

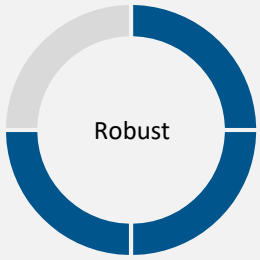
# SECOND PARTY OPINION

## on the sustainability of Sempra's Sustainable Financing Framework

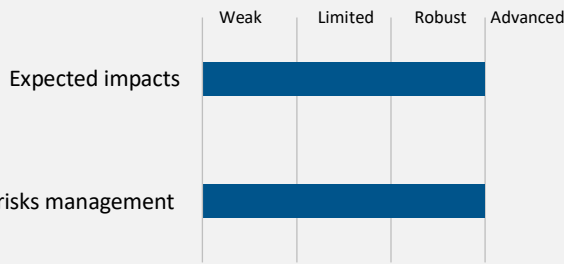
V.E considers that Sempra's Financing Framework is aligned with the four core components of the Green Bond Principles 2021 ("GBP"), Social Bond Principles 2021 ("SBP") and Green Loan Principles 2021 ("GLP").

### Framework

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak



SDG Mapping

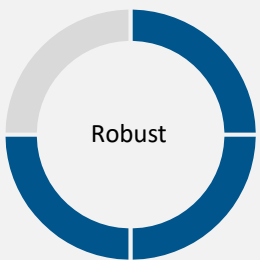


Characteristics of the Framework

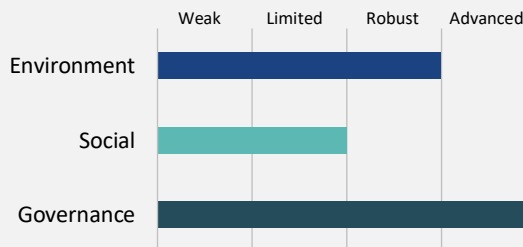
Project Categories	⇒ 6 Green Categories ⇒ 1 Social Category
Project locations	California
Existence of framework	Yes
Share of refinancing	To be communicated before each issuance
Look back period	36 Months

### Issuer

ESG Performance as of March 2021



- Advanced
- Limited
- Robust
- Weak



Controversial Activities

The Issuer appears to be involved in 3 of the 17 controversial activities screened under our methodology:

- Alcohol
- Fossil fuels industry
- High interest rate lending
- Pornography
- Animal welfare
- Coal
- Human embryonic stem cells
- Reproductive medicine
- Cannabis
- Gambling
- Military
- Unconventional oil and gas
- Chemicals of concern
- Genetic engineering
- Nuclear power
- Tobacco
- Civilian firearms

ESG Controversies

Number of controversies	3
Frequency	Occasional
Severity	Critical
Responsiveness	Reactive

### Coherence

Coherent
Partially coherent
Not coherent

We consider that the contemplated Framework is coherent with Sempra's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

## Key findings

### Contextualisation:

Sempra's Sustainable Financing Framework governs issuances of Sustainable Financing Instruments for Sempra, SDG&E and SoCalGas (any such issuer, an "Issuing Entity" or "Issuer").

V.E considers that Sempra's Framework is aligned with the four core components of the GBP, SBP and GLP.

### Use of Proceeds - aligned with GBP, SBP and GLP

- The Eligible categories are clearly defined, the Issuer has communicated the nature of the expenditures, the eligibility criteria, the target population for the social category and location of Eligible Projects.
- The Environmental and Social Objectives are clearly defined for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear, these are considered relevant, measurable and will be quantified for all the eligible categories in the reporting.
- The Issuer has committed to transparently communicate the estimated share of refinancing for each Financing Instrument issuance in the respective bond document.
- The look-back period for refinanced eligible projects will be equal to 36 months from issuance date, in line with market practices.

### Evaluation and Selection - aligned with GBP, SBP and GLP

- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, and monitoring of eligible projects). The roles and responsibilities are clear and include relevant internal expertise. The process will be publicly available in this SPO.
- The Eligibility Criteria (selection and exclusion) have been clearly defined by the Issuer for all the Eligible Categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in this SPO. The process is considered robust: it combines monitoring, identification and corrective measures for all projects (see detailed analysis on pages 22-26).

### Management of Proceeds - aligned with GBP, SBP and GLP

- The Process for the Management and Allocation of Proceeds is clearly defined and detailed and is publicly available in this SPO.
- The allocation period will be shorter than or equal to 36 months.
- Net proceeds of the Financing Instruments will be placed in the Issuer's general account and tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placements of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the instruments are outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects made during that period.
- The Issuer has provided information on the procedure that will be applied in case project divestment or postponement, and it has committed to reallocate divested proceeds to projects that are compliant with the framework within 24 months.

### Reporting - aligned with GBP, SBP and GLP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available until on maturity. If the report is externally verified this verification will also be made publicly available.
- The reporting will cover relevant information related to the allocation of Financing Instrument proceeds and to the expected sustainable benefits of the projects. The Issuer has also committed to report on material developments related to the projects.
- The Issuer has not committed to disclose the methodology and assumptions used to report on environmental and social benefits of the Eligible categories.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects until full allocation and in case of material changes.



- Indicators used to report on environmental and social benefits of the eligible projects will be verified internally by the Issuer.

## Contact

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## SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Sustainable Financing Instruments<sup>1</sup> (“Financing Instruments”) to be issued by Sempra or by its subsidiaries San Diego Gas and Electric (SDG&E) and Southern California Gas company (SoCalGas) (any such issuer, an “Issuing Entity” or “Issuer”) in compliance with the Sustainable Financing Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2021 - Social Bond Principles (“SBP”) - edited in June 2021 - and LMA/APLMA/LSTA’s Green Loan Principles (GLP) - edited in February 2021 - voluntary guidelines (referred together as the “GBP & SBP & GLP”).

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Financing Instruments’ potential contribution to sustainability and its alignment with the four core components of the GBP & SBP & GLP 2021.
- Issuer: we assessed the Issuer’s ESG performance, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>2</sup>.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Financing Instruments issuance, held via a telecommunications system.

We carried out our due diligence assessment from June 23<sup>rd</sup> to August 5<sup>th</sup>, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

### Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

<sup>1</sup> The “Sustainable Financing Instruments” is to be considered as the Financing Instruments to be potentially issued, subject to the discretion of the Issuer. The name “Sustainable Financing Instruments” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>2</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent	We consider that the contemplated Framework is coherent with Sempra’s strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer’s sustainability commitments.
Partially coherent	
Not coherent	

Increasing the share of renewable energy globally is a key action needed to mitigate climate change. Electricity generation from renewables is expected to expand almost 50% between 2020 and 2025, to almost 9,745 TWh – equivalent to the combined demand of China and the European Union. By 2025, the share of renewables in total electricity generation is expected to be 33%, surpassing coal-fired generation<sup>3</sup>. As of 2019, about a dozen U.S. states had renewables portfolio standards of 50 percent or more. This includes 100 percent renewable goals in Hawaii and Maine, as well as the District of Columbia and the territory of Puerto Rico. A few more states have 100 percent “clean energy” goals, which include renewables and other carbon-free energy sources<sup>4</sup>. In California, legislation required 33% of retail sales to be sourced from renewable sources by 2020, a target that is set to increase to 60% by 2030 and reach 100% from carbon-free sources by 2045<sup>5</sup>. Regarding access to energy, the Sustainable Development Goals (SDGs) proposed by the Open Working Group of the General Assembly of the United Nations recognize the importance of the natural environment and its resources to human well-being. Goal n°7 - to “ensure access to affordable, reliable, sustainable and modern energy for all” - is a challenge confronting every country globally. The UN Advisory Group on Energy and Climate Change has called for adoption of the goal of universal access to modern energy services by 2030. The UN is encouraging governments and other actors to increase awareness of the importance of addressing energy issues and to promote action at local, national, regional and international levels.

