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## Second Party Opinion

# GEN-I Green Bond Framework

March 13, 2024

Location: Slovenia

Sector: Power

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## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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

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

The projects that GEN-I is planning to finance under this framework (solar and wind power plants and energy storage solutions) are fully consistent with the vision of a low carbon climate-resilient future. Green bonds issued under the framework will support the company's efforts toward decarbonization of local grids in Slovenia and other countries of operations. Such investments add clean power generation capacity, while storage projects support the flexibility of electricity supply and help avoid curtailment losses from renewable power sources.

## Weaknesses

No weaknesses to report.

## Areas to watch

The issuer's increasing activity in power generation and storage projects requires strong due diligence on supply chain and physical climate risks. Given the raw materials and minerals needed in financed projects, we view the issuer's due diligence on procurement risks as relatively nascent. However, the issuer will aim to maximize component reuse and recyclability at end of life. For each activity, it will assess physical climate risks at a project-specific level.

GEN-I's primary activities, related to trading and supply of electricity and natural gas, remain exposed to climate transition risks. Although natural gas represents only a minority of GEN-I's energy supply and trading activities compared to electricity, we believe that as a high-emitting fossil fuel, natural gas is not in line with a low-carbon, climate-resilient future. Additionally, the company's reported carbon footprint does not account for its customers' use of natural gas.

## Eligible Green Projects Assessment Summary

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

Renewable energy

 **Dark green**

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Construction or operation of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology.

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Construction or operation of electricity generation facilities that produce electricity from wind power.

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Energy storage

 **Dark green**

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Construction and operation of facilities that store electricity and return it at a later time in the form of electricity.

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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

GEN-I, trgovanje in prodaja električne energije, d.o.o. (GEN-I) is an energy trading company, operating in Slovenia, its domestic market, and more than 20 countries, mostly in Central and Eastern Europe. The company trades electricity and natural gas (close to 86% of 2022 revenue) and supplies electricity and natural gas to end customers (13%). More recently, the entity has diversified into the generation of solar power at a large scale and the provision of energy storage services, while it has been providing solar power plants for individuals and small businesses since 2017. GEN-I is a company equally owned by GEN energija, d.o.o., which is fully owned by the Republic of Slovenia, and GEN-EL naložbe, d.o.o. (also 25% owned by the Slovenian government). The company was incorporated in 2001 and is based in Krsko, Slovenia. In 2022, GEN-I reported EBITDA of €53.1 million, while its revenue was more than €4 billion.

### Material Sustainability Factors

#### Climate transition

Although the company's main activities are energy trading and supply, rather than energy production, we believe it is still exposed to the climate transition risks of power generation activities. Power generation is the largest direct source of greenhouse gas (GHG) emissions globally, making this sector, and that of electric grids, highly susceptible to the increasing public, political, legal, and regulatory pressure to accelerate climate goals. Public awareness of the urgency for climate action has reached a turning point. Consequently, policymakers and regulators are more often pushing for a faster transition to lower-carbon energy, especially as these technologies become more mature and cost competitive. With no direct emissions, renewable energy technologies have a vital role to play in reducing emissions associated with power and heat, and limiting the rise in global temperatures to 1.5 degrees Celsius. Electric grids are also materially exposed to risks related to the modernization of electric power infrastructure. In the European context, climate and environmental regulations are ambitious, with a strong push toward low-carbon and clean energy sources. In Slovenia, as of 2021, according to the International Energy Agency (IEA), 28% of electricity was generated from fossil fuels, mostly coal (24% of total electricity generated). Nuclear was the major generation source, representing 36% of the electricity mix, while 36% came from renewable sources, mostly hydropower (31% of total electricity generation).

#### Physical climate risk

Although GEN-I's exposure to physical climate risks is limited due to its asset-light business model, we still believe that physical risks are one of key environmental risks the company is facing. For stakeholders, extreme weather, including wildfires, hurricanes, and storms, is becoming more frequent and severe and can result in power outages for large user populations. Regulatory pressure to preserve security of supply is driving players to enhance the resilience of assets. Physical climate risks generally involve significant financial losses for operators due to repairs, but more importantly from exposure to extreme power price spikes or claims due to business disruption. We expect these dynamics to continue but vary regionally depending on regulatory responses. Key risks in Slovenia relate to increased extreme heat waves, forest fires, floods and droughts, and changes in climate variables.

