

# Second-Party Opinion

## Oncor Sustainable Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Oncor Sustainable Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Socio-Economic Advancement and Socioeconomic Empowerment including Gender inclusion, Renewable Energy, Energy Efficiency, Clean Transportation and Green Workspaces are aligned with those recognised by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in these areas will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 5, 7, 9, 10 and 11.



**PROJECT EVALUATION / SELECTION** Oncor's Sustainable Finance Committee, with cross-departmental representation, is charged with selecting eligible projects. Final approval of any project will be made by the Treasurer. This is in line with market practice.



**MANAGEMENT OF PROCEEDS** Oncor's Treasury department will be responsible for managing the proceeds of its sustainability bond, and will annually allocate to eligible projects. Pending allocation/disbursement, proceeds will be held in liquid, short-term instruments or used to pay Oncor indebtedness, or both. This is in line with market practice.



**REPORTING** Oncor intends to provide a report detailing the allocation/disbursement of proceeds from its sustainability bonds, as well as providing relevant impact metrics, annually until the proceeds are fully allocated/dispensed. This is in line with market practice.

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<b>Evaluation date</b>	September 17, 2020
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<b>Issuer Location</b>	Dallas, Texas, USA
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## Introduction

Oncor Electric Delivery Company LLC (“Oncor”, or the “Company”) is an electric transmission and distribution company, operating the largest electric delivery network in Texas. A regulated entity, Oncor serves 3.7 million customers and operates 139,000 miles of transmission and distribution lines.

Oncor has developed the Oncor Sustainable Bond Framework (the “Framework”) under which it intends to issue one or more sustainability bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that deliver environmental and/or social benefits in relation to the operations of the Company. The Framework defines eligibility criteria in five areas:

1. Socio-Economic Advancement and Empowerment
2. Renewable Energy
3. Energy Efficiency
4. Clean Transportation
5. Green Workspaces

Oncor engaged Sustainalytics to review the Oncor Sustainable Bond Framework, dated September 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).<sup>1</sup> This Framework will be published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Oncor’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Oncor representatives have confirmed (1) they understand it is the sole responsibility of Oncor to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed to Sustainalytics in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Oncor.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The Oncor Sustainable Bond Framework will be made available on Oncor’s website. Refer to: <https://oncor.com/SustainabilityFramework>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Oncor has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Oncor Sustainable Bond Framework

Sustainalytics is of the opinion that the Oncor Sustainable Bond Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2020 (SBP). Sustainalytics highlights the following elements of Oncor's Sustainability Bond Framework:

- Use of Proceeds:
  - The eligible categories are Socio-Economic Advancement and Empowerment including Gender inclusion, Renewable Energy, Energy Efficiency, Clean Transportation, and Green Workspaces, which are aligned with those recognised by the GBP and SBP.
  - Under the Socio-Economic Advancement and Empowerment category, Oncor intends to use part of the proceeds to support minority or women-owned businesses or businesses owned by historically underrepresented groups. Sustainalytics views these activities as contributing to socioeconomic advancement and empowerment.
    - The Company has developed specific requirements<sup>4</sup> for eligible business participants, based on guidelines from the National Minority Supplier Development Council, the Women's Business Enterprise National Council, and the U.S. Small Business Administration.
    - Under the Company's criteria, eligible businesses are those that are more than 51% owned, operated and controlled by women, veterans, service-disabled veterans or minority groups including Asian-Indian, Asian-Pacific, African American, Hispanic and Native American group. Any small businesses operating in Historically Underutilised Business Zones<sup>5</sup> are also considered eligible. Sustainalytics views the targeted nature of these investments to be in line with market practice and considers a systematic approach to diversifying contracting and procurement to deliver positive social impacts.
  - The Renewable Energy category includes investments related to the interconnection of wind energy, solar energy, battery storage, hydropower facilities and other "generally acknowledged" sources.
    - Sustainalytics views the interconnection of renewable energy generation facilities, as well as energy storage systems, to be fundamental to the operation of these systems and therefore well-suited for inclusion in a green bond.
    - Wind and solar power, as well as most energy storage systems, are well-accepted technologies within the green bond market and are assumed to have positive impacts.
    - The financing of the interconnection of hydropower facilities with bond proceeds will be limited to facilities which have an installed capacity of <25MW or a reservoir power density of >5 W/m<sup>2</sup>. Sustainalytics considers these thresholds to be in line with market practice, and additionally notes positively Oncor's commitment to ensuring that a robust environmental and social risk assessment has been conducted.

