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Ratings

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Second Party Opinion

Tensio AS Green Financing Framework

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Primary contact

Alexander Volden
Oslo, Norway
+4721958337
alexander.volden
@spglobal.com

Location: Norway	**Sector:** Utility networks

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

Strengths

Eligible projects will support Norway's climate targets. There is a need to expand and strengthen power grids to support electrification across sectors in Norway. The eligible activities will enhance grid efficiency and expand grid capacity to support the growth of the renewable energy market.

Tensio has begun phasing out SF6 gas from its grid. No new investments or upgrades in the company's power grid will include SF6 gas, and under the framework Tensio will deduct estimated amounts for assets using SF6 gas from the portfolio of eligible projects.

Weaknesses

No weaknesses to report.

Areas to watch

There are currently no emission reduction targets, and scope 3 emissions are not counted for; however, Tensio will report these in its 2024 sustainability report. Tensio's decarbonization strategy is being updated and is expected to be released in 2025.

While we view electrification as one of the most important strategies for significantly reducing current emissions and aligning with a net-zero future, it can be indirectly leveraged by industries that have varying effects on climate risk and impact profiles. Tensio is located in an area with a certain volume of fossil fuel installations, and the company is legally obliged to offer grid connections to all clients. Under the framework, Tensio will deduct estimated amounts for radial lines where the end-user applies electricity in fossil fuel activities from the portfolio of eligible projects.

Eligible Green Projects Assessment Summary

Tensio expects approximately Norwegian krone (NOK) 1 billion to be allocated to refinancing projects per year, with potentially about NOK500-NOK700 million directed to financing new projects per year.

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in Tensio's green financing framework, we assess the framework as Dark green.

Eligible projects under Tensio's green financing framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Energy efficiency	**Dark green**
Previous and ongoing investments related to the construction and operation of grid assets.	
Investments in new energy storage solution and digital technology that may include: • Storage solutions of electricity from solar and wind; • Drones for monitoring the grid; • Smart meters/grids.	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Tensio AS (Tensio) is a Norwegian energy utility company focused on the distribution of electricity. Established in 2019 through the merger of TrønderEnergi Nett and NTE Nett, Tensio is one of Norway's largest power utilities. Tensio operates primarily in Trøndelag County and serves a population of about 500,000 inhabitants. At the end of 2023, the company had more than 276,000 customers. The Tensio AS Group comprises subsidiaries Tensio TS (Trøndelag sør) and Tensio TN (Trøndelag nord), which are owned by TrønderEnergi AS (40%), Nord-Trøndelag Elektrisitetsverk AS (40%), and KLP (20%).

Material Sustainability Factors

Climate transition risk

Climate transition risks are highly material to stakeholders, particularly for electricity networks given their critical role in the energy delivery value chain and their direct exposure to upstream generators, which are a leading cause of greenhouse gas emissions. The ongoing energy sector decarbonization is expected to triple its reliance on renewables, which necessitates significant grid expansion. This expansion faces the challenge of reducing SF6 leaks, a potent greenhouse gas found in electrical transmission facilities. Addressing these leaks is crucial to reducing climate change impacts in the power transmission sector. Norway's climate goals place great emphasis on electrification and new green industries, thereby accelerating demand for renewable power.

Physical climate risk

Networks operators own fixed assets that are exposed to physical climate risks, such as flooding or wildfires. These events can cause network service disruptions for large populations, increasing stakeholder materiality. Physical climate risks generally involve significant financial losses for operators due to repair costs, but more importantly they can result in extreme power price spikes or claims arising from business disruption. Key risks in Norway include rising sea levels, rainfall floods, and increases in annual mean temperatures and precipitation.

Biodiversity and resource use

Activities linked to the transmission and distribution of electricity can impact in the surrounding biodiversity, given the use of land to support above-ground infrastructure. A lack of biodiversity considerations may lead to habitat loss, landscape fragmentation, and disruptions to species, ultimately undermining biodiversity and ecosystem services. For example, in mountainous and vegetation-rich areas, less vegetation can make the area more susceptible to landslides.

Impact on communities

Community impacts can be acute for stakeholders given how close networks typically are to where people live and work, and the essential role energy services play in global community health and well-being. Stakeholders may be affected by the construction and siting of lines, especially in areas unaccustomed to industrial development and in indigenous territories.