In 2021, Sempra has set a target to reach net-zero GHG emissions across all three scopes by 2050, with an interim target of 50% in their California utility and Mexico (non-LNG) scopes 1 and 2 operations by 2030 compared to a 2019 baseline. Additional targets include:

- Deliver 100% renewable or zero-carbon energy to SDG&E’s electric utility customers by 2045;
- Deliver 20% renewable natural gas by 2030 at (SoCalGas);
- Reduce fugitive emissions from natural gas transmission and distribution systems at least 40% from a 2015 baseline by 2030 including operations from SDG&E, SoCalGas and IEnova;
- Eliminate 100% of natural gas vented during planned transmission pipeline work at SoCalGas and SDG&E by 2030, excluding emergency repairs;
- Fulfil 100% of renewable energy requests for interconnections at Oncor Electric Delivery Company LLC (Oncor).

These targets are aligned with, and demonstrate a broader support of the climate related goals set by the state of California, which include:

- By 2030: to reach GHG emissions 40% below 1990 levels and 60% renewable electricity in the state’s energy matrix.
- By 2045: to have renewable energy resources and zero-carbon sources supply 100% of retail sales of electricity and reach Net Carbon Neutral across all sectors of the economy
- By 2050: to reach a GHG emissions 80% below 1990 levels.

Besides its decarbonization targets, Sempra has also implemented other measures throughout their operations to address some of their key environmental challenges, for instance by improving energy efficiency at their facilities – currently 14 SDG&E facilities are LEED (Leadership in Energy and Environmental Design) certified – reducing waste and promoting the transition to a circular economy and conducting several water conservation initiatives.

Also, Sempra has made efforts to manage wildfire risk in order to protect their surrounding communities and biodiversity. Such efforts include actions such as increasing undergrounding of overhead lines and creating fire hardened interfaces between urban areas, wildlands and coastal canyons, among others.

Finally, the Issuer has defined certain “Community Giving Priorities”<sup>6</sup> including diversity and inclusion initiatives such as diversity trainings and awareness raising, and Economic Prosperity, by promoting skills training for their workforce and

<sup>3</sup> <https://www.iea.org/reports/renewables-2020/renewable-electricity-2#abstract>

<sup>4</sup> <https://www2.deloitte.com/us/en/insights/industry/power-and-utilities/organizational-energy-use-100-percent-renewables.html>

<sup>5</sup> <https://pv-magazine-usa.com/2019/02/25/golden-state-is-officially-a-third-renewable-growth-not-stopping-though/>

<sup>6</sup> <https://www.sempra.com/corporategiving>



supporting the growth of diverse businesses in underinvested communities. Sempra has allocated social impact assessments and grievance mechanisms to address social and economic development.

By creating a Framework to finance or refinance new or existing eligible green or social activities and assets related to Climate Change Adaptation, Pollution Prevention and Control, Clean Energy Solutions, Clean Transportation, Green Buildings, Energy Efficiency, and Socio-Economic Advancement and Empowerment, the Issuer coherently aligns with its sustainability strategy and commitments and addresses important sustainability issues of the sector.

# FRAMEWORK

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The Issuer has described the main characteristics of the Financing Instruments within a formalised Sustainable Financing Framework which covers the four core components of the GBP & SBP & GLP 2021 (the last updated version was provided to V.E on August the 5<sup>th</sup>, 2021). The Issuer has committed to make this document publicly accessible on Sempra's website, in line with good market practices.

## Alignment with the Green Bond Principles

### Use of Proceeds



The net proceeds of the Financing Instruments will exclusively finance or refinance, in part or in full, projects falling under six Green Project Categories and one Social Category ("Eligible Categories"), as indicated in Table 1.

- The Eligible categories are clearly defined, the Issuer has communicated the nature of the expenditures, the eligibility criteria, the target population for the social category and location of Eligible Projects.
- The Environmental and Social Objectives are clearly defined for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear, these are considered relevant, measurable and will be quantified for all the eligible categories in the reporting.
- The Issuer has committed to transparently communicate the estimated share of refinancing for each Financing Instrument issuance in the respective bond document.
- The look-back period for refinanced eligible projects will be equal to 36 months from issuance date, in line with market practices.

#### BEST PRACTICES

- ⇒ The Issuer has committed to transparently communicate the estimated share of refinancing for each Financing Instrument issuance in the respective bond document.
- ⇒ Relevant environmental and social benefits are identified and measurable for all project categories.

Table 1. V.E's analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

Nature of expenditures: CAPEX, R&D and OPEX.

- Location of Eligible Projects/Assets: California

ELIGIBLE CATEGORIES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Climate change adaptation	<p>Investments and expenditures in infrastructure and grid hardening intended to reduce climate change risks such as wildfires, sea-level rise and elevated temperatures including:</p> <ul style="list-style-type: none"> <li>• Infrastructure for hardening and resilience, primarily for wildfire mitigation</li> <li>• Aerial inspections and monitoring (artificial intelligence, machine learning, sensing, drones, satellite imaging)</li> <li>• Microgrids for improved local resilience and reliable energy delivery, and more efficient use of lower-carbon sources of energy, including energy storage</li> </ul>	<p><u>Climate change adaptation</u></p> <p>Increase infrastructure resilience</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria and location of the projects at state level.</p> <p>The Environmental Objective is clearly defined. It is relevant for all the eligible projects.</p> <p>The expected Environmental Benefit is clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>
Pollution Prevention and Control	<p>Investments and expenditures related to decarbonizing the gas network and construction, development, renovation, and maintenance of infrastructure designed to mitigate and eliminate emissions and/or produce cleaner energy, including:</p> <ul style="list-style-type: none"> <li>• Retrofit and replacement of pipelines to facilitate the reduction of methane leakage or integration of hydrogen and other low-carbon gases</li> <li>• Compressor station modernization</li> <li>• Advanced fugitive and vented emissions elimination technologies</li> <li>• Sulfur Hexafluoride (SF6) switch replacement</li> </ul> <p>The Issuer reports that all projects are consistent with leak abatement and retrofits to support system hydrogen readiness (fuel cells, hydrogen compatible compressors) and increase volumes and use of low to negative carbon intense fuels.</p>	<p><u>Climate change mitigation</u></p> <p>Reduction of GHG emissions</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria and location of the projects at state level.</p> <p>The Environmental Objectives are clearly defined. It is relevant for all the eligible projects.</p> <p>The expected Environmental Benefits are clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>