<sup>4</sup> These eligibility criteria are supplemental to the criteria stated in the Framework, and have been provided to Sustainalytics for review.

<sup>5</sup> Businesses in this category are participants in the Texas State HUB Program, administered by the government of Texas' Statewide procurement division. See: <https://comptroller.texas.gov/purchasing/vendor/hub/>. The business owner must be an economically disadvantaged person meeting eligibility as a(n): Asian Pacific American, Black American, Hispanic American, Native American, Woman, and/or Service-Disabled Veteran.

- Regarding other energy sources which may be classified as renewable, the green bond market expects that additional criteria or thresholds should be defined in order to ensure net-positive impacts. Sustainalytics recognises that the interconnection of biomass and geothermal power is not anticipated to be financed by the proceeds of the sustainability bond(s).
  - As an electricity transmission and distribution company, Oncor intends to finance programs that improve end-user energy efficiency, energy storage, district heating, smart grids, appliances and products.
    - Oncor has disclosed that expenditures in this category will be directed to projects with costs borne by Oncor, excluding those that are funded through third-party partnerships.
    - Sustainalytics recognises the environmental benefit of such projects, while noting that investments directed to fossil fuel technologies would not be aligned with market expectations.
    - Sustainalytics notes Oncor's Framework allows for allocation to "smart grid" investments. While noting the variety of definitions and applications of "smart grid" technology, Sustainalytics views positively investments that are designed to improve grid efficiency and encourages Oncor to select projects that are clearly anticipated to deliver tangible efficiency improvements.
  - Within the Clean Transportation category, Oncor includes electric and hybrid vehicles, as well as rail and other infrastructure to support such clean transportation.
    - Sustainalytics considers the financing of electric transportation, including public transportation and private vehicles as well as supporting infrastructure such as rail electrification or electric vehicle charging, to be aligned with market practice.
    - The Framework specifies that hybrid passenger vehicles will be eligible only if the emissions intensity is below 75gCO<sub>2</sub> per passenger kilometer, which Sustainalytics considers to be aligned with market practice.
    - Oncor may explore the use of hybrid heavy duty and work vehicles. Sustainalytics recognises the potential environmental benefits of this class of investment, noting in particular that electric vehicle technology may not be well-suited for these applications. Oncor has further disclosed to Sustainalytics that, should it intend to finance such assets with proceeds raised under the Framework, that it will consult with a second-party opinion provider to ensure that its initiatives are aligned with market expectations.
  - Oncor intends to invest in Green Workspaces, which may include new or refurbished, owned or leased buildings with recognised certifications. These buildings could include offices or other operational facilities.
    - Sustainalytics notes positively that Oncor Framework specifies the use of LEED (Leadership in Energy and Environmental Design) certification, with a minimum level of "Gold", as this certification scheme is considered to be robust and the minimum level impactful and aligned with market practice.
- Project Evaluation and Selection:
  - Oncor's Sustainable Finance Committee, which consists of representatives from the Company's Supply Chain, Treasury, Legal, Accounting, Compliance and Communication teams, is responsible for overseeing the assessment and evaluation of eligible projects. Before allocation of funds to any projects, final review and approval will be provided by Oncor's Treasurer.
  - Based on cross-department representation in the Sustainable Finance Committee and the review process by the Treasurer, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Oncor's Treasury department will be responsible for allocating the net proceeds to eligible projects.
  - The Company commits to fully allocate/disburse all proceeds within three years from the issuance of the sustainable bond. Proceeds may also be allocated to the financing or refinancing of eligible projects made within 24 months prior to the issuance of the sustainable bond. Pending allocation, the Company will temporarily invest an equal amount of the

- unallocated/undisbursed balance of proceeds in cash, cash equivalents and/or U.S. government securities, or use it to repay Oncor's debt, or both.
  - Based on the defined management approach and the disclosure around management of unallocated/undisbursed proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Oncor intends to publish an Eligible Projects Spend Report annually within one year after issuance until the full allocation of the net proceeds, which will be publicly available on the Company's website. The Report will include amounts allocated to eligible project categories and, to the extent practicable, impact metrics such as qualitative and quantitative performance indicators. As additional assurance, Oncor will obtain an audit report from a registered public accounting firm on the Eligible Projects Spend Report.
  - Sustainalytics considers this process to be in line with market practice.

