

Innovative funding and partnership solutions for the UK energy revolution

6 4 14.56 12.93

HORIZON ENERGY INFRASTRUCTURE LTD Green Financing Framework May 2022 Horizon Energy Infrastructure (HEI)

A Meter Asset Provider powering Great Britain towards net-zero

Horizon Energy Infrastructure Innovative funding and partnership solutions for the UK energy revolution

CONTENTS

01	Introduction by Tom Thorp	3		
02 Introducing Horizon Energy Infrastructure				
	02.a. The nature of the company	4		
	02.b. Innovative financing structures	4		
	O2.c. A data conduit between suppliers and consumers	4		
	02.d. Decarbonising and decentralising the energy network	4		
	02.e. Progressive policies at the heart of our vision	5		
03	HEI's core business principles	7		
	03.a. The role of smart meters in the UK Energy Transition	7		
04 Smart meters: their benefits, types and status as green assets				
	04.a. The role of smart meters in the UK Energy Transition	9		
	04.b. The benefits of smart meters and how they are achieved	9		
	04.c. The types of smart meter financed by HEI	10		
	04.d. The meters financed by HEI qualify as green assets	11		
05 HEI's Green Financing Framework				
	05.a. Introduction	13		
	05.b. Use of proceeds	13		
	05.c. Project evaluation and selection	14		
	05.d. Management of proceeds	14		
	05.e. Reporting	15		
	05.f. External review and SPO	15		





01 INTRODUCTION BY TOM THORP CEO, Horizon Energy Infrastructure Ltd

I am delighted to have this opportunity to present The purpose of this document is to explain the Horizon Energy Infrastructure (HEI), a leading nature of HEI's business, the structure of the provider of smart meters in the UK energy market. company and the principles that guide it. It will

Since its foundation in 2009, HEI has achieved strong and profitable growth. As of today, we have installed about 0.9 million smart gas and electricity meters, comprising both domestic (SMETS1 and SMETS2) and non-domestic (AMR and SMETS2) meters. This represents a significant acceleration from a total of about 0.2 million meters five years ago, much of which has been accomplished since our sponsor, Arcus Infrastructure Partners, acquired us in October 2019. Over the next five years, we aim to all but double our SMETS meter portfolio.

HEI has taken care to establish strong relationships with energy suppliers that have a robust presence in the UK's domestic and non-domestic markets. As a result, HEI is well positioned as a meter asset provider in both sectors.

We have is a small team but one that manages a sizeable portfolio. It is with a feeling of pride that I pay tribute to my team for the way that they have continued to support our partners during the coronavirus pandemic, helping them to meet their smart meter roll-out obligations despite the challenging environment. We have never lost sight of the fact that the assets and equipment that are made possible by HEI's financing constitute vital infrastructure for the country's journey towards carbon neutrality.

The purpose of this document is to explain the nature of HEI's business, the structure of the company and the principles that guide it. It will demonstrate in detail how the meters funded by HEI qualify as green assets and therefore conform to the Loan Market Association's Green Loan Principles. Finally, it will set out HEI's own Green Financing Framework, a set of criteria we will henceforth employ for managing and reporting all the financial instruments we issue.

HEI is committed to retaining its position as a leader in its asset class and I look forward to overseeing our next five years of growth. I commend our company to you and endorse the Green Financing Framework that is described in these pages.



Tom Thorp CEO, Horizon Energy Infrastructure

May 2022



02 INTRODUCING HORIZON ENERGY INFRASTRUCTURE

02.a. The nature of the company

HEI funds the purchase and installation costs of regulation-compliant smart meters for domestic and non-domestic energy suppliers.

HEI takes seriously its contribution to the effort to reach carbon neutrality by 2050. The business rests on four key pillars:

- Using innovative financing structures to drive the smart meter roll-out
- Acting as a data conduit between suppliers and

02.b. Innovative financing structures

HEI has expertise in developing innovative financial instruments that meet the needs of the market as well as the aims of its own business plan. Its financing structures are affordable, cost-effective and bespoke to the requirements of its customers.

HEI sources financing from its sponsor and from other lenders to facilitate the purchase and deployment of smart meters to its energy

02.c. A data conduit between suppliers and consumers

The smart meters financed by HEI provide an accurate, timely and high-quality dataset to both consumers and suppliers.

Consumers are given the means to understand precisely how efficient – or inefficient – their homes and properties are. As a result, they can see how to optimise or reduce their energy consumption, making it more economic and environmentally responsible.