ELIGIBLE CATEGORIES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Clean energy solutions	<p>Investments and expenditures in the construction, development, acquisition, expansion, research and development, generation and operation of clean energy infrastructure, including:</p> <ul style="list-style-type: none"> <li>• Green hydrogen projects targeting multiple use cases</li> <li>• Renewable natural gas projects from biomass waste (not impacting food supply), which can create negative emission pathway opportunities</li> <li>• Virtual power plants</li> <li>• Energy storage (battery storage – all chemistries, long duration storage – green hydrogen, mechanical – flywheels)</li> <li>• Power-to-gas technologies (renewable solar/wind and electrolysis systems)</li> <li>• Clean fuelled combined, heat and power systems<sup>7</sup></li> </ul> <p>The Issuer reports biomass waste projects involve anaerobic digestion of biomass waste from organic material in landfills (e.g., food &amp; green wastes), wastewater or dairy cow manure. However, in the future, more gasification type technologies of the woody wastes<sup>8</sup> might be included.</p> <p>The Issuer also anticipates more distributed smaller scale gasifiers where the biogas generated will be upgraded to meet pipeline quality standards and injected into the gas grid at various points such as district regulator stations or via pipeline interconnections. There are no contemplated interconnections or direct injection of renewable natural gas from gasification production facilities for this round of issuance.</p> <p>Projects contemplated under this Framework involve Power-to-Gas type projects where hydrogen is created on site from renewable sources such as electricity from solar, wind or renewable natural gas driven fuel cell or purchased electricity from the grid from Green-e certified Green Tariff programs that would meet carbon intensity thresholds (e.g. &lt;100 g CO<sub>2</sub>e/kwh). Hydrogen produced from natural gas steam-reforming and other gases produced from other non-renewable sources are excluded.</p> <p>In addition, the Issuer confirms that any anaerobic digestion projects that physically interconnect with the Utilities' system have a monitoring and contingency plan to minimize methane leakage as required by State laws.</p>	<p><u>Climate change mitigation</u></p> <p>Reduction of GHG emissions</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria and location of the projects at state level.</p> <p>An area for improvement consists in setting a maximum emission threshold for biomass/hydrogen powered systems.</p> <p>The Environmental Objective is clearly defined. It is relevant for all the eligible projects.</p> <p>The expected Environmental Benefit is clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>

<sup>7</sup> Projects involve modernization of system or equipment to be hydrogen compatible or driven by renewable natural gas or hydrogen-based fuel cell electric generators, combined heat and power systems and compressor systems.

<sup>8</sup> <https://www.gti.energy/wp-content/uploads/2019/02/Low-Carbon-Renewable-Natural-Gas-RNG-from-Wood-Wastes-Final-Report-Feb2019.pdf>

ELIGIBLE CATEGORIES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	<p>Currently, there are no anaerobic digestion interconnections included in the eligible projects.</p> <p>Fossil-fuel plants are excluded from this category.</p>		
Clean Transportation	<p>Investments and expenditures in clean transportation charging infrastructure, including:</p> <ul style="list-style-type: none"> <li>• Development and installation of infrastructure to extract, produce and dispense renewable gases such as hydrogen<sup>9</sup> for use in the transportation sector (transportation, marine, rail, heavy-duty trucks etc.).</li> <li>• Installation of EV chargers and make-ready infrastructure</li> <li>• Vehicle to Grid technology and infrastructure</li> </ul> <p>The Issuer confirms that for biogas, they would only use feedstocks that are aligned with US Federal or State standard and/or UN SDGs and would not cause deforestation, negatively impact food production, etc.</p> <p>The Issuer also reports they adhere to the baselines, targets and standards outlined by US Federal and State Climate policies and regulations. The biogas projects contemplated for this issuance would involve creation of “renewable natural gas” or hydrogen from biomass wastes and renewable electricity sources purchased from the California grid via a Green Tariff program or directly created from either solar, wind, geothermal or renewable natural gas sources which will meet California certification requirements.<sup>10</sup> Hydrogen and biogas will meet the Low Carbon Fuel Standard from the California Air Resources Board.</p>	<p><u>Climate change mitigation</u></p> <p>Avoidance of new GHG emissions</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria and location of the projects at state level.</p> <p>An area for improvement consists in setting a maximum emission threshold for biomass/biofuels and hydrogen production.</p> <p>The Environmental Objective is clearly defined. It is relevant for all the eligible projects.</p> <p>The expected Environmental Benefit is clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>

<sup>9</sup> Equipment to create hydrogen through use of solar or wind systems such as traditional Photovoltaic combined with electrolysis or direct solar conversion of water through photoelectrochemical cells, Fuel Cell for Transportation or On-Site Electricity Driven Compressors/Use, Hydrogen Storage and Equipment to make renewable natural gas from direct air capture of CO2 and renewables generated hydrogen.

<sup>10</sup> <https://www.green-e.org/programs/energy>

ELIGIBLE CATEGORIES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	Hydrogen produced from natural gas steam-reforming, from fossil fuels in general and other gases from other non-renewable sources are excluded.		
Green buildings	<p>Investments and expenditures related to the purchasing, development, expansion, construction, renovation, and maintenance of buildings that have received or are anticipated to receive one or more of the following ratings:</p> <ul style="list-style-type: none"> <li>• LEED: Gold or Platinum</li> <li>• Energy Star (85+)<sup>11</sup></li> </ul>	<p><u>Energy efficiency</u> Increase energy efficiency</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria and location of the projects at state level.</p> <p>The Environmental Objective is clearly defined. It is relevant for all the eligible projects.</p> <p>The Environmental Benefit is clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>
Energy efficiency	<p>Investments and expenditures related to the production, construction, development, research and maintenance of efficient energy assets and technologies, including:</p> <ul style="list-style-type: none"> <li>• Advance metering infrastructure (AMI)</li> <li>• Customer interface platform (energy efficiency, demand response, flexible load management)</li> <li>• Enhanced analytic, modelling and monitoring systems for improving performance of end-use equipment and appliances</li> <li>• Investments in the research, development, and demonstration of highly efficient, no global warming potential (GWP) refrigerant end-use equipment and appliances</li> <li>• Smart transformers</li> <li>• Fuel cell technologies (multiple end-use applications)</li> <li>• Smart grid fuel cell/battery systems</li> </ul>	<p><u>Energy efficiency</u> Increase energy efficiency</p> <p><u>Climate change mitigation</u> Reduction of GHG emissions</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria and location of the projects at state level.</p> <p>An area for improvement consists in setting a minimum energy efficiency threshold for a project to be considered eligible.</p> <p>The Environmental Objective are clearly defined. It is relevant for all the eligible projects.</p> <p>The expected Environmental Benefit is clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>

<sup>11</sup> [https://www.energystar.gov/buildings/building\\_recognition/building\\_certification](https://www.energystar.gov/buildings/building_recognition/building_certification)




ELIGIBLE SOCIAL CATEGORIES	DESCRIPTION	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Socio-Economic Advancement and Empowerment	<p>Expenditures related to the development of programs focused on supplier diversity:</p> <ul style="list-style-type: none"> <li>Diverse Business Enterprise (DBE) Program</li> </ul>	<p>Eligible Diverse Business Enterprises (DBEs) are defined consistent with California Public Utilities Commission (CPUC) General Order (GO) 156 which include women-owned, racial/ethnic minority-owned, disabled veteran-owned and LGBT-owned business enterprises.</p>	<p><u>Reduce inequalities</u> Increase access to business opportunities to underserved population</p>	<p>The Eligible Category is clear. The Issuer has communicated the nature of the expenditure, the eligibility criteria, the target population and location of the projects at state level.</p> <p>The Social Objective is clearly defined. It is relevant for all the eligible projects.</p> <p>The expected Social Benefit is clear and precise, this is considered relevant and measurable and will be quantified for the eligible projects in the reporting.</p>

## SDG Contribution

The Eligible Categories are likely to contribute to 7 of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Pollution Prevention and Control		3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.
Clean Transportation		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency.
Clean Energy Solutions		
Socio-Economic Advancement and Empowerment		8.8 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
Clean Transportation		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.
Green Buildings		
Socio-Economic Advancement and Empowerment		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.
Clean Transportation		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.
Climate Change Adaptation		
Green Buildings		11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations.
		11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.