Sustainalytics is of the opinion that the Oncor Sustainable Bond Framework is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental and social priorities.

#### **Alignment with Sustainability Bond Guidelines 2018**

Sustainalytics has determined that the Oncor Sustainable Bond Framework aligns to the four core components of the Green Bond Principles (2018) and the Social Bond Principles (2020). For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## **Section 2: Sustainability Performance of Oncor**

#### **Contribution of Framework to Oncor Electric Delivery Company LLC's sustainability strategy**

Sustainalytics is of the opinion that Oncor demonstrates a strong commitment to sustainability through its stated focus on five key environmental and social areas: minimising environmental impact, reducing greenhouse gas emissions, minimising environmental risks, providing safe service to customers and promoting regional economic development. The Company has developed a comprehensive plan with quantitative targets to fulfil its environmental and social commitments, as outlined by the initiatives below.<sup>6</sup>

- In its role as a grid operator, and utilising the natural wind and solar resources in Texas, Oncor currently connects more than 60 renewable generators with a capacity of over 11,000 MW electricity, representing 26% of Oncor's network. Additionally, the Company is aiming to fulfill 100% of new renewable energy requests for interconnection every year consistent with ERCOT requirements and regulations.<sup>7</sup>
- Oncor recognises the importance of local economic development and has set up an Economic Development Office responding to questions about electricity infrastructure. Its partnership with the Governor's Office for Economic Development, the state, regional and local economic development offices has enabled Oncor to better provide reliable and affordable electricity service to its customer.
- To lower carbon emissions in electricity transmission and improve end-user energy efficiency, Oncor has invested more than \$843 million since 2002 in its "Take a Load Off, Texas" program which has helped more than 950,000 consumers reducing their energy consumption. The Company also had a sulfur hexafluoride ("SF6") emission rate of 1% in 2017, and this number was reduced to 0.6% in 2018, while the recorded industry SF6 emission rate in 2016 was about 1.7%.<sup>8</sup> To further lower its SF6 emission rate, the Company is planning to upgrade its current system, for example, its ongoing large breaker replacement program. In part to help reduce customer environmental footprint, Oncor

<sup>6</sup> Sempra Energy, 2019 Corporate Sustainability Report, <https://www.sempra.com/sites/default/files/content/files/node-media-document/2019/2019-sempra-corporate-sustainability-report.pdf>

<sup>7</sup> Oncor has provided its 2019 ESG Report, 2019 Annual Progress Report on 5-year Plan and Supplier Code of Business Conduct to Sustainalytics for review

<sup>8</sup> US Environmental Protection Agency, Overview of SF6 Emissions Sources and Reduction Options in Electric Power Systems, 2018, available at: [https://www.epa.gov/sites/production/files/2018-08/documents/12183\\_sf6\\_partnership\\_overview\\_v20\\_release\\_508.pdf](https://www.epa.gov/sites/production/files/2018-08/documents/12183_sf6_partnership_overview_v20_release_508.pdf)

intends to invest more than \$700 million from 2019 to 2021 on transmission projects, including more than 300 miles of transmission lines, new devices, and station work. In areas with fast-growing electricity load, Oncor's investments in transmission lines will further help customers to reduce their environmental impact by replacing diesel generator and reducing natural gas flaring.

- In 2007 Oncor created its supplier diversity department with dedicated staff and resources. Its spending on women and minority-owned business has increased from \$9 million annually in 1990 to approximately \$300 million in 2019. The Company continues to enhance its supplier diversity program by hosting events to identify diverse suppliers and increase new diverse supplier participation.

Based on Oncor's sustainability practices, strategy, and initiatives, Sustainalytics is of the opinion that the Oncor Sustainable Bond Framework is aligned with the Company's overall sustainability effort and initiatives and will further the Company's action on its key environmental and social priorities.

### **Well positioned to address common environmental and social risks associated with the projects**

While Sustainalytics recognises that the use of proceeds from the Framework will be directed towards eligible projects that are anticipated to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects include occupational health and safety, community relations/stakeholder participation, land use and biodiversity issues associated with large-scale infrastructure development, emissions, effluents, and waste generated in construction.