Energy suppliers can see how to tailor their tariffs to customer usage, thereby encouraging consumers to save money by using energy away from peak times. This can also incentivise the adoption of low-carbon assets such as electric consumers, empowering both to play a more active role in managing energy consumption

- Playing a role in decarbonising and decentralising the energy network
- Putting progressive policies at the heart of the company's ethos

These four aspects of HEI are explained over the following pages.

supplier partners. HEI retains ownership of the meters and leases them to its partners on long-term contracts, receiving a monthly rental payment for each installed meter over a minimum term of 15 years.

HEI's activities fulfil a core service at the heart of the smart meter roll-out programme mandated by the UK government, which is described in section 3.a.

vehicles, which can be charged at times when electricity costs are minimised.

Smart meters thus empower both consumers and suppliers to become active participants in the endeavour to reach carbon net zero, adapting usage to tariff and vice versa.

Moreover, smart meters confer societal benefits by making it easy for consumers to switch between energy suppliers, which in turn prompts competition between those suppliers. What was once an opaque market becomes more transparent, and the resulting increase in knowledge can contribute to a reduction in fuel poverty.

02.d. Decarbonising and decentralising the energy network

For decades, traditional metering generated bills that relied on out-of-date information and estimated usage. With the deployment of smart meters, the era of estimated costs has ended - not to mention the inconvenience and inefficiency of manual meter readings. Real-time data and accurate billing mean that consumers can see at first hand how their energy is used. Where possible, power usage can be cost-effectively integrated with energy from renewable sources. By giving consumers the ability to attribute costs to behaviours,

INTRODUCING HORIZON ENERGY INFRASTRUCTURE CONTINUED

smart meters can stimulate them to embrace technologies such as solar panels, batteries and heat pumps so that their properties can generate, store and supply their own energy. Smart meters thereby contribute to the expansion of lowercarbon heating and the generation of greener energy, and to the reduction of pressure on the National Grid.

02.e. Progressive policies at the heart of our vision

HEI has a vision on sustainability: 'acting responsibly to support the development of our people and the growth of our business.' The company is committed to acting in a responsible manner to support the goal of reaching carbon neutrality by 2050.

Alongside its strong company values of flexibility, innovation, respect and ethics, to reinforce these, the Company has put in place a set of progressive environmental, social and governance (ESG) policies, which apply to employees and contractors alike:

- Setting targets for ESG matters which will be reported, monitored, reviewed and disclosed to HEI's Board of Directors, employees and shareholders.
- Adopting high standards of governance and ethics in HEI's business conduct.
- Ensuring that HEI's vision and ESG objectives are relevant, understood and communicated and that its employees demonstrate alignment to them.

- Identifying all material ESG risks in the business activities undertaken by HEI and ensuring that they are fully considered and managed in a responsible and ethical way.
- Developing, implementing, and maintaining a best practice, process-oriented, integrated management system, which will be audited regularly and subject to a process of continuous improvement.
- Ensuring that key decisions are taken only after full consideration of all material ESG issues and risks.
- Providing appropriate information, instruction and training and ensuring that these ESG policies are communicated to all persons working for HEI.
- Encouraging customers, suppliers and business partners to adopt these policies or similar policies resulting in the same outcomes.
- Aspiring to achieve benchmark levels in ESG performance and making these themes core to HEI's activities.



	60.53	1.504.00M	All Sale		
6	Horizon Energy Infrastructure C	Green Financing Framework			
	26.90	6,566.00		56	
	34.02				15.13
	60.46				
		3,663.3(
	77.35	612.00			
	53.0	17 .Z9			
					74.08
	K			0.63	-2.16
2			.48	3.00	19.10
				2.60	6.66
			761.26	0.3	0.15
		2,587.54	13.00		13.71
		NI ME LA	1 27 M 1	4 25	4.3.70

7

03 HEI'S CORE BUSINESS PRINCIPLES

03.a. The role of smart meters in the UK Energy Transition

A set of four core principles defines HEI's corporate identity and conditions its relationships with its customers:

Figure 1 Four core principles



Service

We support our customers navigating complex processes to ensure they maximise commercial opportunities and fulfil all their regulatory obligations



Innovation

The energy ecosystem is constantly evolving. HEI is continuously exploring ways of supporting new technologies and disruptors to the market



Solutions

Delivering bespoke solutions that address the specific needs of customers and identify the optimum remedy when challenges and hurdles appear