ELIGIBLE CATEGORY	SDG	SDG TARGETS	
Clean Transportation		SDG 13 is about taking urgent action to combat climate change and its impacts.	
Clean Energy Solutions			
Green Buildings			

## Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, and monitoring of eligible projects). The roles and responsibilities are clear and include relevant internal expertise. The process will be publicly available in this SPO.
- The Eligibility Criteria (selection and exclusion) have been clearly defined by the Issuer for all the Eligible Categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in this SPO. The process is considered robust: it combines monitoring, identification and corrective measures for all projects (see detailed analysis on pages 22-26)

### Process for Project Evaluation and Selection

- For the purpose of the Financing Instruments, a cross-functional group for each Issuing entity has been created. Each such group will consist of personnel from some or all of the following departments from the applicable Issuing Entity:
  - Treasury
  - Sustainability
  - Legal
  - Business Planning
  - Accounting and Finance
  - Operations
  - Information Technology
- The cross-functional group is responsible for:
  - Selecting the Eligible Projects to be included in the Green, Social and Sustainability Financing Instruments according to a pre-selection of potential Eligible Projects made with the relevant business units in accordance with the selection criteria established in this Framework and Semptra's Sustainability policy. The final sign off on Eligible Projects will be assigned to senior management of the Issuing Entity (CFO, CAO, Controller and/or Treasurer).
  - Monitoring the Eligible Projects portfolio during the lifetime of the Financing Instruments. The cross-department group will be responsible for replacing an Eligible Green/Social Project if it no longer meets the eligibility criteria or if the Eligible Project has matured.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
  - The cross-functional group will monitor the compliance of the projects with eligibility criteria. If a project no longer meets the eligibility criteria set forth in the Framework, the group will evaluate and select another Eligible Project as a replacement.
  - The Issuer will ensure traceability of decisions made in the selection of projects through supporting summary schedules, and management presentations to the Sustainability Executive Steering Committee, Financial Officers and others.
  - To monitor potential E&S controversies the Issuer applies its stakeholder engagement policy which includes a follow-up, evaluation and reporting procedures (monitoring commitments made with stakeholders are met). The stakeholder engagement policy will be applied throughout the life of the instruments.

### Eligibility Criteria

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental and social objectives defined for the Eligible Categories.

- The selection criteria are based on definitions in Eligible Categories defined in Table 1 in the Use of Proceeds section.
- As indicated in the Framework, the issuances will not finance:
  - o The same portion of an investment or expenditure that received an allocation of proceeds under any other Sustainable Financing Instruments issued by any Issuing Entity (provided that, for the avoidance of doubt, any such net proceeds may be allocated to any portion of an investment or expenditure that has not received an allocation of proceeds under any other Sustainable Financing Instruments issued by any Issuing Entity);
  - o Activities related to the exploration, production, or transportation of fossil fuels, except those activities that are included in the Eligible Project Categories (e.g., retrofit and replacement of natural gas networks); or
  - o Consumption of fossil fuels for the purpose of power generation, except those activities that are included in the Eligible Project Categories (e.g., projects that include energy storage to mitigate emissions related to power generation).

#### BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of the selected projects with eligibility and exclusion criteria specified in the Framework throughout the life of the instruments and has provided details on the content, duration and procedure adopted in case of non-compliance.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated to the projects throughout the life of the instrument and has provided details on the frequency, content and procedures in case a controversy is found on a project.





## Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and detailed and is publicly available in this SPO.
- The allocation period will be shorter than or equal to 36 months.
- Net proceeds of the Financing Instruments will be placed in the Issuer's general account and tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placements of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Financing Instruments are outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement, and it has committed to reallocate divested proceeds to projects that are compliant with the framework within 24 months.

## Management Process

- The Issuing Entity's Treasury department will manage the allocation of an amount equal to the net proceeds of each Sustainable Financing Instrument to Eligible Projects. The net proceeds of any Financing Instrument will be credited to the Issuer's treasury liquidity portfolio and will be managed in cash or cash equivalents in accordance with the Sempra's Cash Investment Policy or reused to temporary repay outstanding indebtedness.
- In case the Eligible Projects portfolio is smaller than the Financing Instruments' net proceeds outstanding, the Issuer has committed to fill the gap and load the Eligible Project Portfolio with new Project production or existing unallocated Projects, as soon as possible.
- The unallocated funds would be held within Issuer's treasury in accordance with its usual treasury investment strategy.
- In case of projects postponement, cancelation, divestment, or ineligibility, or in case an Eligible Project has matured, the Issuer has committed to replace the no longer Eligible Project with a new Eligible Project.

### BEST PRACTICES

- ⇒ The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement, and it has committed to reallocate divested proceeds to projects that are compliant with the framework within 24 months.

## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available until maturity. If the report is externally verified this verification will also be made publicly available.
- The reporting will cover relevant information related to the allocation of Financing Instrument proceeds and to the expected sustainable benefits of the projects. The Issuer has also committed to report on material developments related to the projects.
- The Issuer has not committed to disclose the methodology and assumptions used to report on environmental and social benefits of the Eligible Categories.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects until full allocation and in case of material changes.
- Indicators used to report on environmental and social benefits of the eligible projects will be verified internally by the Issuer.

### Indicators

The Issuer has committed to transparently communicate at the Eligible Category level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are relevant and exhaustive.

REPORTING INDICATORS
⇒ The total net proceeds of outstanding Sustainable Financing Instruments
⇒ The proportional allocation of net proceeds between Eligible Project Categories defined in the Use of Proceeds section of this Framework
⇒ A list of Eligible Projects financed through Sustainable Financing Instruments, including a description of the projects and the amount of net proceeds allocated to each project
⇒ The percentage of allocation between financing/refinancing of existing projects and new projects
⇒ The remaining balance of unallocated net proceeds, if any

- Environmental and social benefits: the indicators selected by the Issuer to report on the environmental/social benefits are clear and relevant.

