



# DONG ENERGY PROGRAMME FOR SUSTAINABLE BIOMASS SOURCING

(DPSB)

## WOOD CHIPS AND WOOD PELLETS

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# DONG ENERGY PROGRAMME FOR SUSTAINABLE BIOMASS SOURCING (DPSB)

## SUMMARY

### A new and greener life for DONG Energy's central CHP plants

In these years DONG Energy is working on converting a number of our central CHP plants into multi-fuel plants so that the plants, to a greater extent, are able to use sustainable biomass such as wood chips and wood pellets in the production.

#### **The conversion offers a number of advantages:**

- Existing central CHP plants will be geared for the future and will be greener
- Green heating supply at a competitive price and a continued high level of reliability of supply
- A significantly lower consumption of fossil fuels such as coal and natural gas
- A significant CO<sub>2</sub> reduction in a cost-efficient way by using existing CHP plants rather than building new green plants

### DONG Energy's sustainability requirements to suppliers of wood chips and wood pellets

To ensure that DONG Energy only uses sustainable wood chips and wood pellets ensuring a significant CO<sub>2</sub> reduction, compared to the use of coal and natural gas, at our central CHP plants and protecting biodiversity at the same time, DONG Energy has developed the DONG Energy Programme for Sustainable Biomass Sourcing (DPSB) which includes a number of sustainability requirements. With the implementation of the programme, DONG Energy acts in compliance with the Danish industry agreement on sustainable wooden biomass (wood chips and wood pellets)<sup>1</sup>.

DONG Energy only purchases wood chips and wood pellets from suppliers who ensure that the biomass originates solely from forest areas where processes and initiatives have been implemented resulting in:

- Continuous reforestation
- Protection of the ecosystem and biodiversity

- Protection of particularly exposed areas or areas worthy of preservation
- Compliance with social and professional rights, including the UN's Universal Declaration of Human Rights

DONG Energy's sustainability requirements are also based on the most stringent existing requirements in the EU and Forest Europe's criteria for sustainable forestry. Furthermore, the suppliers must meet DONG Energy's ethical, social and environmental requirements and document that the CO<sub>2</sub> emission generated throughout the entire biomass value chain in connection with the production and transport of wood chips and wood pellets does not exceed DONG Energy's fixed limit value for CO<sub>2</sub> emission.

### Certification of DONG Energy's suppliers of wood chips and wood pellets

To ensure that DONG Energy's suppliers of wood pellets and wood chips comply with DONG Energy's sustainability requirements, DONG Energy will implement a certification system under the DPSB. An independent third-party auditor will be assigned the responsibility of monitoring and certifying the suppliers. For this purpose, DONG Energy will use the Sustainable Biomass Partnership's (SBP) certification system for sustainable wooden biomass.

#### **The certification entails:**

- A risk assessment of DONG Energy's suppliers' compliance with the applicable sustainability requirements. In case of a positive result, the supplier becomes certified.
- An annual inspection to ensure that DONG Energy's suppliers continue to comply with the applicable sustainability requirements which form the basis of the certification.
- Recertification every five years where a new risk assessment is conducted to see whether DONG Energy's suppliers comply with the applicable sustainability requirements.

<sup>1</sup> The Danish industry agreement on sustainable wooden biomass covers wood chips (decomposed wood) and wood pellets (compressed wood shavings and sawdust) exclusively.

# A NEW AND GREENER LIFE FOR DONG ENERGY'S CENTRAL CHP PLANTS

## CO<sub>2</sub> reduction from central CHP plants

DONG Energy wants to contribute to creating a cleaner and healthier society through investments in green energy. It is an integral part of our company strategy which creates value for DONG Energy and for the societies that we are part of.

In 2013, DONG Energy emitted 30% less CO<sub>2</sub> from our heat and electricity production compared to 2006. Towards 2020, DONG Energy's ambition is to reduce CO<sub>2</sub> emission by 60%. An important measure in this connection is to convert some of our central CHP plants into multi-fuel plants so that they are able to use biomass such as wood chips and wood pellets. Biomass is to replace the consumption of coal and natural gas. To achieve the target of reducing CO<sub>2</sub> emissions, it is DONG Energy's objective that in 2020, 50% of the electricity and heat produced by our CHP plants for Danish homes originate from biomass. In 2013, biomass accounted for 18%. This means that towards 2018, DONG Energy expects to be able to reduce our coal consumption by approximately 80% compared to the coal consumption in 2006.

