

Puget Sound Energy

Type of Engagement: Annual Review

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Engagement Team:

Akshay Chandrakapure, akshay.chandrakapure@morningstar.com

Nachiket Goli, nachiket.goli@morningstar.com

Introduction

In May 2023, Puget Sound Energy (“PSE”), an electric and gas utility company and a wholly owned subsidiary of Puget Energy, issued a green bond (the “2023 Green Bond”) to finance or refinance, projects that are expected to support increased renewable electricity generation and distribution and contribute to GHG emissions reductions. In 2024, PSE engaged Sustainalytics to review the projects financed with proceeds from the 2023 Green Bond (the “Nominated Projects”) and provide an assessment as to whether the projects meet the use of proceeds criteria and the reporting commitments outlined in the Puget Energy Sustainable Financing Framework (the “Framework”).¹ Sustainalytics provided a Second-Party Opinion on the Framework in May 2023.²

Evaluation Criteria

Sustainalytics evaluated the Nominated Projects based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Renewable Energy	Construction, development, acquisition, expansion, operation, and maintenance of renewable energy projects that align with Washington state’s Clean Energy Transformation Act definition³ and the following criteria, including: i. Wind, solar (photovoltaic), geothermal,⁴ biomass that is derived from waste feedstock and hydropower⁵ (including pumped storage) ii. Long-term renewable energy power purchase agreements (> 5 years) iii. Investments that increase the share of low carbon electricity in the grid by directly connecting renewable energy, such as connection of renewable energy generation,	i. New/total distance of transmission lines developed (km) ii. Capacity of new owned renewable energy generation facilities iii. Capacity for new (or recommissioned) renewable energy facilities under PPA iv. Capacity of renewable energy plant(s) served by

¹ Puget Energy, “Sustainable Financing Framework”, (2023), at: https://www.pugetenergy.com/document/Puget_Energy_Sustainable_Financing_Framework.pdf

² Sustainalytics, “Second-Party Opinion, Puget Energy”, (2023), at: https://www.pse.com/-/media/PDFs/Puget_Energy_Sustainable_Financing_Framework_Second-Party_Opinion.pdf?rev=7b454e7b2ebe4d8488a6a5bec5398d52&sc_lang=en&modified=20230510144701&hash=06AD7139B2887B663EAFBDBE2DC004F9

³ Washington State Legislature, “RCW definitions”, at: <https://app.leg.wa.gov/rcw/default.aspx?cite=19.285.030>

⁴ Geothermal projects must meet emissions threshold of < 100 gCO₂e/kWh.

⁵ Hydropower projects must be run of river or > 25 MW. Projects in operation before 2020 must have a power density > 5 W/m², projects in operation in 2020 or after must have a power density of > 10 W/m². Includes refurbishment of existing hydro facilities provided the size of the dam or reservoir is not increased. Power density requirements also apply to pumped storage. New pumped hydro projects will have associated environmental and social impact assessment by credible body indicating no significant risk, controversy or expected negative impact.

	energy storage systems and battery systems, to increase renewable energy feed-in to the grid. Construction, development, acquisition, expansion, operation and maintenance of transmissions and distribution infrastructure that complies with at least one of the following: i. Average system grid emissions factor below threshold of 100 gCO₂e/kWh measured on a life cycle basis, over a rolling five-year period; or ii. > 67% of newly enabled generation capacity below the generation threshold value of 100 gCO₂e/kWh measured on a life cycle basis, over a rolling 5-year period	transmission system (MW) v. Renewable capacity connected to the grid (MW) vi. Annual GHG emissions reduced/avoided (tCO₂e) vii. Distributed energy resources added (MW)
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Issuer's Responsibility

PSE is responsible for providing accurate information and documentation relating to the details of the funded projects, including descriptions of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from the 2023 Green Bond. The work undertaken as part of this engagement included collection of documentation from PSE and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by PSE. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by PSE.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,⁶ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Framework. PSE has disclosed to Sustainalytics that the proceeds from the 2023 Green Bond were fully allocated as of December 2023.

⁶ Sustainalytics' limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated Projects to determine alignment with the use of proceeds criteria outlined in the Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the Nominated Projects to determine if impact was reported in line with the KPIs outlined in the Framework.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendix

In May 2023, PSE issued the 2023 Green Bond and raised USD 396.5 million, of which 16% of the proceeds were used to refinance existing projects and 84% were used to finance new projects.

Table 3: Allocation and Reported Impact for the projects financed by the 2023 Green Bond.

Use of Proceeds Category	Project Description	Location	Environmental Impact Reported	Net Proceeds Allocated (USD million)
Renewable Energy	Lower Baker Dam Grouting (Hydro power plant)	Washington	i. Installed capacity: 105 MW ii. Electricity generated: 263,000 MWh iii. Avoided emissions: 115,000 metric tons CO ₂ e	86.2
	Golden Hills and Clearwater Long term PPAs (Wind farm)	Golden Hills at Sherman County, Oregon	i. Installed Capacity at Golden Hills: 200 MW & Clearwater: 350 MW	66.6
		Clearwater at Custer and Garfield Counties, Montana	ii. Electricity generated: 1,892,000 MWh iii. Avoided emissions: 820,000 metric tons CO ₂ e	
	Beaver Creek R&A (Wind farm, under construction) ⁷	Stillwater County, Montana	i. Projected avoided emissions: 330,000 metric tons CO ₂ e ⁸ ii. Projected annual electricity generation: 760,000 MWh	243.7
Total Net Proceeds Allocated				396.5

⁷ PSE has informed Sustainalytics that the Beaver Creek Wind Farm is under development and is expected to be operational in 2025.

⁸ PSE has informed Sustainalytics that the avoided emissions and annual electricity generation was calculated assuming a capacity factor of 35%.

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