#### Access and affordability

The affordability and reliability of networks are under pressure from climate-related risks, exacerbating the materiality for stakeholders. Energy is an essential service supporting human health and well-being and global economic development. Service disruptions or steep price increases are likely to be amplified by the energy transition and physical climate risks. These dynamics

can affect households' purchasing power and the competitive strengths of local industries, which make this highly material for stakeholders. Additionally, regulators continue to allow utilities to use mechanisms to smooth volatility and offer income assistance programs, which underpins a more moderate impact. In Slovenia, electricity prices are 34% higher in 2023 than 2020, while the price of natural gas is up 66% in the same timeframe, according to Slovenia's statistical office.

## Issuer And Context Analysis

The project categories included in the framework, electricity generation and electricity storage, directly address climate transition risks, which we consider material for GEN-I as an energy trading company. In our view, the eligible projects directly contribute to climate change mitigation since they imply solar electricity generation and improvements in grid flexibility due to the development of storage solutions. We also consider physical climate risks as one of the most relevant considerations for this framework because the eligible projects include the development of physical assets. While the issuer's core energy trading business is less directly exposed to physical climate risks, generation and power storage projects will increase the company's risk exposure.

GEN-I has made significant investments in facilitating the transition to a low-carbon energy sector through the addition of renewable energy generation. The entity increased its green power production almost 50% in 2022 with respect to 2021. Last year, GEN-I concluded the construction of its largest solar power plant. Located in North Macedonia, the plant is among the largest in the country with a capacity of 17 megawatts (MW). In 2023, through its subsidiary GEN-I SONCE, the issuer aimed to build 3,150 small-scale solar power plants for households and small business customers in Slovenia. Despite this increased capacity, revenue from renewable electricity generation remains marginal compared to that from energy supply and trading.

Since 2021, the entity has been supplying fossil-free electricity. Yet, we note that this was achieved through purchasing guarantees of origin (GOs). Based on such GOs, in 2022, nuclear power accounted for 61%, while renewables reached 39% of electricity supplied to its Slovenian customers. We note that GOs generally provide lesser additionality and direct environmental benefits compared to physical power purchase agreements (PPAs). Indeed, we are more likely to view a project as additional if the company's financial contribution makes it financially viable and the project could not have gone ahead without the company's procurement of this energy. This is more likely to happen in the case of physical PPAs compared to GOs, in our view. That said, we positively view the eligible projects to finance GEN-I's solar power generation capacity, since they directly contribute to climate change mitigation.

The entity remains exposed to transition risks via its energy trading and supply activities, which represented most revenue in 2022. Notably, we view the activity of supplying natural gas as the main limitation in the entity's transition plans. The issuer's reported carbon footprint stood at 1,042 tons of carbon dioxide equivalent for 2022, which we believe is not fully representative of some of the entity activities' climate impact. Notably, its scope 3 reporting does not include the "use of sold product" category (3.11 in the GHG protocol), which would be particularly relevant when it comes to the supply of natural gas. However, we understand the issuer is planning to expand the scope of its GHG emissions reporting to include emissions from the production of products in use and from trading activities.

GEN-I uses scenarios to consider the potential physical climate risks relevant to its activities. Based on the risks identified, the entity will estimate the potential size of their impact, the expected time frame and likelihood of occurrence for each financed project or activity. Considering the issuer's increasing investments in physical assets, such as the financed solar power plants, such project-specific assessments of vulnerabilities and potential solutions are particularly relevant.

# Alignment Assessment

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

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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

### ✓ Use of proceeds

The framework's green project categories--renewable energy and energy storage--are shaded in green, and the issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green projects. The issuer expects up to 50% of proceeds to be used for refinancing projects. Assets obtained prior to Jan. 1, 2021, will not be eligible for refinancing. We generally consider the inclusion of such a look-back period for refinanced projects as a stronger practice, although we note future issuances would have the same date requirement for eligibility, which could lead to a more than three-year look-back period.