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Climate Change Adaptation	<ul style="list-style-type: none"> <li>- Number of miles of electric system hardening</li> <li>- High fire threat district bare conductor mitigated (circuit miles of covered conductor and undergrounded conductor)</li> <li>- Microgrid connected (megawatts (MW)/megawatt hours (MWh))</li> </ul>	
Pollution Prevention and Control		<ul style="list-style-type: none"> <li>- Fugitive emissions reduction (MT CO<sub>2</sub>e)</li> </ul>

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Clean Energy Solutions	<ul style="list-style-type: none"> <li>- Energy storage connected (MW/MWh)</li> <li>- Related research and development expenditures</li> <li>- Clean fuels connected (MW/MWh)</li> <li>- Number of clean energy solution pilot programs</li> </ul>	
Clean Transportation	<ul style="list-style-type: none"> <li>- EV charging stations installed</li> <li>- Displaced diesel/gasoline gallon equivalents</li> </ul>	
Green Buildings	<ul style="list-style-type: none"> <li>- Zero net energy penetration for existing company buildings (%)</li> <li>- Cumulative number of LEED certified buildings and any certified in reporting year</li> </ul>	
Energy Efficiency	<ul style="list-style-type: none"> <li>- Annual GWh of electricity or natural gas saved</li> <li>- Annual MW of demand reduction</li> </ul>	<ul style="list-style-type: none"> <li>- GHG emissions avoided (metric tons of carbon dioxide equivalent) MT CO<sub>2</sub>e)</li> </ul>
Socio-Economic Advancement and Empowerment	<ul style="list-style-type: none"> <li>- Number of DBEs engaged</li> <li>- Percentage spent on local suppliers</li> </ul>	<ul style="list-style-type: none"> <li>- Number of jobs created/supported by spending with DBEs</li> </ul>

#### BEST PRACTICES

- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Categories.
- ⇒ The reporting methodology and assumptions used to report on environmental/social benefits of the Eligible Projects will be disclosed publicly.

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Climate Change Adaptation	ADVANCED	According to the United States Environmental Protection Agency <sup>12</sup> , California appears to be one of the states most exposed to climate-change related events in the United States both currently and in the future especially related to wildfires. The category should lead to local positive impacts. The category should not entail lock-in effect. The category is

<sup>12</sup> <https://www.epa.gov/sites/default/files/2016-09/documents/climate-change-ca.pdf>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
		following standard definitions that aim at contributing to the claimed objective.
Pollution Prevention and Control	ADVANCED	The category aims at converting gas networks for the transmission and distribution of renewable and low-carbon gases (including hydrogen) and avoiding methane leakages which is responding to key sector issues according to the International Energy Agency <sup>13</sup> . The category aims at reducing the negative impacts of Semptra activities and transitioning to cleaner energy, the development of monitoring tools to avoid leakages and the retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network should not entail any lock-in effect. The category complies with the best alternative available in the sector to contribute to the claimed objective in the context of the project.
Clean Energy Solutions	ROBUST	According to the International Energy Agency <sup>14</sup> , USA's electricity mix is mostly powered by fossil fuels (24% coal, 37% natural gas). Decarbonation of the electricity mix is therefore a major issue in the United States, especially for a gas company to replace natural gas by alternative sources. Anaerobic digestion definition is in line with the best international standards. The Issuer has detailed that biomass will divert organic material from landfills (e.g., food & green wastes), or come from wastewater and dairy cow manure. Hydrogen will be produced only using renewable energy sources (electrolysis from wind and solar, steam reforming from biogas and PV as heat source). However, maximum emissions thresholds have not been set for hydrogen and biomass production.
Clean Transportation	ROBUST	According to the United States Environmental Protection Agency <sup>15</sup> , the transportation sector accounts for around 29% of the total Greenhouse Gas Emissions in the United States thus making decarbonation of the sector an important issue in the country. However, the category does not seem to be tackling the most relevant issues for the company's sector (energy transmission and distribution), therefore the category is not expected to lead to an important decrease of the company's environmental footprint. Only use of feedstocks that align with US, State or UN Sustainable Development Goals and would not cause deforestation, negatively impact food production, and with no lock-in effect is expected. Hydrogen will be produced either from electrolysis using renewable electricity sources or steam-reforming using solar thermal and biogas, the technologies chosen should not harm the intended objective. No emissions thresholds have been set for hydrogen and biomass production.
Green Buildings	ROBUST	The real estate sector (including commercial and residential buildings), accounts for approximately 15% of the total Greenhouse Gas Emissions in the United States <sup>16</sup> . However, the category does not seem to be tackling the most relevant issues for the company's sector (energy transmission and distribution), therefore the category is not expected to lead to an important decrease of the company's environmental footprint. New constructions (due to their absolute effect on energy consumption and GHG emissions) and non-residential buildings are considered less crucial in the real estate sector than renovation and residential buildings. The Issuer has provided the minimum level for LEED (Gold) and Energy Star certifications (85+). The category is therefore adopting internationally recognized standards, but there are more stringent standards available in the market.
Energy Efficiency	ROBUST	The category aims at ensuring a better energy demand-side management by incorporating monitoring tools, which is a key element to reduce energy consumption and should play an important role for an energy company and for the integration of new renewable energy capacities. The category should not entail lock-in effect. The project is using a technology that aims to contribute to the claimed objective, although a minimum

<sup>13</sup> <https://www.iea.org/reports/driving-down-methane-leaks-from-the-oil-and-gas-industry>

<sup>14</sup> <https://www.iea.org/countries/united-states>

<sup>15</sup> <https://www.epa.gov/sites/production/files/2021-06/documents/420f21049.pdf>

<sup>16</sup> <https://www.epa.gov/greenvehicles/fast-facts-transportation-greenhouse-gas-emissions>



ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
		percentage of energy savings have not been set for a project to be considered eligible.
Socio-Economic Advancement and Empowerment	ROBUST	Major challenges remain in the United States to reduce inequalities and significant challenges remain in terms of development. The category is targeting minority, women, veterans, and LGBTQ which are populations in need with regards to that social issue. The category should induce short term benefits.
OVERALL ASSESSMENT	ROBUST	

## ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects are considered robust<sup>17</sup>.

	ELIGIBLE CATEGORIES						
	CLEAN TRANSPORTATION	CLIMATE CHANGE ADAPTATION	ENERGY EFFICIENCY	CLEAN ENERGY SOLUTIONS	GREEN BUILDINGS	POLLUTION PREVENTION AND CONTROL	SOCIO-ECONOMIC ADVANCEMENT AND EMPOWERMENT
Environmental Management	X	X	X	X	X	X	X
Human rights	X	X	X	X	X	X	X
Health & Safety		X		X	X	X	
Responsible relation with suppliers							X
Data privacy			X				
Ethics risks	X	X	X	X	X	X	X
OVERALL ASSESSMENT	ROBUST	ROBUST	ROBUST	ROBUST	ADVANCED	ADVANCED	ROBUST

### Environmental Management

#### Environmental Management System

The Issuer confirms both utilities (SDG&E and SoCalGas) have environmental management systems that are designed to be consistent with Federal and State laws. The Issuer screens projects for environmental impacts and adjusts designs and timing of projects where appropriate to reduce any impacts.

For example, projects are typically screened for their natural/biological & culture resource impacts via Geographic Information System (GIS) tools. The utilities are regulated and compliant with California's protective environmental laws such as the California Environmental Quality Act (CEQA) to support evaluating, minimizing, and mitigating impacts to the environment from projects.

The Issuer reports to have an Environmental Management System (EMS) in place for all its operations, which although is not certified, follows all relevant regulatory requirements at state and federal levels.

<sup>17</sup> The "X" indicates the E&S risks that have been activated for each Eligible Category.



### Eco-design

The Issuer's environmental policy<sup>18</sup> describes its commitment to abide by applicable laws, regulations and permit requirements, and their work to reduce their impacts. Sempra's environmental policies and procedures are designed to manage and reduce environmental impacts and advance the circular economy. These procedures include water reuse, recycling and waste minimization, GHG and other air emissions reduction programs and air quality improvements.

