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Second Party Opinion

PG&E Corp.'s Sustainable Finance Framework

March 6, 2023

San Francisco-based PG&E Corp. (PG&E) is a holding company whose primary operating subsidiary is Pacific Gas and Electric Co., a public utility operating in Northern and Central California. Pacific Gas & Electric Co. (the Utility) is one of the largest electric energy and natural gas utilities in the U.S. It serves 5.6 million electric distribution and 4.5 million natural gas distribution customers in northern and central California, including residential, commercial, industrial, and agricultural customers. The Utility owns about 7.8 gigawatts (GW) of generating capacity, with greenhouse gas (GHG)-free and renewable generation accounting for more than 50% of its total capacity. In 2022, the Utility delivered electricity that was more than 95% GHG-free. The Utility also operates about 18,000 miles of transmission lines and 108,000 miles of distribution lines, while its natural gas operations comprise distribution main pipelines, local transmission pipelines, and storage facilities.

In our view, PG&E's Sustainable Finance Framework, published on Mar. 6, 2023, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Social Bond Principles, ICMA, 2021
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

Issuer's Sustainability Objectives

PG&E has developed its Sustainable Finance Framework to align its strategic sustainability priorities with its funding and financial strategies. PG&E's sustainability strategy encompasses its commitment to its "Triple Bottom Line" (people, planet, and California's prosperity) as well as its "True North" strategy, which is management's 10-year plan to achieve its climate commitments. The company's core mission centers around providing safe, reliable, affordable, and clean energy to its customers.

To achieve its sustainability objectives, PG&E has established targets including commitments to achieve a net-zero energy system by 2040 and a climate- and-nature-positive system by 2050, along with intermediate targets it intends to achieve by 2030, such as reducing its scope 1 and 2 emissions by 50% and scope 3 emissions by 25% from 2015 levels. PG&E is also focused on investing in renewable technologies, the safety of its utility infrastructure, and climate change mitigation and adaptation solutions. At the same time, PG&E strives to maintain customer affordability and support local communities through its procurement of products and services, especially from diverse suppliers.

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Second Party Opinion Summary


Use of proceeds

Alignment  PG&E's Sustainable Finance Framework is aligned with this component of the Green Bond Principles (GBP), the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG), the Green Loan Principles (GLP), and the Social Loan Principles (SLP).

Score Not aligned Aligned **Strong** Advanced

PG&E commits to allocate the net proceeds from the financing instruments it issues under the framework to finance or refinance eligible environmental and social projects. The eligible project categories include climate change adaptation, renewable energy, clean transportation, energy efficiency, pollution prevention and control, and socioeconomic advancement and empowerment. The framework outlines the relevant sustainability objectives and benefits associated with each project category, as well as example projects.


Process for project evaluation and selection

Alignment  PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.

Score Not aligned **Aligned** Strong Advanced


PG&E's Sustainable Finance Committee (the Committee) comprises representatives from its finance, sustainability, engineering and planning, and legal teams that are responsible for selecting and monitoring eligible projects, as per the criteria outlined in the framework. The Committee will also evaluate the potential environmental and social risks associated with these projects and determine appropriate mitigating measures. PG&E will adhere to its corporate policies and procedures on environmental and social risks when selecting projects.

Management of proceeds

Alignment  PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.

PG&E will track the allocation and spending of the proceeds from its outstanding instruments toward eligible green and social projects. The company will manage any unallocated proceeds in line with its liquidity management policies, which could include investing in cash, cash equivalents, or other liquid marketable investments or repaying debt.

Reporting

Alignment  PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.


Score Not aligned **Aligned** Strong Advanced

PG&E commits to report on the allocation and associated impact of proceeds across eligible projects--at least annually--until full allocation or in the event of any material changes. PG&E intends to indicate expected allocation timelines and the estimated share of financing and refinancing for existing or new eligible projects at the time of issuance of each instrument. PG&E plans to, where feasible, report on the actual or expected impact of eligible projects including relevant project definitions, impact assessment methodologies, and its calculations of impact metrics.

Framework Assessment

Use of proceeds

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

 PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.

Commitments score

Not aligned

Aligned

Strong

Advanced


We consider PG&E's overall use of proceeds commitments to be strong.