Partnership

To manage long term partner relationships with customers, with aspirations to fund and deploy proven technologies such as EV Charging and Micro Grid equipment for them



04 SMART METERS: THEIR BENEFITS, TYPES AND STATUS AS GREEN ASSETS

04.a. The role of smart meters in the UK Energy Transition

The Government has set in train various policies in support of its decarbonising agenda. In 2012, it initiated the Smart Meter Implementation Programme to roll out over 50 million smart gas and electricity meters to domestic properties and small businesses.¹ The Government signalled its continuing commitment to the technology in June 2021 when it published the Smart Meter Policy Framework Post 2020, a four-year plan that sets energy suppliers individualised annual targets for the installation of smart meters on a trajectory to 100% coverage.²

The roll-out advances apace: as of December 2021 there were 27.8 million smart meters in homes and businesses across Great Britain meaning that 50% of all meters are now smart meters.³



Figure 2 Progress of the smart meter roll-out to December 2021 (Department of Business, Energy and Industrial Strategy)⁴

04.b. The benefits of smart meters and how they are achieved

A cost-benefit analysis by the Department for Business, Energy and Industrial Strategy (BEIS) shows that using smart meters will enable domestic consumers to reduce their electricity and gas consumption by 3.5% and 2.6% respectively. In the long run this represents a reduction in CO_2 emissions of 45 million tonnes - equivalent to about £4.7bn in energy reduction benefits for domestic consumers by 2034.⁵ A yet greater overall reduction is expected for non-domestic consumers, for whom electricity usage is expected to fall by 2.8% and gas usage by 4.5%.⁶

¹ Smart Metering Implementation Programme: a report on progress of the realisation of smart meter consumer benefits (publishing.service. gov.uk)

² Smart Meter Policy Framework Post 2020: Government Response to a Consultation on Minimum Annual Targets and Reporting Thresholds for Energy Suppliers (publishing.service.gov.uk)

³ Smart Meter Statistics in Great Britain: Quarterly Report to end December 2021

⁴ Smart Meter Statistics in Great Britain: Quarterly Report to end December 2021

^{5 &}lt;u>Smart Metering Implementation Programme - Cost-Benefit Analysis 2019 (publishing.service.gov.uk)</u>

⁶ Metering Implementation Programme - Cost-Benefit Analysis 2019 (publishing.service.gov.uk)



04 SMART METERS: THEIR BENEFITS, TYPES AND STATUS AS GREEN ASSETS CONTINUED

Separately, it has been projected that the smart meter roll-out will deliver net savings to households of £5.6bn and total savings of £6.2bn.¹

As to the means by which these savings will be achieved, BEIS identifies three ways in which the data made available by smart meters will effect behavioural change among domestic consumers:²

1. Direct feedback

Smart meters deliver near real-time data about household energy consumption in kWh and pounds and pence. Customers can use this

04.c. The types of smart meter financed by HEI

HEI is a dedicated meter asset provider operating in both the domestic and non-domestic subsectors. This means that HEI's installed asset base, as well as its pipeline for future meter installations, reflect the differing underlying needs of retail and business customers.

In line with this, the meters installed by HEI fall into two broad categories:

- 1. SMETS meters: SMETS-compliant meters installed for domestic and non-domestic customers
- 2. AMR meters: installed only for non-domestic customers

SMETS meters

Government regulation emphasises that smart meters must give customers the flexibility to switch between energy suppliers. Accordingly, the devices deployed must conform to standard technical specifications. Various standards are in place, but the most important for domestic and non-domestic metering are the Smart Metering Equipment and Technical Specifications 1 and 2 (SMETS1 and SMETS2). The first SMETS1 meters were introduced in 2012 and the second version, SMETS2, were brought out in 2017. information to manage and reduce their energy usage, to save on their energy bills and to reduce emissions.

2. Advice and guidance

The data gathered by smart meters can be used to provide personalised advice on energy usage. Home energy reports help consumers interpret data helping them make better choices.

3. Indirect feedback

Smart meters can aggregate historical data so that current practices can be compared with past ones and optimisations identified.

AMR meters

Automated Meter Reading Devices (AMR meters) are targeted at non-domestic energy users who have larger energy requirements than the domestic market. They record data at half-hourly intervals which can then be called by remote data collectors via an internal modem. Two-way communication between meter and supplier is not supported, but this is less important for nondomestic customers who might manage their energy rates individually or through third-party intermediaries.