There are several examples of efforts to advance the circular economy, including waste reduction goals and targets, across the Sempra family of companies. SDG&E's Sustainability Strategy<sup>19</sup> includes targets that aim to divert 100% of green waste, including green waste related to vegetation management, by 2030.

### Environmental Impact Assessment

The Issuer reports all projects proceeding under applicable Environmental Permits. Sempra's Environmental Services teams ensure compliance with federal and state laws and regulations enacted to protect and conserve natural resources and species of fish, wildlife, plants. These include, inter alia, the National Environmental Policy Act (ESA), California Environmental Quality Act, Endangered Species Act, California Endangered Species Act, Clean Water Act, Clean Air Act, Migratory Bird Treaty Act and Bald and Golden Eagle Protection Act.

Additionally, since 1995, SDG&E has performed its work in compliance with its Subregional Natural Community Conservation Plan and Habitat Conservation Plan (Subregional Plan), developed under ESA section 10 of the Endangered Species Act and California's Natural Community Conservation Plan Act.

The Issuer confirms that through their GIS system they conduct Environmental Impact assessments for all projects, including infrastructure. These impact assessments cover relevant issues such as impact on layers of water, biological and natural resources.

### Biodiversity

The Issuer reports both SDG&E and SoCalGas have programmatic permits (e.g., habitat conservation plans) that dictate best management practices for projects and operation and maintenance activities within sensitive habitat or natural land areas. Both utilities have archaeologists and biologists on staff to conduct surveys and identify any natural/biological and/or cultural impacts to a project.

In collaboration with the U.S. Fish and Wildlife Service and California Department of Fish and Wildlife, SDG&E developed its Subregional Plan<sup>20</sup> under the Endangered Species Act and with California's Natural Community Conservation Plan Act. The plan was designed to avoid and minimize impacts to numerous wildlife and plant species and their habitats while allowing SDG&E to install, maintain, operate, and repair its existing gas and electric system and undertake typical expansion of the electric grid. The Subregional Plan aims to preserve intact the biological and physical resources comprising sensitive habitats to the greatest extent possible and afford all species within managed habitats greater protections than before.

### Climate-change adaptation

The Issuer reports both SDG&E and SoCalGas routinely partner with the California Energy Commission and others on climate vulnerability assessments and research for their respective infrastructure. Both utilities are subject to California Public Utilities Commissions' Climate Adaptation & Resiliency Order Instituting Rulemaking that requires vulnerability assessments and community outreach plans.

SDG&E developed a dedicated Fire Science & Climate Adaptation Department which has built extensive collaboration with government, academia and non-profit institutions to advance research and understanding of climate change. The Issuer is part of the U.S. Department of Energy's (DOE) Partnership for Energy Sector Climate Resilience Initiative<sup>21</sup>. Under this partnership, SDG&E has collaborated with the DOE and 16 other utilities to improve the resilience of the country's energy infrastructure against extreme weather and climate change impacts. More recently in partnership with Scripps Institution of Oceanography, SDG&E modelled different sea level rise scenarios and analysed potential impacts on company infrastructure and communities.<sup>22</sup>

In addition, SDG&E developed an in-house meteorology team to forecast fire danger allowing the company to have advanced preparations for severe weather events. The company built a network of utility-owned weather stations to provide detailed weather data across its service territory, with which provides information for daily operational decision-making.<sup>23</sup>

### Fugitive GHG emissions

<sup>18</sup> <https://www.sempra.com/sites/default/files/content/files/node-page/file-list/2018/environmental-policy.pdf>

<sup>19</sup> [https://www.sdge.com/sites/default/files/documents/SDG%26E%20Sustainability%20Report\\_0.pdf?nid-18226](https://www.sdge.com/sites/default/files/documents/SDG%26E%20Sustainability%20Report_0.pdf?nid-18226)

<sup>20</sup> <https://wildlife.ca.gov/Conservation/Planning/NCCP/Plans/San-Diego-GE>

<sup>21</sup> [https://www.oecd.org/governance/toolkit-on-risk-governance/goodpractices/page/uspartnershipforenergysectorclimateresilience.htm#tab\\_description](https://www.oecd.org/governance/toolkit-on-risk-governance/goodpractices/page/uspartnershipforenergysectorclimateresilience.htm#tab_description)

<sup>22</sup> <http://www.sdgenews.com/article/sdge-partners-scripps-institution-oceanography-expand-climate-change-research>

<sup>23</sup> [https://www.sempra.com/sites/default/files/content/files/node-report/2020/SempraEnergy\\_2020\\_Corporate-Sustainability-Report.pdf](https://www.sempra.com/sites/default/files/content/files/node-report/2020/SempraEnergy_2020_Corporate-Sustainability-Report.pdf)



The Issuer reports its utilities have requirements to reduce fugitive emissions through best management practices under Senate Bill 1371 "Natural Gas Leakage Abatement". Both utilities also joined EPA's voluntary methane reduction program "Methane Challenge"<sup>24</sup>. SoCalGas has installed smart meters that allow them to detect water leaks from piping from the hot water heater, avoiding the need to roll deploy a truck and associated emissions by calling the customer over the phone. SDG&E also has a sulfur hexafluoride replacement program and follows California Air Resources Control Board regulations to reduce leakage from SF<sub>6</sub>.

#### End-of-life and decommissioning

SDG&E's projects are undertaken in strict adherence to all applicable environmental guidelines, rules, regulations, and reviews, including those outlined under National Environmental Policy Act (NEPA) and California Environmental Quality Act (CEQA). SDG&E performs its activities in compliance with its Subregional Plan, which among other things, aims to preserve intact the biological and physical resources comprising sensitive ecosystems to the greatest extent possible and afford all species within managed habitats greater protections than before.

#### Energy demand-side management

The Issuer reports both utilities have extensive demand-side management programs that are regulated and approved by the California Public Utilities Commission. These programs include awareness raising activities, promotion of energy-efficient appliances, time-of use (TOU) tariffs. SDG&E has specific demand side programs for residential clients<sup>25</sup> and for its businesses segment<sup>26</sup>.

#### Environmental performance of suppliers

The Issuer reports as part of the development and implementation of the SDG&E and SoCalGas supply chain sustainability program, they will have a focus on supporting Diverse Business Enterprise (DBE) suppliers in their sustainability efforts to help advance their sustainability programs.

#### Human Rights

The Issuer's Human Rights policy<sup>27</sup> describes its commitment to minimize any adverse effects their infrastructure or operations may have on people and communities. Sempra's Senior Vice President, Corporate Affairs and Chief Sustainability Officer has responsibility for this policy, which aligns with the UN Universal Declaration of Human Rights.

As part of its Human Rights policy, the Issuer has committed to conduct periodic human rights assessments; make efforts to avoid causing or contributing to human rights violations; mitigate and/or remediate adverse human rights impacts of its operations where possible; prohibit the use of child labour or forced labour in company's operations; promote a formal grievance mechanism; and be transparent on all human rights related issues.

The Issuer reports that, if an employee, business partner, supplier, customer or other stakeholder witnesses or learns of any incident that may involve a violation of the policy, they can report their concern or grievance, anonymously if desired, via the company's Ethics & Compliance Helpline, available 24 hours a day, seven days a week.