### ✓ Process for project evaluation and selection

The framework sets out project evaluation and selection processes. GEN-I established a Green Investment Committee (GIC), which comprises representatives from various departments and is headed by the group's chief financial officer. The GIC meets monthly, and its primary responsibility is to assess and evaluate the potential projects, based on the framework's eligibility criteria and an internal list of sustainability criteria. These criteria cover environmental and social aspects and have been designed to cover the same topics as the EU's minimum safeguards and do no significant harm criteria. Through this internal assessment process, the issuer evaluates potential environmental and social risks associated with the projects, but also the associated partners of projects. Indeed, the entity uses know-your-customer (KYC) questionnaires to cover compliance with certain topics such as protection of human rights. This can include verifying the existence of specific policies or track records related to human rights controversies, for example.

### ✓ Management of proceeds

GEN-I intends to allocate the net proceeds within 24 months after the issuance date of each green bond and green schuldschein under the framework. The allocation of net proceeds will be tracked to ensure that they support only the financing of eligible green projects. If projects no longer meet the eligibility criteria, the issuer will remove them from the green bond portfolio and find replacements. An amount equal to the net proceeds will be kept in a separate green account. Unallocated proceeds will be held in cash in this separate green account until their allocation in accordance with the framework.

### ✓ Reporting

GEN-I commits to publish a semi-annual letter to investors on its official website, until full maturity of any bond and schuldschein issued under the framework. This letter will report on the list and description of eligible projects, the allocation per subsidiary, and the balance of unallocated proceeds, among others. The letter will also provide data on the projects individually or at an aggregate level. Moreover, the company commits to report on the share of financing and refinancing, as well as the total aggregated proportion of green instrument net proceeds used for green projects. Additionally, the issuer will report on the environmental impacts of its projects, notably on the annual renewable energy generated and energy stored in megawatt-hours (MWh), which we view as particularly relevant considering the nature of eligible projects. The issuer commits to receive an external auditor's limited assurance on the allocation and internal tracking method of proceeds raised under this framework. However, the issuer does not commit to receive any assurance on its impact report.

# 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.

Over the three years following issuance of the financing, GEN-I expects to allocate about 80% of proceeds to solar and, to a lesser extent, wind power generation projects, while the remaining share will be allocated to energy storage projects.

## Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in GEN-I's green bond framework, we assess the framework as 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

### Renewable energy

#### Assessment

 **Dark green**

#### Description

Electricity generation using solar PV technology: Construction or operation of electricity generation facilities that produce electricity using solar PV technology.

Electricity generation from wind power: Construction or operation of electricity generation facilities that produce electricity from wind power.

## Analytical considerations

- The wider adoption of renewable energy is key to the low carbon transition and contributes to climate change mitigation. According to the IEA, in 2021, the main two power generation sources in Slovenia were nuclear (36%) and hydro (31%), yet close to one-quarter (24%) of the electricity generated still relied on coal. GEN-I's framework includes two types of solar power projects. These projects can be utility-scale solar parks, with minimum investment size set at 2 MW for the Slovenian market, and at 6 MW for foreign markets. The second type of projects are smaller-scale turnkey solar power plant services to households and business customers, which can be combined with storage solutions. We believe both types of projects directly contribute to decarbonizing the local electricity grid and qualify as Dark green. However, some analytical considerations slightly differ; notably, the land use impact is likely more material to consider for larger scale projects, for example. We note the framework also includes electricity generation from wind power as an eligible project, yet it is our understanding that no specific projects for onshore wind power plants have been identified by the issuer so far.
- There are lifecycle carbon emission considerations at various steps of the life cycle of solar PV panels and batteries, which range from material sourcing, manufacturing, transportation, and equipment end-of-life. Regarding the end-of-life of solar panels and their decommissioning phase, the issuer has signed a contract with a nonprofit organization to manage electric and electronic equipment from small-size projects. This ensures that solar panels at the end of life are properly collected, processed, and recycled by that third party. Regarding the utility-scale solar farm currently operating in North Macedonia, considering there is no specific guidelines on a national level, the management of waste such as used/obsolete solar panels has been outsourced to a third party.
- We also believe the entity is significantly exposed to supply chain risks from the material sourcing phase, for which the company seeks out responsible manufacturers that have policies around transparency, legal compliance, and ethical business practices. The issuer did not share specific procurement requirements nor decommissioning plans related to potential wind power generation projects.
- The issuer considers climate risks and monitors the expected level of impact, likelihood of occurrence, and time horizon. For each eligible project or activity, the issuer also assesses how it can be best addressed. For example, the issuer identified rising temperatures as a potential negative, although relatively minor, impact on the longevity of solar power plants.