With DONG Energy's Programme for Sustainable Biomass Sourcing (DPSB), DONG Energy wants to ensure and document that the wood pellets and wood chips that we use are sustainable in order for DONG Energy to achieve a significant CO<sub>2</sub> reduction compared to using fossil fuels.

## A continued need for central CHP plants

By converting and life-extending DONG Energy's CHP plants, we ensure that in future, the CHP plants will also be able to generate heat and quickly step in when Denmark needs to supplement the power generation that wind turbines and solar cells are able to deliver. We cannot do without the central CHP plants if Denmark is to have a reliable electricity and heating supply.

Today, DONG Energy is already using sustainable biomass such as wood chips and wood pellets at Herning Power Station, Avedøre Power Station near Copenhagen and Studstrup Power Station near Aarhus. We are currently converting Avedøre Power Station and

Studstrup Power Station so that these power stations will be able to use sustainable wood pellets to a greater extent and less coal and natural gas than is the case today. At the same time, we are converting Skærbæk Power Station near Fredericia so that it will be able to use sustainable wood chips and less natural gas. The conversions are expected to be finally completed in 2016 and 2017, respectively.

## Enough wood available

In order to future-proof the plants and make production greener, in future, DONG Energy will require an additional quantity of wood chips and wood pellets compared to today's consumption. Towards 2020, DONG Energy expects to double the annual consumption of wood pellets to approximately 1.8 million tonnes and to increase the annual consumption of wood chips from 0.3 million tonnes in 2013 to approximately 1.1 million tonnes in 2020 (Figure 1). Furthermore, DONG Energy uses waste products from the agricultural sector i.e. straw to a lesser extent.

Million tonnes per year

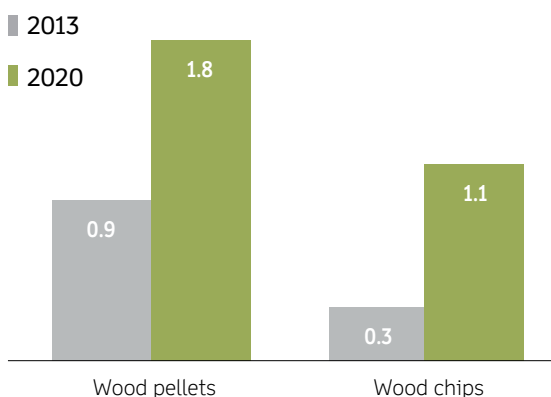


Figure 1: DONG Energy's current and expected consumption of wood chips and wood pellets.

Denmark is a small country with a limited amount of production forest and biomass production. If production were to be based on biomass produced exclusively in Denmark, the Danes would not have a reliable electricity and heating supply from the central CHP plants at competitive prices. Consequently,

DONG Energy purchases the majority of our wood pellets and wood chips abroad. Today, DONG Energy imports wood pellets primarily from the Baltic States, Russia and southern Europe. In future, DONG Energy expects to supplement with wood pellets from suppliers in North America. An increased import of wood pellets from the US is expected to reduce DONG Energy's import of wood pellets from Russia.

Today, DONG Energy mainly receives wood chips from Danish suppliers. In 2020, we expect that approximately 50% of the wood chips will still originate from Denmark. We expect to receive the other half from the Baltic States and southern Europe.

The production forest in the US, from which DONG Energy will increase the import of wood pellets, has experienced a significant decline in the demand for wood for paper production and this wood is now utilised in the production of wood pellets to an increasing extent. The North American forests show a growth of 400 million m<sup>3</sup> per year. This corresponds to 150 million tonnes of wood pellets per year, ie ten times Europe's total annual consumption today<sup>2</sup>. Therefore, in future, a sufficient amount of sustainable biomass will also be available at a global level<sup>3</sup>, which is the conclusion reached by the Danish Energy Agency further to its analysis on bioenergy.

Today and also in future, DONG Energy's wood chips and wood pellets come from suppliers that base their production on wood residuals, wood waste and trees which have been thinned out from forest areas in growth and operated by a well-established, responsible and commercial forestry industry. In these areas, the forestry industry has a commercial interest in ensuring that also in future, wooden material will be available to meet the demand for wood for industrial use, ie for housing, furniture, paper and wood residuals for energy.