Issuer And Context Analysis

The framework's project category aims to address Tensio's most material sustainability factors. Investment in energy efficiency plays a central role in increasing Norway's energy supply and addressing climate transition risk. Biodiversity factors are also relevant for power transmission and distribution networks, which the company factors into the planning phase of projects in collaboration with local authorities. Physical climate risks and their impact on communities are also important considerations for the energy efficiency project category in the framework, and Tensio's processes will play a key role in mitigating these risks.

The project category focuses on upgrading and expanding distribution networks in Norway. The company has set a goal to free up 550 megawatts of power in its grid by the end of 2025 through exploiting grid and customer flexibility, as well as adopting new energy carriers. New grid projects will help expand grid capacity for the renewable energy market and play an important role in Norway's efforts to meet its climate targets.

Tensio started reporting emissions in 2023 and is in the process of setting emissions reduction targets, aiming to report these sometime in 2025. The company is currently reporting on scopes 1 and 2, with the aim to report scope 3 emissions in its 2024 sustainability report. Its largest source of direct emissions by far is from grid losses, which can also be mitigated by upgraded investments under the framework. Tensio uses SF6 gas in its existing infrastructure but has implemented new requirements stating that new components of its grid will not use SF6 gas, aiming to phase out components using this gas in the future. The company is also aiming to gradually switch its vehicles from combustion engines to electric once the market makes these more readily available to Tensio's vehicle requirements. The company estimates that its largest sources of scope 3 emissions derive from capital goods and purchased goods and services, such as grid cables. Tensio reports that efforts are being made to explore the possibilities of using more sustainable materials to minimize its footprint. Moreover, sustainability is part of the criteria for procurements and the selection of materials.

Extreme weather events, such as storms, floods, landslides, and extreme temperatures, pose risks to power lines and other grid infrastructure. Tensio's physical climate risk assessments focus on the operational areas of its transmission and distribution facilities. To address these risks, projects undergo impact assessments during the licensing process. In the planning and design phases of power stations, the company considers increased climate risks, particularly flooding, landslides, and quick clay slides, which are prevalent in its areas of operation. Additionally, Tensio conducts climate scenario assessments aligned with Shared Socioeconomic Pathways (SSPs), evaluating both lower-risk (SSP1-1.9) and higher-risk (SSP5-8.5) scenarios to gauge potential exposure to future climate hazards.

Tensio complies with the concession processes established by Norwegian authorities, recognizing the biodiversity and land-use risks associated with grid infrastructure construction. The Norwegian Water Resources and Energy Directorate requires grid developers to conduct biological diversity surveys. Tensio's initiative to address potential adverse environmental effects related to distribution assets includes rerouting grid projects away from protected areas such as wetlands, minimizing damage to vulnerable ecosystems, and consulting with local governments.

Tensio aims to engage in open and transparent dialogue with local stakeholders for all projects in development requiring concession permits. The company is operating in regions of Norway that overlap with reindeer herding districts. When developing projects, Tensio engages with the local municipality, relevant landowners, and reindeer herding districts, as required by regulation. During the planning phase, a consultation process is carried out, where relevant stakeholders are consulted.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond/Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

The framework's green project category is assessed as Dark green and is considered aligned. Tensio commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds. The company will disclose the proportion of financing versus refinancing in its allocation reporting. Due to the long-term nature of the assets, the eligible projects will not be subject to a look-back period.

✓ Process for project evaluation and selection

Tensio has a green finance committee comprising representatives from the treasury, group sustainability, and business control. It will meet at least annually to screen and approve potential projects, with the sustainability function holding veto power. The company has processes to identify and manage environmental and social risks related to eligible projects. The framework includes an exclusion list covering topics such as weapons and munitions, alcoholic beverages, adult entertainment, tobacco, and gambling.

✓ Management of proceeds

Tensio will track the net proceeds in a green financing register and allocate them within 12 months after the issuance of a green instrument. The company commits to replacing projects that cease to comply with the framework's eligibility criteria following their removal from the invested pool as soon as practicable. Pending allocation, net proceeds will be held in cash or cash-equivalent instruments, in accordance with the company's liquidity policy. The framework's exclusion criteria apply to the management of unallocated proceeds.