Sustainalytics is of the opinion that Oncor is able to manage and/or mitigate potential risks through implementation of the following:<sup>7</sup>

- Oncor addresses the importance of environmental regulatory compliance and its commitments of minimising environmental impact in the Company Supplier Code of Business Conduct. The Code requires its suppliers to integrate environmental considerations into business planning and decision-making process, continue to make an effort to reduce their environmental impacts, review environmental goals and disclose their sustainability performances.<sup>9</sup> To further advance its environmental protection practices, the Company has set up an environmental program and reviews its environmental objectives and targets periodically. Ongoing environmental risks are managed through reviews of internal programs and initiatives.
- Oncor has developed a robust plan to conserve wildlife and animal habitat following the U.S. Fish and Wildlife Incidental Take Permit process. The Company recognises the importance of safeguarding endangered species, cultural resources, and habitats. Therefore all new construction projects, retrofits and vegetation management trimming cycles are reviewed to preserve the biodiversity in the area.
- Oncor has a safety department that is responsible for overseeing safety policies, initiatives, process and employee safety education and training. As a result, the Company has outperformed its targeted DART (Days Away, Restricted, or Transferred) incident rate since 2008, and has continued to remain in the top quartile amongst industry peers in lost-time injury rates over this same period.
- Following Oncor's environmental principle of stakeholder engagement, the Company developed an effective system to communicate with all of its stakeholders. Furthermore, Oncor has multiple community programs including volunteer service, safety and energy-saving education and fundraising campaign.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Oncor has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### **Section 3: Impact of Use of Proceeds**

All five use of proceeds categories are aligned with those recognised by the GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

<sup>9</sup> Oncor has provided its Supplier Code of Business Conduct to Sustainalytics for review

### The need to interconnect renewable energy

In 2019, Texas was the largest producer of wind power in the United States, generating over 76,000 GWh, which represents 20% of all electricity generated in the state. Other renewables, primarily solar, contributed a further 5,775 GWh.<sup>10</sup> Nevertheless, fossil fuel power, primarily natural gas, continues to be the largest source of the state's electricity needs. As the largest electricity transmission and distribution company in Texas, Oncor plays a key role in interconnecting renewable energy to the power grid, and therefore in enabling the further decarbonisation of the electricity sector.

As mandated by the Public Utility Commission of Texas (PUCT) and the Electric Reliability Council of Texas, Inc. (ERCOT),<sup>11</sup> Oncor must provide nondiscriminatory access to its transmission network to qualified generators. In addition to this statutory process for large (>10MW) facilities, Oncor has established procedures for the interconnection of distributed generation facilities, such as rooftop solar.<sup>12</sup> The connection of renewables poses distinct challenges for grid operators and transmission providers, as many renewable energy sources have different geographical spreads and generation profiles than conventional fossil-fuel power plants, specifically considering that weather variability may result in intermittent output.<sup>13, 14</sup> Notwithstanding the forgoing, cost-efficient connections are important to the development of renewable energy projects.<sup>15</sup> In this context, Oncor's investments in interconnecting renewable energy facilities, primarily solar and wind power, will deliver environmental benefits by supporting the growth of the renewable energy sector.

### Importance of minority- and women-owned business procurement

Small businesses in the U.S. are a key driver of economic growth. According to the Small Business Administration these firms contributed over 60% of net new jobs over the period 1993 to 2016.<sup>16</sup> Despite this large contribution to overall economic success, small businesses face barriers that do not impact their larger peers, in particular in terms of access to finance and opportunities as well as organization and managerial knowledge. Additionally, and of particular relevance as the economy begins to recover from the economic impacts of the COVID-19 pandemic, studies have shown that small businesses recover more slowly to economic shocks than larger entities.<sup>17</sup>

Beyond these challenges experienced by small businesses broadly, minority- and women-owned businesses, along with those operated by other historically underrepresented groups, may face additional obstacles, including that "minority- and women-headed households generally have lower levels of household wealth, which in turn can make internal investment and external borrowing more difficult. Other barriers that may reduce rates of business formation among minorities include lower average credit scores and educational attainment; geographic or societal isolation from other communities."<sup>18</sup> Despite these barriers, over the period of 2007-2012 the number of minority-owned businesses in the U.S. grew by 38% and gross receipts increased by 57%.<sup>19</sup> Similar trends emerge for women-owned businesses; according to the 2019 State of Women-Owned Business Report employment by women-owned businesses increased by 8%, more than four times that in the economy as a whole. Nevertheless, this report concludes that the "potential of women entrepreneurs for spurring economic growth has not been fully realized."<sup>20</sup>