## A cost-efficient way to reduce CO<sub>2</sub> emission

By using more biomass for the electricity and heat production at the existing central CHP plants, DONG Energy helps ensure that Denmark reduces its CO<sub>2</sub> emission in a cost-efficient way. This is due to the fact that DONG Energy is converting existing CHP plants. It is a cheaper solution than to build completely new capacity. In any case, DONG Energy was to make a

significant investment in several of our central CHP plants as they have reached an age where they are in need of restoration. By moving the conversion in a green direction, the CHP plants will benefit from life extension, and Denmark will achieve lower CO<sub>2</sub> emission in a cost-efficient way.

DONG Energy has initiated a conversion and life extension of Avedøre Power Station (unit 2), Studstrup Power Station and Skærbæk Power Station for more than three billion Danish kroner. DONG Energy expects that the conversions of these power stations will generate approximately 1,000 -1,500 jobs in the construction phase within the metal and civil engineering industries. Furthermore, DONG Energy is in the process of securing agreements on the conversion of Avedøre Power Station's unit 1 and the conversion of Asnæs Power Station.

## The biomass must be sustainable

In order for the increased consumption of biomass to result in a genuine and significant CO<sub>2</sub> reduction, the biomass must be sustainable. Today, DONG Energy uses sustainable biomass exclusively and would like to do so in future which ensures a significant CO<sub>2</sub> reduction, compared to the use of coal and natural gas, and which protects biodiversity. Not all biomass is sustainable. In order for biomass to be sustainable, it must be produced in the right way.

When you burn coal and natural gas, you release CO<sub>2</sub> which has previously been tied up in the ground and has consequently not impacted the concentration of greenhouse gases in the atmosphere. Thus, you produce new CO<sub>2</sub> emission which is not reabsorbed in the carbon stocks for the next many millions of years to the detriment of our climate and health.

The amount of CO<sub>2</sub> emitted when wood, ie wood chips and wood pellets are burned may be reabsorbed through reforestation of the forest areas which have supplied waste wood and thinning-out wood for the production of wood chips and wood pellets. Thus, it is important to ensure that the total forest area remains constant or is increasing so that the CO<sub>2</sub> balance can be restored within a short period of time. At the same time, the production of biomass must take place in such a way that biodiversity and the environment are protected.

<sup>2</sup> PÖYRY, 2013: 'The Dynamics of Global Pellet Markets 2013'.

<sup>3</sup> The Danish Energy Agency: 'Analysis of bioenergy in Denmark', May 2014.

# DONG ENERGY'S SUSTAINABILITY REQUIREMENTS TO SUPPLIERS OF WOOD CHIPS AND WOOD PELLETS

When a company such as DONG Energy wants to use sustainable biomass, it is a challenge that there is no internationally recognised definition of when solid biomass can be characterised as sustainable. Therefore, DONG Energy is implementing DPSB consisting of a number of sustainability requirements to our suppliers of wood pellets and wood chips so that we ensure that we only use wood chips and wood pellets which are sustainable, and that we comply with the requirements of the Danish industry agreement on sustainable wooden biomass (wood chips and wood pellets). At present, the requirements are based on the most ambitious legislation governing this area which is the British legislation governing biomass sustainability<sup>4</sup> as well as Forest Europe's criteria for sustainable forestry and the Danish Ministry of the Environment's guidelines on securing sustainable wood<sup>5</sup>.

## Sustainable production

DONG Energy requires that our suppliers of wood chips and wood pellets as a minimum comply with the following requirements for sustainable production:

### 1. Legality

Legality of forest management and utilisation is safeguarded through:

- Logging from legally designated areas
- Payment of all relevant taxes and duties related to the forest sector
- Logging complies with applicable legislation governing the environment and forest areas
- Logging respects the rights acquired by prescription and the civil rights of indigenous people
- Compliance with the trade and customs legislation governing the forest sector

### 2. Protection of the forests' ecosystems

Forest management must ensure the preservation of the fundamental conditions of the ecosystem through:

- Assessment of the environmental (eg water, soil) impact related to clearance of wood
- Impact assessment of the influence of management on ecosystem and biodiversity

- Scheme to minimise negative impact on ecosystems and biodiversity, including impact from fertilisers, pesticides and waste disposal