✓ Reporting

Tensio commits to reporting annually on the allocation of net proceeds and the impact of the financed project(s) until full allocation of the net proceeds and in the event of material developments. Reporting will be available on the company's website. Allocation reports will include the total amount of instruments outstanding, a brief description of the projects, and a breakdown of the allocation of net proceeds. The company will also report on the actual and/or expected impact of the financed projects and intends to use ICMA's Harmonized Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in Tensio's green financing framework, we assess the framework as Dark green.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

Green project categories

Energy efficiency

Assessment	Description
Dark green	• Investments in the transmission network, as defined by the regulatory asset base (RAB). The RAB includes previous and ongoing investments related to the construction and operation of grid assets. Estimated amounts for assets using SF6 gas and radial lines where end-user applies electricity in fossil fuel activities will be deducted from the RAB amount. • Investments in new energy solutions and digital technology that can enable better utilization of the power grid, contributing to energy savings and reduced climate impact. These investments may include storage solutions of electricity from solar and wind, drones for monitoring the grid, and smart meters/grids.

Analytical considerations

- Reliable and efficient electricity transmission and distribution networks are important in supporting electrification and achieving a low-carbon economy. Investments are needed to make grids more flexible, strengthen their resilience to physical risks, and reduce transmission losses. At the same time, networks must be managed carefully to avoid disrupting habitats and harming biodiversity, particularly in areas of high ecological value. Power distribution networks projects will support Norway in achieving its climate targets. According to the International Energy Agency, increased electrification across sectors will be needed to meet Norwegian climate targets, which will require the expansion and strengthening of power grids to accommodate growing demand for electricity.
- All proceeds will be allocated toward investments and expenditures for power distribution networks. We assess Tensio's investments supporting the transmission and distribution of electricity as Dark green, considering their contribution to Norway's climate targets, their support to the growth of the renewable energy market in the region, the low carbon intensity of Norway's grid, and the fact that eligible proceeds will not finance connections to fossil fuel assets, such as offshore oil installations. We view positively that Tensio has decided to phase out SF6 from the distribution network, and no new components or infrastructure will use this gas. Additionally, estimated amounts for assets using SF6 gas will be deducted from the portfolio of eligible projects due to the high global warming potential associated with leakage.
- Tensio conducts annual risk and vulnerability assessments to evaluate physical climate risks that may impact the power supply within its operating areas. These assessments are reviewed and updated as needed, at least once per year. The analysis covers the power system in the operational area, including facilities, activities, and individual components. The primary objectives are to identify preventive measures and damage mitigation strategies while building a knowledge base to inform the company's emergency response plan. During the planning phase, Tensio conducts geotechnical surveys to

prevent exposure to flooding, landslides, and quick clay slides. The company also implements vegetation management to prevent trees from encroaching on power line corridors.

- Distribution assets can entail local environmental impacts since they often require clearing forests or the construction of access roads due to being widespread geographically. Since grid infrastructure can affect local biodiversity such as birds, reindeer, and ecosystems, all major grid investments carried out by Tensio are subject to statutory requirements for preparing environmental, transport, and construction plans. Tensio adheres to all state requirements for environmental impact assessments prior to building new assets. Developments of the grid can further impact threatened ecosystems such as wetlands, which can lead to greenhouse gas emissions and biodiversity loss. Therefore, the impact on wetlands is part of the criteria in the decision-making process for choosing locations for new grid infrastructure. Furthermore, the company has informed us that they are in the process of integrating relevant layers into their geographic information system tools, which will help identify peatlands and wetlands in the planning phase.
- Tensio conducts regular reviews of its suppliers and performs due diligence assessments across its value chain to identify and address actual and potential negative impacts in its supply chain. According to its policies, sustainability must be integrated in assessments related to investment decisions and purchasing processes. Tensio has a waste management plan in place and is working to increase the proportion of reusable materials, such as from dismantled overhead lines or other infrastructure.
- Tensio's power grids are part of the national grid and can transport energy generated from fossil fuels. Tensio is located in an area with a certain volume of fossil fuel installations, and the company is legally obliged to offer grid connections to all clients. However, the company confirms that electrification or transmission grids toward the oil and gas sector are excluded from the green financing framework.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

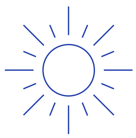
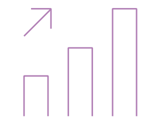
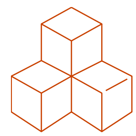
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

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

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Energy efficiency	 **7. Affordable and clean energy***	 **8. Decent work and economic growth***	 **9. Industry, innovation and infrastructure***

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

Analytical Contacts

Primary contact

Alexander Volden
Oslo, Norway
+4721958337
Alexander.Volden
@spglobal.com

Secondary contacts

Tim Axtmann
Oslo, Norway
Tim.Axtmann
@spglobal.com

Kristina Alnes
Oslo, Norway
+47 941 53 114
Kristina.Alnes
@spglobal.com