Long habituation has made customers in the industrial and commercial sectors comfortable with data collection and aggregation services, and AMR meters are considered fully interoperable.

AMR meters are a mature technology and one that is well known in the non-domestic energy market. They will continue to be a feature of the market for the foreseeable future since they remain the only automated reading solution for challenging metering sites. The majority of HEI's portfolio of AMR meters is installed in the premises of SMEs and micro-businesses.

HEI does not and will not fund traditional meters.

¹ Smart Metering Implementation Programme - Cost-Benefit Analysis 2019 (publishing.service.gov.uk)& Smart Meter Statistics in Great Britain: Quarterly Report to end December 2021

² Smart Metering Implementation Programme - Cost-Benefit Analysis 2019 (publishing.service.gov.uk)

04 SMART METERS: THEIR BENEFITS, TYPES AND STATUS AS GREEN ASSETS CONTINUED

04.d. The meters financed by HEI qualify as green assets

The SMETS and AMR meters installed by HEI qualify as green assets - and are hence eligible for green financing - under various formulae for evaluating their environmental credentials:

METHODOLOGY	SMART METER CRITERIA ALIGNMENT
Green Loan Principles ¹	Indicative Categories of Eligibility for Green Projects: Energy efficiency – such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products.
Climate Bonds Initiative ²	 Assets and activities which automatically meet the contribution to climate mitigation component for grid related assets and projects, therefore meeting the requirements to be awarded Climate Bonds Certification: Equipment to carry information to users for remotely acting on consumption such as, but not limited to, advanced (also known as smart) metering infrastructure, including customer data hubs.
Eu Taxonomy ³	 The following Transmission and Distribution grid related activities are eligible to be included in the EU Taxonomy under substantial contribution to climate change mitigation, irrespective of whether the system is on a pathway to full decarbonisation: Equipment to increase the controllability and observability of the electricity system and enable the development and integration of renewable energy sources, which includes: (i) sensors and measurement tools (including meteorological sensors for forecasting renewable production); and (ii) communication and control (including advanced software and control rooms, automation of substations or feeders, and voltage control capabilities to adapt to more decentralised renewable infeed). Equipment to carry information to users for remotely acting on consumption.
Eu Taxonomy Delegated Acts ⁴	 Technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives: Manufacture of energy efficiency equipment for buildings. Substantial contribution to climate change mitigation. The economic activity manufactures one or more of the following products and their key components: (m) energy-efficient building automation and control systems for residential and non-residential buildings; (q) products for smart monitoring and regulating of heating system, and sensoring equipment.
UN Sustainable Development Goals ⁵	SDG Goal 7: Ensure access to affordable, reliable sustainable and modern energy for all. SDG Goal 12: Ensure sustainable consumption and production patterns. SGD Goal 13: Take urgent action to combat climate change and its impacts.

¹ Loan Markets Association, Green Loan Principles, February 2021

5 https://sdgs.un.org/goals

11)

² Climate Bonds Initiative, Electrical Grids and Storage Criteria, October 2021

³ Taxonomy Report: Technical Annex, Updated methodology & Updated Technical Screening Criteria, March 2020

⁴ EU Taxonomy Delegated Acts, June 2021





05 Hei's green financing framework

05.a. Introduction

The Green Loan Principles (GLP) of the Loan Markets Association form an internationally accepted set of voluntary guidelines for the disclosure and reporting of financing. The aim of the GLP is to promote and facilitate the growth and continued development of environmentally sustainable economic activity.

In line with recommendations in the GLP, HEI has established the Green Financing Framework (GFF), a set of criteria that will henceforth govern HEI's financing activities.

The GFF has been created to demonstrate that the Green Finance Instruments (GFIs) issued by HEI align with the GLP, providing transparency to interested external parties, who may wish to have this confirmed by way of an independent review carried out by HEI's appointed second party opinion (SPO) provider DNV (section 5.e.).

The GFF consists of stipulations in the following four areas:

- 1. Use of proceeds
- 2. Project evaluation and selection

- 3. Management of proceeds
- 4. Reporting

From now on, every GFI issued by HEI will conform to these stipulations, which are discussed in detail in the next pages.

The GFIs issued by HEI will be of several types including:

- Term Loans
- Revolving capex facilities to be used to finance the procurement and installation of smart metering assets and complementary businesses
- Working capital facilities
- Debt service reserve facilities

Provided they conform to the GFF, HEI may issue financing through other instruments and facilities.