### 3. The forests' productivity and ability to contribute to the global carbon cycle must be maintained

Management of forests must ensure the minimal negative impact on the forest's productivity and carbon sequestration through:

- Maintaining the forest's ability to produce wood for future generations
- Balancing logging and growth rates
- Establishing a system for measuring the forest's productivity
- Education and training of producers and subcontractors
- Refraining from using wood from forests which are not replanted/rejuvenated
- Refraining from converting land with forest status
- Refraining from converting forests with high carbon content<sup>6</sup>

### 4. The forests must be healthy and well-functioning

Forest management must ensure healthy and well-functioning forests through:

- Maintaining or increasing forest health and vitality
- Management of natural processes, including forest fires, pests and diseases
- Protection against illegal logging and mining operations

### 5. Protection of biodiversity, sensitive areas and areas worthy of preservation

Forest management must ensure protection of biodiversity, sensitive areas and areas worthy of preservation through:

- Identification of particularly vulnerable areas or areas which are particularly worthy of preservation
- Protection of designated areas through forest management with due consideration to sensitive areas and areas worthy of preservation

Areas may have special value if they eg protect against soil erosion, protect water resources, have high biodiversity, have special scenic values and/or comprise particularly valuable animal or plant species.

<sup>4</sup> Timber Standard for Heat & Electricity: Woodfuel used under the Renewable Heat Incentive and Renewables Obligation.

<sup>5</sup> The Danish Ministry of the Environment's guidelines on securing sustainable wood in connection with public procurement of goods and services.

<sup>6</sup> In this context, forests with high carbon content are forests growing in wetland areas and in undrained peat soil.

## 6. Social and work-related rights must be respected

Forest management must safeguard respect for social and work-related rights by:

- Identifying, documenting and respecting original inhabitants with a traditional or legal forest easement
- Establishing complaint mechanisms, if not already available, to regulate disagreements in connection with the identified forest easements and working environment
- Employees shall be entitled to organise themselves and child labour, forced labour or discrimination are not permitted
- The work must be organised and executed in such a way that the employees' health and safety are taken into due consideration

### Additional requirements targeted at the carbon cycle – such as maintenance of the forest's carbon stocks, indirect land use change (ILUC) and indirect wood use change (IWUC)

In May 2014, the Danish Energy Agency published an analysis of the use of biomass for energy in Denmark: 'Analyse af bioenergi i Danmark' (in English: 'Analysis of bioenergy in Denmark'). The analysis defines a number of biomass types where the use for energy production will have fluctuating impact on the carbon balance and consequently the climate benefits achieved by superseding fossil fuels with biomass. Based on the conclusions of the analysis, DONG Energy will in addition to the above-listed six requirements, to ensure a climate-beneficial carbon balance, strive towards not using biomass, in the following instances:

- If regionally there is a current alternative demand for high-value production (including production of timber)
- If it originates from trees grown on fertile soil which has been converted from agriculture to forestry in an inappropriate way
- If it causes deforestation in the region in question
- If it affects the quantity and quality of forest resources in a negative way in the medium and long term.

At present, no methods are available for calculating the additional requirements targeted at the carbon cycle as

is the case with requirements 1-6. Therefore, going forward, DONG Energy and the rest of the industry will cooperate with the authorities and other key players to prepare methods for documenting that the above additional requirements must be observed.

## Operationalisation of sustainability requirements

Compliance with DONG Energy's requirements for sustainable production is to ensure that biomass is sustainable throughout the entire biomass value chain. The biomass value chain is to be understood as:

- Forestry which can be attributed specifically to the production of the fuel, including afforestation, maintenance and logging
- Fuel processing, including seasoning, if required
- The entire transport from the forest to the manufacturer of wood chips and wood pellets and onwards to the CHP plant
- The utilisation rate at the CHP plant

In accordance with the Danish industry agreement on sustainable wooden biomass, DONG Energy demands that the total CO<sub>2</sub> emission from the entire biomass value chain must comply with the following reduction requirements in percentages seen in relation to the use of fossil fuels, not exceeding the following limits:

