

Second Party Opinion

Duke Energy Sustainable Financing Framework

Nov. 2, 2021

Duke Energy Corp., headquartered in Charlotte, North Carolina, is one of the largest electric and natural gas utilities in the U.S. The company provides electricity to about 8 million customers in six states in the Southeast and Midwest regions of the U.S. and distributes natural gas to about 1.6 million customers across North Carolina, South Carolina, Tennessee, Ohio, and Kentucky. Through its Commercial Renewables segment the company also acquires, owns, develops, builds, and operates wind, solar, and other renewable generation projects.

In our view, Duke Energy's Sustainable Financing Framework, published in November 2021, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Green Bond Principles, ICMA, 2021
- ✓ Sustainability Bond Guidelines ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021

Issuer's Sustainability Objectives

Duke Energy's climate strategy is intertwined with its corporate strategy that focuses on environmental leadership and social responsibility to support a clean energy transformation. Specifically, the company's sustainability strategy supports its vision to transition to clean energy while delivering safe, affordable, and reliable services to customers. Duke Energy has set goals to achieve net-zero carbon emissions by 2050, a 50% carbon reduction from electricity generation by 2030, and net-zero methane emissions from natural gas distribution by 2030. To achieve these goals, Duke Energy plans to continue its shift away from coal by investing in renewables, carbon-free technology, and energy storage. Other initiatives include investing in electric and gas infrastructure improvements, energy efficient technology and management improvements (smart meters, energy audits), and investments in electric vehicles and associated infrastructure.

In addition to its environmental objectives, Duke Energy has goals to maintain low rates for customers while providing reliable service. Furthermore, the company has efforts to stimulate growth in its communities by attracting jobs, increasing its investments with diverse suppliers, and increasing diversity in their own workforce.

PRIMARY ANALYST

Bryan Popoola
Washington, D.C.
+1-202-615-5962
bryan.popoola
@spglobal.com

SECONDARY ANALYST

Lori Shapiro
New York
+1-212-438-0424
lori.shapiro
@spglobal.com

RESEARCH CONTRIBUTOR

Ashley Yen
Washington, D.C.

Second Party Opinion Summary

Use of proceeds

Alignment  Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Score Not aligned **Satisfactory** Strong Advanced

Duke Energy commits to using the net proceeds of debt instruments issued under its sustainable financing framework exclusively to fund green or social projects that fit within the eligible project categories that it has identified, including renewable energy, green innovation, energy efficiency, clean transportation, climate change adaptation, green buildings, and socioeconomic advancement and empowerment.

Process for project evaluation and selection

Alignment  Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Score Not aligned **Satisfactory** Strong Advanced

The framework outlines the process and criteria to select eligible green and social projects. The issuer has a dedicated Sustainable Financing Committee, which consists of members of Duke Energy's Sustainability and Treasury departments and is responsible for selecting and approving the projects. All projects must adhere to Duke Energy's Environmental and Social Impact Assessments, which aim to identify and mitigate environmental and social risks.

Management of proceeds

Alignment  Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Duke Energy commits to tracking funds allocated to eligible green and social projects until proceeds have been fully allocated. The issuer also identifies the internal bodies responsible for tracking these funds. According to the framework, unallocated proceeds will be held in accordance with Duke Energy's internal liquidity policy.

Reporting

Alignment  Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Score Not aligned **Satisfactory** Strong Advanced

Duke Energy commits to reporting the allocation of funds across eligible projects at least annually until full allocation and as necessary thereafter in the event of material developments. Final allocation reports will be subject to a third-party review by an independent registered public accounting firm. The issuer also commits to reporting estimated environmental impacts and impact case studies for the eligible projects on an annual basis where relevant.

Framework Alignment Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Commitments score

Not aligned

Satisfactory

Strong

Advanced

We consider Duke Energy's overall use of proceeds commitments to be satisfactory.

Duke Energy has committed to using the net proceeds of debt instruments issued under its sustainable financing framework exclusively to fund existing or new green or social projects that fit within the eligible project categories it has identified. The framework provides a list of eligible project categories and example projects. Eligible green project categories include renewable energy, green innovation, energy efficiency, clean transportation, climate change adaptation, and green buildings. Examples of projects include expenditures and investment related to renewable energy generation, smart meters, and energy efficiency programs. In our opinion, these projects contribute to the environmental objectives of climate change mitigation and adaptation, pollution prevention and control, and natural resource conservation.