The GFF will govern the GFIs issued by HEI from the moment of their issuance (and throughout any subsequent financings and/or refinancings) and will be valid so long as any GFI remains outstanding.

05.b. Use of proceeds

HEI will commit an amount equal to the net proceeds of any GFI to finance or refinance eligible green assets in part or in full. Horizon will confirm the proportion used for each financing under the framework and commit to a maximum lookback period of 4 years for any refinancing which might take place.

At the current time, the only assets in HEI's portfolio are SMETS and AMR meters, the status of which as green assets is established in section 4.d. above.

There exist, however, certain other assets and technologies which promote environmental

sustainability within the energy system that could qualify as green assets and therefore fit within HEI's business model and the terms specified by the GFF. Such assets, which include heat pumps, electric vehicle charge points and microgrids, will likewise require investment if the goal of carbon neutrality is to be achieved by 2050.

New asset types will only be eligible for financing under the GFF if Horizon can prove their substantial contribution to climate mitigation in compliance with the relevant energy efficiency project classification. An acquisition of a portfolio of smart meters, or of a business adjacent to

05. HEI's Green Financing Framework continued

smart metering as described above, may be refinanced under the Framework provided these are confirmed as Green Asset. Any acquisition to be financed through the Framework will be subject to review as outlined in the Process for Project Selection and Evaluation section.

A small number of pilot investments in such

05.c. Project evaluation and selection

In the event that HEI intends to make an acquisition that will be financed through the GFF, it will carry out an analysis of the target business to ensure that all relevant assets can be classified as green assets according to the methodologies set out in section 4.d. above. The analysis will be included in the relevant annual allocation and impact report after the acquisition is made.

assets have been made by HEI's sister company, Horizon Energy Ventures (HEV) and future investments in these adjacent technologies will continue to be made through HEV. Given the lack of visibility over the scale the exact asset mix that will be funded in the future, HEV has been excluded from the current scope of the GFF.

Project evaluation and selection will be managed by HEI's CEO, Tom Thorp, and be submitted to HEI's Board of Directors for approval.

Horizon will adapt to the policy landscape in which it operates. HEI's CEO, Board and employees will consistently review, and seek to mitigate, the impact that HEI's assets have on the environment in which they operate.

05.d. Management of proceeds

HEI has instituted strong internal governance and financial controls to ensure that the proceeds from any and all GFIs are used correctly and managed efficiently, and that this is documented to the highest standard.

Under the GFF, HEI can draw down only against expenditure incurred for SMETS and AMR meters

or for other green assets. There will never be any temporary unallocated proceeds.

Since HEI's current and expected future business consists purely of smart meter deployment there is no need for separate accounts. These will be put in place if necessitated by any future changes to the business.



(14)-

05. HEI's Green Financing Framework continued

HEI commit to monitoring the allocation of proceeds towards green assets through ongoing drawdowns and balance of the Green Finance Instruments and will endeavour through strong internal governance to ensure that

05.e. Reporting

HEI will release to its lenders an annual GFF report containing information on the allocation of proceeds from and the impact of GFIs issued under the GFF.

As to the allocation of proceeds, HEI will report:

• The total amount of green debt proceeds deployed into green assets, and this as a percentage of total financing used

As to the impact of GFIs, HEI will report:

• The total number of SMETS and AMR meters installed

05.f. External review and SPO

The GFF has been created to demonstrate that the GFIs issued by HEI align with the GLP and will provide transparency in the case of external review. The GLP recommends that an independent second party opinion (SPO) provider be appointed and HEI has chosen DNV for this role. The SPO provider will be available to relevant parties.



documentation is to the highest standard. The annual financial audit will provide evidence of the use of any proceeds from drawdowns thereby allowing investors to remain informed about the management of utilised funds.

- The number of new SMETS and AMR meters installed
- Additional relevant data for any other green assets such as energy or carbon emission savings where applicable

The GFF annual report will be released for so long as any GFI remains outstanding and will be validated by the SPO provider.



CONTACT US

GENERAL CORRESPONDENCE Horizon Energy Infrastructure Ltd Brewery House 34-44 Gigant Street Salisbury SP12AP

CUSTOMER SERVICES admin@horizonei.co.uk

Horizon Energy Infrastructure Ltd Brewery House 34-44 Gigant Street Salisbury SP1 2AP

www.horizonei.co.uk