	2015	2020	2025
EU reduction recommendations <sup>7</sup> (2015).	70 per cent	72 per cent	75 per cent
UK reduction requirements <sup>8</sup> (2020/2025)			
Absolute limit <sup>9</sup> (electricity)	201 kgs/MWh	187 kgs/MWh	167 kgs/MWh
Absolute limit (heating)	86 kgs/MWh	81 kgs/MWh	72 kgs/MWh
Absolute limit (combined heat and power)*	100 kgs/MWh	94 kgs/MWh	84 kgs/MWh

DONG Energy's stipulated reduction requirements are based on the EU's currently applicable guidelines combined with the most ambitious existing regulation in Europe. The limits cover an average of the CO<sub>2</sub> emission from wood chips and wood pellets delivered annually. DONG Energy will implement the above limits

<sup>7</sup> The EU Commission on 28 July 2014: 'State of play on the sustainability of solid and gaseous biomass used for electricity, heating and cooling in the EU'

<sup>8</sup> The British legislation governing biomass sustainability - 'Timber Standard for Heat & Electricity: Woodfuel used under the Renewable Heat Incentive and Renewables Obligation'

<sup>9</sup> EU fossil fuel comparator: 670 kgs/MWh (electricity), 335 kgs/MWh (combined heat and power\*), 288 kgs/MWh (heating). All based on energy output. Source: The EU Commission on 28 July 2014: 'State of play on the sustainability of solid and gaseous biomass used for electricity, heating and cooling in the EU (\*own estimate based on a total CHP efficiency of 85 per cent)'



as part of DPSB at the pace and using the method of calculation prescribed by the Danish industry agreement on sustainable wooden biomass<sup>10</sup>. The reason for reducing the limit for CO<sub>2</sub> emission going forward is to ensure that DONG Energy's suppliers are given the opportunity to make their production even greener and consequently reduce their CO<sub>2</sub> emissions compared to the current level within a realistic time frame.

Furthermore, it is a DONG Energy requirement that every delivery of wood chips and wood pellets can be traced throughout the entire biomass value chain to ensure that the biomass we receive lives up to our supplier requirements.

**Therefore, DONG Energy's suppliers of wood chips and wood pellets shall:**

- Monitor and record the average, total CO<sub>2</sub> emission from the biomass value chain
- Commit to producing data to DONG Energy concerning CO<sub>2</sub> emission at least once a year in such a way that DONG Energy is able to calculate the total CO<sub>2</sub> emission throughout the biomass value chain
- Ensure that for each delivery of wood chips and wood pellets, the entire supply chain must appear clearly, providing a comprehensive picture of the supply chain tracing it all the way back to the forest area which has supplied the wooden material for the production of wood chips and wood pellets to the CHP plant where the biomass is used
- Use data of a high standard and credibility ensuring that the data can be approved by an independent third party auditor once a year

## Implementing sustainability requirements throughout DONG Energy's supply chain

DONG Energy's sustainability requirements for suppliers of wood chips and wood pellets ensure that DONG Energy is in compliance with the requirements stated in the Danish industry agreement on sustainable wooden biomass. All suppliers must also meet DONG Energy's

general supplier requirements as part of the Group's overall Responsible Sourcing Programme.

DONG Energy's sustainability requirements for wood pellets and wood chips are based on the existing stringent requirements for sustainable biomass available in Europe, including British and Dutch legislation. The requirements are also identical to, and will adhere to, the requirements which can be found in the certification system for sustainable biomass prepared by the industry initiative 'Sustainable Biomass Partnership (SBP)', launched in its first version in September 2014. Besides DONG Energy, six other European energy companies participate in SBP, including Danish HOFOR, the British generation company DRAX and the German energy supplier E.On, together representing approximately 70% of Europe's wood pellet market. Initially, the certification system in SBP covers sustainable wood pellets and SBP is in the process of developing a similar certification system for wood chips.

DONG Energy's sustainability requirements apply to both suppliers of wood chips and wood pellets, and the phase-in of documentation for compliance with the sustainability requirements will take place as follows:

Share of DONG Energy's wood chips and wood pellets (measured in weight) which meet documentation requirements concerning compliance with the sustainability requirements:

2016: 40%

2017: 60%

2018: 75%

2019: Phase-in completed<sup>11</sup>

The phase-in pace meets the requirements stated in the Danish industry agreement on sustainable wooden biomass. The documentation requirements will come into force on 1 August 2016. This means that the annual reporting in 2016 will comprise 40 per cent of the wood chips and wood pellets purchased in the period ranging from 1 August 2016 to 31 December 2016. From 2017 and onwards, the documentation will follow the calendar year.