#### Health & Safety

Sempra applies comprehensive safety management plans that follow international safety protocols, reinforcing its safety culture through: safety management systems to address requirements, awareness, goals, monitoring and verification related to all applicable, health and safety laws, rules and regulations. The Issuer also reports to conduct safety trainings, review safety plans and procedures with work crews on site.

During 2020, the Issuer reported to have adjusted operations to respond rapidly and effectively to the COVID-19 pandemic, implementing special protocols to reduce risks of contagion. Sempra reports health & safety indicators for its own operation and contractors in its Sustainability Report.<sup>28</sup>

Sempra also reports to participate in community emergency planning processes, including mutual aid and training simulation exercises with first responders. SDG&E reported in 2020 to have met quarterly with the wildfire safety community advisory council and held wildfire webinars and safety fair for the general public.

<sup>24</sup> <https://www.epa.gov/natural-gas-star-program/methane-challenge-program>

<sup>25</sup> <https://www.sdge.com/save-day-residential-programs>

<sup>26</sup> <https://www.sdge.com/business-summer>

<sup>27</sup> <https://www.sempra.com/sites/default/files/content/files/node-page/file-list/2018/human-rights-policy.pdf>

<sup>28</sup> See pages 80-82 at [https://www.sempra.com/sites/default/files/content/files/node-report/2020/SempraEnergy\\_2020\\_Corporate-Sustainability-Report.pdf](https://www.sempra.com/sites/default/files/content/files/node-report/2020/SempraEnergy_2020_Corporate-Sustainability-Report.pdf)





The Issuer reports to have in place Health and Safety Plans<sup>29</sup> for all their operations and projects, which follow group wide health & safety policies. They also provide for Contractor Safety Manuals which cover all health and safety requirements for contractors involved in the development of projects, including mechanisms for incident reporting.

The Supplier Code of Conduct<sup>30</sup> also outlines Sempra's expectations for their suppliers to provide safe working environments, supporting accident prevention and minimizing exposure to health risks.

#### Responsible relations with suppliers

The Issuer reports all suppliers must meet the company's insurance, safety, and licensing standards to bid and compete on work at SDG&E regardless of if they are part of the Diverse Business Enterprise (DBE) program or not. To assist suppliers with their working capital, SDG&E implemented a Supplier Quick Pay Program (SQPP) that is available to all small businesses; diverse or not.

SQPP helps small businesses by increasing their working capital, so they can grow their businesses and hire more workers. In the SQPP initiative, SDG&E commits to pay qualified small suppliers faster, with payment terms of net 15 days with no discount.

In terms of environmental and social performance of suppliers, Sempra's Supplier Code of Conduct details the company's expectations for suppliers to evaluate their operations, products and services from a total lifecycle perspective in order to propose and implement effective policies and measurable improvements.

In 2020, through their membership in the Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA)<sup>31</sup>, SDG&E and SoCalGas engaged with suppliers on sustainability. Major suppliers were invited to participate in a sustainability assessment that would help SDG&E and SoCalGas better understand and evaluate their environmental performance, policies and resource use.

#### Data privacy

The Issuer reports that it applies strict Data Privacy policies at Sempra<sup>32</sup>, SDG&E<sup>33</sup> and SoCalGas levels<sup>34</sup>.

In addition, the Issuer and its subsidiaries (other than SDG&E and SoCalGas) are subject to the California Consumer Privacy Act ("CCPA"). The CCPA requires companies to provide California residents information about how they use their personal information, whether collected online or offline, and this document is intended to satisfy that requirement. Sempra also has a specific site on its website to make CCPA information requests.

SDG&E has a specific energy Data request program<sup>35</sup> and provides its customers with Letters of Authorization in order to authorize the company to with share data with specified third parties. SoCalGas has also issued a specific Privacy Notice on the use of energy usage information.<sup>36</sup>

#### Ethics risks

The Issuing Entity's board monitors overall governance processes in an oversight capacity, while The Issuing Entity's management provides policy guidance, governance and oversight of the operating companies. Each operating company is responsible for implementing these policies and managing its risks, safety and compliance issues.

Sempra's Codes of Conduct<sup>37</sup>, policies and procedures are the key instruments for the Issuer's compliance program. All employees complete three mandatory ethics and compliance training courses each year. An additional 16 compliance-related courses may be assigned based on an employee's work location and responsibilities. This training covers a wide range of topics including, but not limited to: safety; discrimination and harassment-free workplace; information management, confidentiality and privacy; environmental protection; charitable activities; political participation; anti-trust and anti-bribery laws; and fair competition, conflicts of interest and securities trading.

The Issuer also reports that it conducts risk assessments, auditing and monitoring activities. Sempra's audit plan is updated throughout the year as risks change. The company's enterprise-wide risk assessment is a key input of their annual audit plan, which is approved and overseen by the Audit Committee of the board of directors.

<sup>29</sup> <https://www.sdge.com/sites/default/files/SDGE%20-%20Contractor%20Safety%20Manual%20-%20Class%201%20Contractors%2012-21-2020.pdf>;

<https://www.sdge.com/sites/default/files/regulatory/2020%20SDGE%20Gas%20Safety%20Plan%20Final.pdf>

<sup>30</sup> [https://www.sempra.com/sites/default/files/content/files/node-page/file-list/2017/Sempra\\_SCOBC\\_Bro\\_8pp\\_9-19-17.pdf](https://www.sempra.com/sites/default/files/content/files/node-page/file-list/2017/Sempra_SCOBC_Bro_8pp_9-19-17.pdf)

<sup>31</sup> <https://www.euissca.org/>

<sup>32</sup> <https://www.sempra.com/privacy>

<sup>33</sup> <https://www.sdge.com/more-information/our-company/customer-privacy>

<sup>34</sup> <https://www.socalgas.com/privacy-policy>

<sup>35</sup> <https://energydata.sdge.com/?sessionGUID=cd89db30-6b20-864b-06a4-4a213187090b&webSyncID=6971eb20-25a5-5c89-4425-bc60bd5b3cd9>

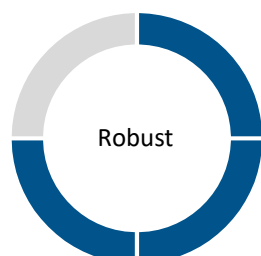
<sup>36</sup> <https://www.socalgas.com/privacy-notice>

<sup>37</sup> <https://www.sempra.com/sites/default/files/2017-09/code-of-business-conduct-sempra.pdf>



Anyone may anonymously report an ethics and compliance concern or potential violation through Sempra's Ethics & Compliance Helpline.

# ISSUER



Sempra is a holding company which invests in, develops and operates energy infrastructure, as well as provides electric and gas services in the North America.

## Level of ESG performance

Sempra's ESG performance was assessed through a complete process of rating and benchmark.

As of March 2021<sup>38</sup>, Sempra displays an overall robust ESG performance, ranking 1<sup>st</sup> in our "Electric & Gas Utilities – North America" sector which covers 69 companies. Sempra's performance is considered robust in the Environmental pillar, limited in the Social pillar and advanced in the Governance pillar, above sector average.