Eligible social projects include socioeconomic advancement and empowerment of excluded, marginalized, or underserved individuals and communities. Examples of projects include programs that empower small businesses through training, education, and mentoring, and education assistance related to technology, infrastructure, and professional development for minority-owned, female-owned, and veteran-owned businesses, among others.

The framework identifies relevant sustainability objectives for all eligible projects and stipulates a two-year look-back period for refinanced projects. However, the framework does not commit to disclosing the amounts that will be used for financing versus refinancing.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Commitments score

Not aligned

Satisfactory

Strong

Advanced


We consider Duke Energy's overall process for project selection and evaluation commitments to be satisfactory.

The framework outlines the process and criteria to select eligible green and social projects and provides an exclusionary list for ineligible green projects. It also identifies the internal committee responsible for project selection, which includes members of Duke Energy's Sustainability and Treasury departments. All projects in the framework undergo Environmental or Social Impact Assessments, which Duke Energy conducts for activities that may affect natural resources, public health and safety, natural beauty, or historical or cultural elements of the state. Duke Energy performs these assessments in compliance with state, federal, and country-specific environmental regulations and international best practices.

The framework defines relevant standards for its green buildings projects and provides a recognized definition of small businesses. However, it does not incorporate any taxonomies, standards, or certifications as part of the selection process for the other project categories.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible projects throughout the life of the sustainable finance funding.

 Duke Energy's Sustainable Financing Framework is aligned with this component of the Principles.

Duke Energy commits to tracking funds allocated to eligible green and social projects until proceeds have been fully allocated and identifies the internal bodies responsible for tracking these funds. The framework also states that Duke Energy will substitute any material eligible projects that are no longer eligible upon identifying an appropriate substitute, which we view positively. For unallocated funds, the framework states that an amount equal to the net proceeds from the issuance will be held in accordance with Duke Energy's internal liquidity policy.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Duke Energy's sustainable financing framework is aligned with this component of the Principles.

Disclosure score

Not aligned

Satisfactory

Strong

Advanced

We consider Duke Energy's overall reporting practices to be satisfactory.

Duke Energy commits to reporting the allocation of funds across eligible projects at least annually until full allocation and as necessary thereafter in the event of material developments. Allocation reporting will include amounts allocated to eligible projects, by category, and the amount pending allocation.








A strong feature of the framework, in our view, is that Duke Energy is committed to engaging an independent registered public accounting firm to verify their allocation reporting. In addition, Duke Energy uses the ICMA Harmonized Framework for Impact Reporting for project categories covered by the Harmonized Framework and commits to disclose methodology and assumptions used to calculate estimated environmental impacts for green projects. There is no commitment, however, to disclose the actual impacts or for the impact metrics to be externally reviewed. Social impact measures could also be more advanced, in our view.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Duke Energy's sustainable financing framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Socioeconomic advancement and empowerment	 *1. No poverty	 *4. Quality education
Renewable Energy	 *7. Affordable and clean energy	 13. Climate action
Energy Efficiency	 *7. Affordable and clean energy	 13. Climate action
Clean Transportation	 *11. Sustainable cities and communities	

Climate Change Adaptation



***13. Climate action**

Green Buildings



***11. Sustainable cities and communities**

§Green Innovation



11. Sustainable cities and communities

13. Climate action

*The eligible project categories link to these SDGs in the ICMA mapping.
§Green innovation is not a distinct project category in the GBP/GLP and in the ICMA mapping.

Second Party Opinion

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Sustainable Financing Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Second Party Opinions and Transaction Evaluations. Second Party Opinions consider features of a financing transaction and/or financing framework and provide an opinion regarding alignment with certain third-party published sustainable finance principles and guidelines ("Principles"). For a list of the Principles addressed by our Second Party Opinions, see the Analytical Approach and Analytical Supplement, available at www.spglobal.com. Transaction Evaluations provide an opinion which reflects our assessment of the potential relative environmental benefit of the funded or resilience projects. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Sustainable Financing Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, certification or evaluation as required under any relevant PRC laws or regulations, and (b) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.