<sup>10</sup> DONG Energy will use the model for the CO<sub>2</sub> calculation being prepared under the auspices of the industry agreement. The calculation model will be prepared by an independent player based on existing recognised methods adapted to Danish conditions, including CHP and heat production. The work is expected to be completed by the end of 2014.

<sup>11</sup> In accordance with the Danish industry agreement on sustainable wooden biomass, the documentation requirements must be fully phased-in in 2019. This means that 90 per cent of the wood chips and wood pellets are documented to comply with DONG Energy's sustainability requirements. The last 10 per cent must comply with DONG Energy's sustainability requirements, but must (as a minimum) only document that the legality requirement (requirement 1) has been observed. The reason why 100 per cent of the fuel's sustainability cannot be fully documented to be in compliance with every single one of DONG Energy's sustainability requirements is eg small suppliers which comply with the requirements, but have difficulties (resources) in incorporating the documentation processes necessary to prove compliance with all sustainability requirements. Furthermore, it may be biomass from forest storm damage etc.



# CERTIFICATION OF DONG ENERGY'S SUPPLIERS OF WOOD CHIPS AND WOOD PELLETS

To ensure that DONG Energy's suppliers of wood chips and wood pellets comply with the sustainability requirements and consequently the Danish industry agreement on sustainable wooden biomass, the suppliers must present the necessary documentation. For this purpose, DONG Energy is in the process of implementing a certification system. This takes place under the auspices of SBP where SBP's certification system for sustainable biomass in practice will be responsible for the supervision and certification of DONG Energy's suppliers.

Independent third party auditors will be responsible for supervising the suppliers who would like to become SBP certified. It is a requirement that the independent auditors are found suitable and are approved by SBP through a proven experience in certifying FSC and PEFC certified suppliers, and they must all pass a training course in the management and supervision of SBP standards.

To ensure that the certification is built on the most thorough and transparent basis, SBP will have an independent player carry out a risk analysis of the forest production conditions in the individual countries. The risk analysis is based on a comprehensive consultation process, involving independent experts in the individual countries, such as NGOs and academic experts in the area, in the process. In this way, the risk analysis of the individual country secures that the independent third party auditors responsible for the certification of DONG Energy's suppliers include and specifically focus on criteria and pitfalls relevant for investigation for the country and area in question.

The certification system only applies to suppliers of wood pellets until such time that the system is extended to handle suppliers of wood chips. Then, the certification of suppliers of wood chips will be implemented as part of DPSB.

The certification of DONG Energy's suppliers of wood chips and wood pellets will always comply with the latest version of SBP's certification system as it is expected that a new certification system such as SBP system will be continuously developed going forward. Today, suppliers of wood pellets can obtain SBP certification in two different ways:

## 1. Recognition of existing certification for sustainable wood (FSC/PEFC)

- The supplier presents documentation to an independent third party auditor stating that the wooden material used by the supplier for producing wood pellets has an alternate certification, either a FSC or PEFC certification. The auditor inspects the supplier of wood pellets on behalf of DONG Energy.
- FSC and PEFC are two existing international certification systems which are based, as a minimum, on the same sustainability requirements stipulated in DPSB and the Danish industry agreement on sustainable wooden biomass.
- If the wooden material is FSC or PEFC certified, it has previously been inspected by an independent third party auditor who has approved that the forest area, where the wooden material has been produced, meets the above sustainability requirements. The forest area certification is valid for five years.
- The forest area which has provided wooden material for the supplier of wood pellets must be inspected once a year by an independent third party auditor to ensure that the forest area meets the sustainability requirements. The inspection is carried out under the auspices of the FSC or PEFC schemes.
- The supplier of wood pellets must provide documentation of CO<sub>2</sub> emission and traceability of the wood pellets throughout the entire biomass value chain to an independent third party auditor who inspects the wood pellet supplier on behalf of DONG Energy.
- The supplier is awarded SBP certification if the independent third party auditor approves the documentation stipulating that the wooden pellet supplier uses FSC and PEFC certified wood material as well as documentation for CO<sub>2</sub> emission and traceability. The SBP certification is valid for five years, but the supplier must ensure that the documentation is approved by an independent third party auditor once a year in connection with an inspection visit in order for the supplier to keep his or her certification.