<sup>10</sup> ERCOT, Grid Generation Information, at: <http://www.ercot.com/gridinfo/generation>

<sup>11</sup> PUCT Substantive Rules 25.198 establish the procedures for interconnection to the transmissions system, see: <http://www.puc.texas.gov/agency/rulesnlaws/subrules/electric/25.198/25.198ei.aspx>. ERCOT administers the interconnection process.

<sup>12</sup> Oncor, "Leveraging Alternative Forms of Energy", at: <https://www.oncor.com/SitePages/RenewableEnergy.aspx>

<sup>13</sup> Union of Concerned Scientists (2015) "How Energy Storage Works" accessed (27.2.19) at: <https://www.ucsusa.org/clean-energy/how-energy-storage-works>

<sup>14</sup> Robert Fares, "Renewable Energy Intermittency Explained: Challenges, Solutions, and Opportunities", 2015, available at: <https://blogs.scientificamerican.com/plugged-in/renewable-energy-intermittency-explained-challenges-solutions-and-opportunities/>

<sup>15</sup> Jing Hu, "Barriers to investment in utility-scale variable renewable electricity (VRE) generation projects", 2018, available at: <https://dspace.library.uu.nl/bitstream/handle/1874/362463/Barriers.pdf?sequence=1&isAllowed=y>

<sup>16</sup> US Small Business Administration, Frequently Asked Questions About Small Business, at: <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>

<sup>17</sup> McKinsey, "Small Business Recovery after the COVID-19 Crisis", <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/us-small-business-recovery-after-the-covid-19-crisis#>

<sup>18</sup> Barr, Michael, "Minority and Women Entrepreneurs: Building skills and Capital", [https://www.brookings.edu/wp-content/uploads/2016/07/minority\\_women\\_entrepreneurs\\_building\\_skills\\_barr.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/minority_women_entrepreneurs_building_skills_barr.pdf)

<sup>19</sup> NMSDC, "The Business Case for Minority Business Enterprises", <https://www.nmsdc.org/wp-content/uploads/v3Alt-Whit-8.5-x11-Single.pdf>

<sup>20</sup> American Express, "The 2019 State Of Women-Owned Businesses Report", [https://s1.q4cdn.com/692158879/files/doc\\_library/file/2019-state-of-women-owned-businesses-report.pdf](https://s1.q4cdn.com/692158879/files/doc_library/file/2019-state-of-women-owned-businesses-report.pdf)

It is in this context that Oncor is committing to contract with women- and minority owned businesses as suppliers and service providers. Sustainalytics anticipates that this program will deliver social benefits, as well as providing positive impacts for Oncor such as diversifying its supplier base.<sup>21</sup> Sustainalytics highlights in particular that Oncor intends to consider for allocation the portion of large contracts the flow to eligible subcontracts. Such an approach is appropriate in the infrastructure sector in which contracts are, by necessity, large, and therefore unfeasible for small businesses to take on in full.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goal(s) and target(s):

Use of Proceeds Category	SDG	SDG target
Socio-Economic Advancement and Empowerment	10. Reduced Inequality	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Socio-Economic Advancement and Empowerment	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Green Workspaces	9. Industry, Innovation and Infrastructure 11. Sustainable Cities and Communities	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.  11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.

<sup>21</sup> Harvard Business Review, "Why you need a supplier diversity program", <https://hbr-org.cdn.ampproject.org/c/s/hbr.org/amp/2020/08/why-you-need-a-supplier-diversity-program>



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## Conclusion

Oncor has developed the Oncor Sustainable Bond Framework under which it will issue sustainability bonds and use the proceeds to finance projects related to Socio-Economic Advancement and Empowerment, Renewable Energy, Energy Efficiency, Clean Transportation and Green Workspaces. Sustainalytics considers that the projects funded by the sustainability bond proceeds will provide positive environmental and social impact.

