financing Instruments will be tracked internally. Each Operating Company of the Group will have a dedicated Sub-Portfolio of Eligible Green Projects (collectively “Sub-Portfolios of Eligible Green Projects”), and an amount equivalent to the net proceeds of each instrument will be earmarked for allocation to the Sub-Portfolio of the issuing entity, in accordance with the National Grid Green Financing Framework.

In the case of a Green Financing Instrument issued by National Grid plc, National Grid North America Inc. or National Grid Holdings One plc, an amount equivalent to the net proceeds of each instrument will be earmarked for allocation to the Sub-Portfolio of at least one of their subsidiaries. We will ensure that there is no double counting by earmarking for allocation the capex and / or selected opex of an Eligible Green Project only once.

Eligible Green Projects may include capital and selected operating expenditures of new projects, projects under construction or development or projects that have been completed, with a maximum three-year look-back period before the issuance year of the Green Finance Instrument. In case we select eligible green assets, they shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant Eligibility Criteria.

The balance of the tracked proceeds should be periodically adjusted, in order to match allocations to Eligible Green Projects (re)financed during this period.

We commit to maintaining a level of allocation for the Sub-Portfolios of Eligible Green Projects that matches or exceeds the net proceeds of our outstanding Green Financing Instruments within a timeframe of 24 months after issuance. To this end, we will substitute any projects that are no longer eligible as soon as practical once an appropriate substitution option has been identified, on a best effort basis.

The payment of principal and interest on any bond issued under the Framework will be made from our general funds and will not be linked to the performance of any Eligible Green Projects.

Where proceeds cannot be immediately allocated or reallocated, we will invest the balance of the net proceeds at our own discretion as per our liquidity management policy, including in cash or cash equivalents, or in other liquid marketable instruments.



# Reporting

We will report on the allocation of net proceeds and associated impact metrics of the Green Financing Instruments within one year from the first borrowing date and annually thereafter until the proceeds have been fully allocated, and as necessary in the event of material developments, changing market requirements or best practice.

In line with our Management of Proceeds, we intend to report at least on a Sub-Portfolio basis, i.e. aggregated reporting for all outstanding Green Financing Instruments per issuing company, and category-by-category basis.

We also intend to report on the degree of alignment of our Eligible Green Projects, at least on a Sub-Portfolios i.e. aggregated basis, with the EU Taxonomy Regulation and EU Taxonomy Delegated Acts, where feasible.

The Green Financing section of the report will be published as a standalone report and/or part of National Grid's annual report or Responsible Business Report, and will be made available, on our website:

<https://www.nationalgrid.com/investors/debt-investors/green-financing>

## Allocation Report per Sub-Portfolio

The report will include:

- The list of Eligible Green Projects (re)financed, including project names and geographical distribution where feasible.
- The aggregated amount of allocation of the proceeds to the Eligible Green Projects at Sub-Portfolio and category level.
- The proportion of proceeds used for financing versus refinancing.

- The balance of any unallocated proceeds invested as per the company's liquidity management policy, including in cash or cash equivalents, or in other liquid marketable instruments.
- The breakdown of the Sub-Portfolio by nature of what is being financed (assets, capital expenditures).
- The mapping of the EU Environmental Objectives pursued by the assets and capital expenditures in the Sub-Portfolio.

## Impact Reporting

We will report on relevant environmental impact metrics, and it will disclose measurement methodology for quantitative indicators.

We intend to align, on a best effort basis, the reporting with the portfolio approach described in ICMA's "Handbook – Harmonized Framework for Impact Reporting" (July 2021)<sup>23</sup>. Below are examples of impact indicators that may be reported:

| Eligible category  | Potential Quantitative Performance Indicators to be provided at Eligible Category level   |
|--|---|
| Renewable Energy   | <ul style="list-style-type: none"> <li>• estimated CO<sub>2</sub> emission avoided (tCO<sub>2</sub>e)</li> <li>• additional capacity of renewable energy connected to the systems (MW).</li> </ul>                |
| Energy Efficiency  | <ul style="list-style-type: none"> <li>• estimated CO<sub>2</sub> emission avoided (tCO<sub>2</sub>e)</li> <li>• expected Energy savings (MWh).</li> </ul>  |
| Green Buildings  | <ul style="list-style-type: none"> <li>• estimated CO<sub>2</sub> emission avoided (tCO<sub>2</sub>e)</li> <li>• floor space of green real estate (m<sup>2</sup>).</li> </ul>                                     |
| Clean Transportation   | <ul style="list-style-type: none"> <li>• estimated CO<sub>2</sub> emission avoided (tCO<sub>2</sub>e)</li> <li>• length of rail electrified (km)</li> <li>• number of EV charging plugs installed (#).</li> </ul> |
| Pollution prevention and control   | <ul style="list-style-type: none"> <li>• waste reduction (tons)</li> <li>• increase of recycling capacity (tons)</li> <li>• estimated CO<sub>2</sub> emission avoided (tCO<sub>2</sub>eq).</li> </ul>             |
| Environmentally sustainable management of living natural resources and land use ("Environmental Sustainability") | <ul style="list-style-type: none"> <li>• total estimated surface area impacted (sq. km)</li> <li>• number of bird nesting platforms installed (#).</li> </ul>   |

Environmental impact metrics are expected to include both actual and expected impact at completion, both of which will be identified.

# External Review

## **a. Second Party Opinion (Pre-Issuance)**

We have appointed ISS-ESG to provide a Second Party Opinion on our Green Financing Framework.

The Second Party Opinion and the Green Financing Framework will be made available on National Grid's website.

## **b. Post-issuance External Verification**

An independent auditor will provide a limited assurance review of the allocation of Green Financing Instruments proceeds, adherence to asset selection criteria, and environmental metrics.

The auditors' report will be made available on our website:

<https://www.nationalgrid.com/investors/debt-investors/green-financing>



This Green Financing Framework (the “Framework”) does not constitute or form part of, and should not be construed as, an offer or invitation to sell securities of National Grid plc or of any of its subsidiaries (collectively referred to as “National Grid”), or the solicitation of an offer to subscribe for or purchase securities of National Grid, and nothing contained herein shall form the basis of or be relied on in connection with any contract or commitment whatsoever. Any decision to purchase any securities of National Grid should be made solely on the basis of the information to be contained in the relevant prospectus and any final terms or pricing supplement (if applicable) produced in connection with the offering of such securities. Prospective investors are required to make their own independent investigations and appraisals of the business and financial condition of National Grid and the nature of the securities before taking any investment decision with respect to securities of National Grid.

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The Framework contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements based on National Grid’s current expectations and projections about future events. These statements include information with respect to National Grid’s financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as ‘aims’, ‘anticipates’, ‘expects’, ‘should’, ‘intends’, ‘plans’, ‘believes’, ‘outlook’, ‘seeks’, ‘estimates’, ‘targets’, ‘may’, ‘will’, ‘continue’, ‘project’ and similar expressions, as well as statements in the future tense, identify forward-looking statements. Because these forward-looking statements are subject to risks and uncertainties, actual future results or performance may differ materially from those expressed in or implied by these statements due to any number of different factors, many of which are beyond the ability of National Grid to control or estimate precisely. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of the Framework. The content of any website references in the Framework do not form part of it.

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