PG&E commits to use an amount equal to the net proceeds from the instruments issued under the framework to exclusively finance or refinance, in whole or in part, new or existing eligible projects. All projects must be clearly defined and contribute to the company's sustainability objectives. Eligible projects include expenditures related to investments in climate change adaptation and resilience of the company's utility infrastructure, renewable energy generation, clean transportation, energy efficiency, pollution prevention and control, and socioeconomic advancement and empowerment.

In our view, each of the eligible projects will contribute to beneficial environmental or social outcomes aligned with the relevant categories of the Principles referenced above. Further, the eligible projects clearly align with the company's enterprise-wide sustainability strategy of achieving carbon-neutral emissions, maintaining the affordability and safety of its services for customers, and empowering local communities. PG&E also commits to disclose the amount of proceeds used for financing versus refinancing for all issuances with a maximum look-back period of up to 24 months, which we view as a stronger practice.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, 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.

 PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.

Commitments score

Not aligned

Aligned

Strong

Advanced


We consider PG&E's overall process for project selection and evaluation commitments to be aligned.

The Committee, comprising representatives from PG&E's finance, sustainability, engineering and planning, and legal teams, will select and monitor projects that meet the eligibility criteria outlined in the framework. The selection factors will include, among others, consistency with the company's broader sustainability strategy and the feasibility of tracking the projects' expenditures and impact and allocating the funds in the applicable allocation period. Further, the Committee will evaluate potential environmental and social risks associated with these projects in accordance with PG&E's corporate policies and procedures. If appropriate, the Committee will determine mitigating measures for the identified environmental and social risks, which we view as a market best practice.

While the company considers third-party certifications as one of the factors used to evaluate and select eligible environmental projects, which we view as a stronger practice, it does not disclose the criteria for project selection--including market-based standards, certifications, or taxonomies--for all eligible projects.

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 sustainability projects throughout the life of the sustainable finance funding.


 PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.

PG&E commits to track the funds allocated to the eligible sustainable projects until the full allocation of net proceeds or in the event of material changes. PG&E intends to allocate an amount equivalent to the net proceeds from any financing issued under the framework to eligible projects in 36 months following the issuance of each sustainable financing instrument. Prior to allocation, PG&E will manage the proceeds in accordance with its liquidity management policies, which may include investing in cash, cash equivalents, or other liquid marketable investments (e.g., U.S. Treasuries) or repaying short- or long-term debt. In our view, the use of the proceeds for general corporate purposes, such as debt repayment, does not preclude alignment but is not a market best practice.

Further, PG&E commits to replace, to a reasonable effort, eligible projects that may be affected by potential intervening circumstances, such as sales, divestments, etc., so long as the sustainable finance instruments are outstanding. PG&E also commits to ensure an amount equal to the net proceeds from such outstanding instruments will be allocated to eligible projects.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, 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.

 PG&E's Sustainable Finance Framework is aligned with this component of the GBP, the SBP, the SBG, the GLP, and the SLP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider PG&E's overall reporting practices to be aligned.

PG&E commits to report on the allocation of the proceeds and impact, where feasible, for all instruments issued under the framework annually until full allocation and in the event of material changes. PG&E will make this information publicly available on its website.

For each issued instrument, PG&E intends to indicate the expected allocation timeline and estimated share of financing versus refinancing for existing or new eligible projects at the time of each issuance. Thereafter, it intends to annually publish information regarding the allocation of the net proceeds to eligible projects as well as the remaining balance of unallocated proceeds until full allocation.

Additionally, PG&E intends to report on the types of projects funded and, where feasible, on the actual or expected impact of eligible projects—including project definitions, impact assessment methodologies, and its calculation of impact metrics—in its post-issuance reporting. However, PG&E does not commit to report both the expected and actual impacts of each of its financed projects, nor does it commit to acquire third-party verification of its impact reporting, which constrains our view. However, the company commits to having an independent third-party verify its post-issuance allocation reporting, which we view as a comparatively strong practice.

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.

PG&E's Sustainable Finance Framework intends to contribute to the following SDGs:

Use of Proceeds**SDGs**

Climate Change Adaptation



13. Climate action

Renewable Energy



7. Affordable and clean energy

Clean Transport



11. Sustainable cities and communities

Energy Efficiency



11. Sustainable cities and communities

Pollution Prevention and Control



**12. Responsible
consumption and
production**

Socioeconomic Advancement &
Empowerment



**10. Reduced
inequalities**



**8. Decent work
and economic
growth**

*The eligible project categories link to these SDGs in the ICMA mapping.

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