The Oncor Sustainable Bond Framework outlines a process by which proceeds will be tracked, allocated, disbursed and managed, and commitments have been made for reporting on the allocation/disbursement and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Oncor Sustainable Bond Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 5, 7, 9, 10, and 11. Additionally, Sustainalytics is of the opinion that Oncor has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Oncor is well-positioned to issue sustainability bonds and that that Oncor Sustainable Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).

## Appendices

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

<b>Issuer name:</b>	Oncor Electric Delivery Company LLC
<b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b>	Oncor Sustainable Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	September 17, 2020
<b>Publication date of review publication:</b>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

#### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds Socio-Economic Advancement and Socioeconomic Empowerment including Gender inclusion, Renewable Energy, Energy Efficiency, and Clean Transportation and Green Building, are aligned with those recognised by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in these areas will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 5, 7, 9, 10 and 11.

### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

### Use of proceeds categories as per SBP:

- |   |   |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure  | <input type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment           |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):  |

If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Oncor's Sustainable Finance Committee, which consists of representatives from the Company's Supply Chain, Treasury, Legal, Accounting, Compliance and Communications teams, is responsible for overseeing the

assessment and evaluation of eligible projects. Before allocation of funds to any projects, final review and approval will be provided by Oncor's Treasurer. Based on cross-department representation in the Sustainable Finance Committee and the review process by the Treasurer, Sustainalytics considers this process to be in line with market practice. Sustainable Finance Committee, with cross-departmental representation, is charged with selecting eligible projects. Final approval of any project will be made by the Treasurer. This is in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other (please specify):  |

#### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Oncor's Treasury department will be responsible for allocating/dispersing the net proceeds to eligible projects. The Company commits to fully allocate/disperse all proceeds within three years from the issuance of the Sustainable bond. Pending allocation/dispersion, the Company will temporarily invest an equal amount of the unallocated balance of proceeds in cash, cash equivalents and/or U.S. government securities, or use it to repay Oncor's debt, or both. Based on the defined management approach and the disclosure around management of unallocated/undispersed proceeds, Sustainalytics considers this process to be in line with market practice.

#### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

#### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
|---|---|

- |   |   |
|---|---|
| <input type="checkbox"/> Allocation to individual disbursements                             | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify):                    |

#### 4. REPORTING

Overall comment on section (if applicable):

Oncor intends to publish an Eligible Projects Spend Report annually within one year after issuance until the full allocation/disbursement of the net proceeds, which will be publicly available on the Company's website. The Report will include amounts allocated to eligible project categories and impact metrics such as qualitative and quantitative performance indicators. As an additional assurance, Oncor will obtain an audit report from a registered public account firm on the Eligible Projects Spend Report. Based on the Oncor's commitment to publicly make available information pertaining to the allocation/disbursement of proceeds and impact metrics, Sustainalytics considers this process to be in line with market practice.

#### Use of proceeds reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

#### Information reported:

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify):      |   |

#### Frequency:

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

#### Impact reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

#### Information reported (expected or ex-post):

- |  |  |
|--|--|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings                                    |
| <input type="checkbox"/> Decrease in water use   | <input type="checkbox"/> Number of beneficiaries                           |
| <input type="checkbox"/> Target populations      | <input checked="" type="checkbox"/> Other ESG indicators (please specify): |

Relevant indicators to be determine based on projects financed

**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Means of Disclosure**

- |  |  |
|--|--|
| <input type="checkbox"/> Information published in financial Report<br><br><input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Information published in sustainability report<br><br><input checked="" type="checkbox"/> Other (please specify):<br>A stand-alone Eligible Projects Spend Report will be published annually on the Oncor corporate website: <a href="http://www.oncor.com">www.oncor.com</a> |
|--|--|
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): An audit report from a registered public accounting firm will exam if the management’s assertions conducted is in accordance with attestation standards established by the American Institute of Certified Public Accountants

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)**

[www.oncor.com](http://www.oncor.com)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input checked="" type="checkbox"/> Verification / Audit             | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                     |  |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria.

Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

## Disclaimer

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## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world’s foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the “Largest Approved Verifier for Certified Climate Bonds” for the third consecutive year. The firm was also recognised by Environmental Finance as the “Largest External Reviewer” in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).



**Named**  
2015: Best SRI or Green Bond Research or Rating Firm  
2017, 2018, 2019: Most Impressive Second Opinion Provider