DOMAIN	COMMENTS	OPINION
Environment	<p><u>Sempra's performance on the Environment pillar is considered robust.</u></p> <p>The Issuer now reports on several measures to prevent pollution and preserve biodiversity such as emergency plans and fish &amp; bird protection programmes. Furthermore, the Company now reports 25% of its installed capacity to be ISO 14001 certified, and its fossil-based carbon factor now stands at the second quartile of the sector. On the other hand, Sempra still reports on targets to expand its installed capacity from renewable sources as well as comprehensive measures to promote energy efficiency among customers, including smart metering.</p>	Advanced
		Robust
		Limited
		Weak
Social	<p><u>Sempra's performance on the Social pillar is considered limited.</u></p> <p>Regarding Human Rights, Sempra has allocated extensive measures including affirmative action programmes, flexitime initiatives, and childcare facilities to promote diversity in its workplace. In addition, the share of women in its management positions increased between 2017 and 2019. Measures such as grievance mechanisms and impact assessments appear to be in place to prevent fundamental human rights violations. On a less positive note, the Issuer lacks transparency on how it ensures respect of fundamental labour rights.</p> <p>In terms of community involvement, the company's indicators on social and economic development have shown an improvement between 2017 &amp; 2019 as well as reporting more transparently on taxes paid. Sempra has allocated social impact assessments and grievance mechanisms to address social and economic development. On fuel poverty, financial support, customer assistance, and energy efficiency programmes appear to be available to low-income customers. On a less positive note, Sempra does not report transparently on its approach to promote access to energy in developing countries.</p>	Advanced
		Robust
		Limited
		Weak

<sup>38</sup> The data herein was last updated in March of 2021 and is not expected to be updated until 2022. The Issuer has highlighted finding a few discrepancies in the March issued report.

Governance	<p><u>Sempre's performance on the Governance pillar is considered advanced.</u></p> <p>More than half of the Board is considered independent, and a CSR Committee is set at Board level. The Audit Committee appears to play a comprehensive role in overseeing internal and external controls, and the internal controls system covers climate change and corruption risks. Regarding shareholders' rights, the Company respects the "one share - one vote" principle, and its CSR strategy covering safety and climate change topics was presented to investors. Lastly, variable remuneration of senior executives seems to be linked to CSR performance conditions, with clear quantified targets.</p>	Advanced
		Robust
		Limited
		Weak

## Management of ESG Controversies

As of August 2021, Sempra faces three stakeholder-related ESG controversies, linked to three of the six domains we analyse:

- Environment, in the criteria of "Industrial accidents and pollution" and "GHG emissions from T&D".
- Business behaviour, in the criteria "Customer relations" and "Corruption".
- Corporate governance, in the criterion "Audit and internal controls".

Frequency: The controversy faced is considered "occasional"<sup>39</sup>; in line with the sector.

Severity: The severity of the case, based on the analysis of the impact on both the Issuer and its stakeholders, is considered "critical"<sup>40</sup>; above sector average.

Responsiveness: Sempra is considered overall "reactive"<sup>41</sup>; in line with the sector.

## Involvement in Controversial Activities

As of August 2021, the Issuer appears to be involved in three of the 17 controversial activities screened under our methodology, namely:

Major involvement in Fossil fuel industry: Sempra has an estimated turnover from fossil fuels which is between 20-33% of total turnover. This turnover is derived from the generation of electricity from natural gas and from midstream natural gas activities. Company subsidiary, SDG&E, owns and operates four natural gas-fired power plants, with a total capacity of 1,204 MW. Meanwhile, subsidiary, IEnova, owns TdM, a 625-MW natural gas-fired power plant. In 2020, natural gas accounted for 75.3% of the Company's overall generation output. As self-generated electricity accounted for 34.9% of that delivered by the aforementioned subsidiaries (with the remaining 65.1% delivered purchased from third parties), it can be calculated that the Company derived between 5-10% of turnover from the generation and subsequent sale of its own gas-fired electricity. The Company transports, transmits, stores and supplies natural gas through its various subsidiaries. The Company derived around 39% of turnover from its Gas and Energy-related businesses segments in 2020. As these also include natural gas distribution and renewable power in Mexico, which are not captured by the methodology, V.E reasonably estimates the Company derives between 10-20% of turnover from the midstream gas operations that are covered.

Minor involvement in unconventional oil and gas: Through subsidiary, IEnova, the Company, owns and operates an LNG regasification terminal located near Ensenada, Baja California. The facility provides receiving and storage facilities for the company's LNG customers, regasifies their LNG and delivers the resulting natural gas to Rosarito pipeline system.

Furthermore, in November 2020, IEnova reached a final investment decision for the development, construction, and operation of the ECA LNG Phase 1 natural gas liquefaction-export project at the same site.

<sup>39</sup> VE scale of assessment: Isolated / Occasional / Frequent / Persistent.

<sup>40</sup> VE scale of assessment: Minor / Significant / High / Critical.

<sup>41</sup> VE scale of assessment: Non-communicative / Reactive / Remediative / Proactive.



Minor involvement in Nuclear power: Sempra Energy has an estimated turnover from involvement in nuclear power which is less than 5% of total turnover. This turnover is derived from Sempra Energy's subsidiary, SDG&E, which partly owns the 3-unit San Onofre Nuclear Generating Station in California (20% ownership). The plant is in the process of being decommissioned by Edison, the plant's majority owner, although Sempra Energy remains responsible for financing its share of this process. It can safely be assumed that essentially no revenue is being derived from the plant.

The Issuer appears to be not involved in any of the other 14 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## ISSUANCE

### Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2021 ("GBP"), the Social Bond Principles - June 2021 ("SBP"), and LMA/APLMA/LSTA's Green Loan Principles - February 2021 ("GLP"), and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;<sup>42</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### ESG risk management for eligible activities

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Issuer's ESG performance

Scale of assessment of ESG performance: Weak, Limited, Robust, Advanced

*NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by V.E.*

The Issuer's ESG performance has been assessed by V.E on the basis of its:

- **Leadership:** relevance of the commitments (content, visibility and ownership).
- **Implementation:** coherence of the implementation (process, means, control/reporting).
- **Results:** indicators, stakeholders' feedbacks and controversies.

### Management of stakeholder-related ESG controversies

V.E defines a controversy as public information or contradictory opinions from reliable<sup>43</sup> sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures or non-proven claims.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).

<sup>42</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

<sup>43</sup> 'Reliable' means that there are sufficient details to substantiate claims made, with due attention paid to the political dimension of news and the danger of misinformation. V.E draws on investigative journalism, the business press, NGO and trade union reports which focus on corporate behavior relating to ESG issues. It is neither possible nor advisable to create a prescriptive fixed list of sources as new, valid sources arise all the time and it is necessary to investigate these as and when they are retrieved in order to comprehensively cover evolving issues and media.



- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

## Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

## V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

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Transparency on the relation between V.E and the Issuer/Borrower: V.E has not carried out any audit mission or consultancy activity for Sempra. No established relation (financial or commercial) exists between V.E and the Sempra. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond/Loan, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer/Borrower's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer/Borrower. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer/Borrower. The Issuer/Borrower is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond/Loan, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. Restriction on distribution and use of this opinion: The deliverables remain the property of V.E. The draft version of the Second Party Opinion by V.E is for information purpose only and shall not be disclosed by the client. V.E grants the Issuer/Borrower all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer/Borrower shall determine in a worldwide perimeter. The Issuer/Borrower has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond/loan(s) issuance. The Issuer acknowledges and agrees that V.E reserves the right to publish the final version of the Second Party Opinion on V.E' website and on V.E' internal and external communication supporting documents.







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