## 2. Supply Base Evaluation if the wooden material is not FSC/PEFC certified

- The supplier of wood pellets carries out an evaluation of the compliance with the sustainability requirements throughout the entire biomass value chain and is granted an SBP certification if an independent third party auditor can approve that the supplier is complying with the sustainability requirements. A certification is valid for 5 years.
- The evaluation focuses on the production of the wooden material used by DONG Energy's suppliers in the production of wood pellets. The evaluation is based on a number of defined indicators drawn up by SBP as well as indicators identified in connection with the national risk analysis. Each indicator focuses on a specific topic related to sustainable production, such as protection of biodiversity. Together, these indicators form the basis for enabling an independent third party auditor to assess whether the necessary legislation,

regulations, procedures and control mechanisms are observed and implemented. For example, the supplier must describe and document which procedures have been implemented to avoid that logging damages the groundwater.

- The documentation is presented to an independent third party auditor, and, based on this documentation, it is the responsibility of this auditor to evaluate whether the supplier is complying with the sustainability requirements. The independent third party auditor conducts an overall risk assessment of the supplier based on the individual indicators. The risk assessment is carried out by categorising the indicators in the following three groups (figure 2):

**Indicator with 'Low risk'**

**Indicator with 'Unknown risk'**

**Indicator with 'Known risk'**

## Supply Base Evaluation – if the raw material is *not* FSC or PEFC

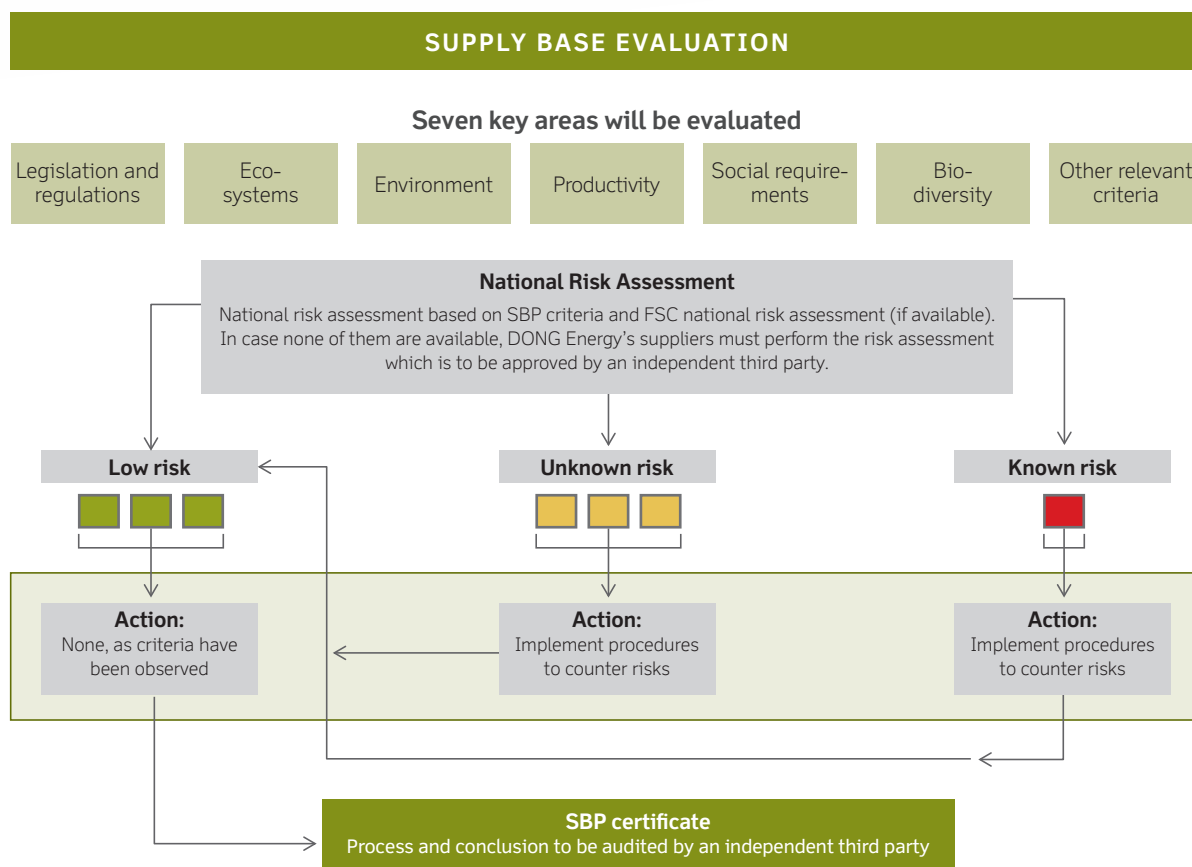


Figure 2: Supply Base Evaluation – System for the certification of the sustainable production.