- Development of large-scale energy projects, such as solar farms, can have a negative impact on local biodiversity, especially when such projects take place on greenfield areas. The land where the power plant is constructed may be either owned by GEN-I or leased. Regarding the solar power plant in North Macedonia, the country leased degraded land to the issuer for the development of the project. The issuer confirmed that any new solar project would require approval of an environmental protection or impact study by a government body, assessing the local environmental impact of the plant.
- GEN-I plans to include in its sustainability criteria for supply chain management the potential connection of service to fossil-fuel-intensive assets or heavy-emitting industries. Currently, suppliers are reviewed via the ESG KYC questionnaire, which is evaluated by the GIC. For 2024, the entity informed us that it plans to expand the scope of this review to other key partners. The issuer informed us that no corporate PPA was tied to the solar power plant in North Macedonia and that the electricity was servicing the grid and being traded.

## Energy storage

### Assessment

 **Dark green**

### Description

Storage of electricity: Construction and operation of facilities that store electricity and return it at a later time in the form of electricity.

### Analytical considerations

- Projects in this category include large-scale electricity storage solutions to be coupled with any renewable energy power plants, where such plants run on solar, wind, or hydro energy sources. The issuer has one eligible project already identified, which consists of a large-scale power storage solution, with a nominal capacity of 20 MWh, tied to a hydroelectric power plant. Batteries are based on lithium-iron-phosphate (LFP) technology.
- Regarding the identified project, the battery will be used as an automatic frequency recovery reserve (aFRR) that can be activated by the network transmission operators, if needed. For a grid's frequency to remain stable, and thereby limit the risk of dysfunctions such as blackouts, input and output need to always be in balance. Such energy storage systems provide stability to the grid and can, to some extent, limit curtailment losses from non-fossil-generated electricity. Considering the hydropower plant to which the battery will be attached is in Slovenia, this is addressed by EU regulation such as the new EU Batteries Regulation (2023/1542). As such, we assess this battery technology as Dark green.
- We view these projects as necessary to improve intermittent supply from volatile renewable sources, and therefore facilitate the shift away from fossil fuels. That said, there are considerable supply chain exposures due to the batteries' use of metals (aluminum and steel) and sensitive materials (lithium) as well as end-of-life considerations related to the creation of hazardous waste.
- GEN-I's responsible supply chain management policies consider both environmental and social impacts, such as ensuring the adequacy of suppliers' human-rights due-diligence processes. We understand that the issuer does not currently have specific due diligence in place regarding the procurement of materials used in the supplied batteries. However, GEN-I aims to use, where feasible, equipment of high durability and recyclability for end-of-life treatment. The issuer does not yet measure the overall lifecycle emissions and environmental impacts of the LFP batteries, which we would view as a stronger practice.
- As part of its internal evaluation procedure, GEN-I considers the disposal of the battery at the end of its useful life. The issuer's potential battery suppliers confirmed that they would be willing to take over the battery at the decommissioning phase. Batteries contain hazardous materials and critical minerals and recycling them requires an energy-intensive process. The issuer did not receive exact specification of how the battery supplier would be recycling the battery.
- The issuer considers physical climate risks and monitors the expected level of impact, likelihood of occurrence, and time horizon. For each identified climate risk, the issuer also assesses how it can best address such risks. Energy storage projects will be exposed to physical climate risks, with regards to the battery exposure itself but also indirectly through the generating asset. For hydropower projects, drought risks leading to lower river flow could directly lead to generation losses, for example.

S&P Global Ratings' Shades of Green

Assessments					
 <b>Dark green</b>	 <b>Medium green</b>	 <b>Light green</b>	 <b>Yellow</b>	 <b>Orange</b>	 <b>Red</b>
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).

## 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
- [Purchased Energy Emissions In Second Party Opinions And ESG Evaluations](#), March.23, 2023

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