#### **Indicator with 'Low risk'**

- If the independent third party auditor evaluates an indicator as 'low risk', there is a very limited risk that the supplier will not comply with the sustainability requirements in relation to the specific topic covered by the indicator, eg biodiversity.
- If the auditor evaluated all indicators to be 'Low risk', the auditor approves that the supplier is complying with the sustainability requirements.

#### **Indicator with 'Unknown risk'**

- If, in connection with the risk assessment, the independent third party auditor estimates that the documentation for one or more indicators is insufficient, the auditor categorises these indicators as 'Unknown risk' which means that the auditor is unable to evaluate whether the supplier is complying with the sustainability requirements.
- The auditor initiates a verification programme where the independent third party auditor evaluates the supplier's production conditions by personal inspection.
- In connection with the verification programme, the auditor must have access to the supplier's production area, and the supplier must present the documentation requested by the auditor if the supplier wants to be certified.
- The visit to the supplier is to ensure that the auditor can get sufficient insight into the production conditions to be able to change the categorisation of the indicator which was to be considered as 'Unknown risk' to either 'Low risk' or 'Known risk'.

- If the independent third party auditor evaluates all indicators as constituting a 'Low risk' at the end of the verification programme, the auditor can verify that the supplier is in compliance with the sustainability requirements and a certification is granted.
- If the independent third party auditor evaluates one or more indicators as constituting a 'Known risk' at the end of the verification programme, the auditor must implement the measures necessary to ensure compliance with the sustainability requirements. The process is described below.

#### **Indicator with 'Known risk'**

- If an independent third party auditor has evaluated one or more indicators as constituting a known risk, the auditor will inform the supplier about the parts of the production which are in non-compliance with the sustainability requirements according to the auditor's assessment.
- The supplier must then implement the measures necessary to ensure that the supplier is in compliance with the sustainability requirements.
- If the auditor hereafter assesses that the measures implemented are sufficient to ensure that the supplier is in compliance with DONG Energy's sustainable production requirements, the auditor approves the supplier.
- It is solely the independent third party auditor who evaluates whether or not the supplier's measures are sufficient. If the supplier is unable to implement measures of a sufficiently high quality, the supplier cannot obtain an SBP certification, and DONG Energy will no longer use this supplier.

## **FACTS**

FSC and PEFC are two existing global certifications ensuring sustainable and responsible forestry and improved living conditions for the local population in forests across the world. The two certifications are based on two international audit systems. If a supplier of wood would like to be either FSC or PEFC certified, the supplier must be able to document via one of the two control systems that he complies with the set sustainability requirements governing environmentally, socially and economically responsible forest production. A certification is valid for five years.

All FSC and PEFC certifications are made by independent third party certification bodies which are also responsible for inspecting wood suppliers annually to continuously ensure that the suppliers comply with the requirements for sustainability inherent in the two certifications.

## Documentation for CO<sub>2</sub> emission and traceability

As regards the part of the sustainability requirements relating to documentation concerning the limit value for CO<sub>2</sub> emission and traceability, the auditor evaluates this documentation in connection with the auditor's overall assessment of the supplier. The independent third party auditor assesses whether the data used as documentation for CO<sub>2</sub> emission and traceability by the supplier is valid and of a sufficiently high quality for the supplier to be in compliance with DONG Energy's requirements within these two areas. If the auditor cannot approve the quality of the documentation, the supplier cannot be certified and consequently cannot supply wood pellets to DONG Energy.

## Recertification

Every five years, the supplier of wood pellets must be recertified. This means that an independent third party auditor again assesses whether the supplier in question complies with the sustainability requirements. This is done by reviewing the certification process again. If the independent third party auditor assesses that the supplier still complies with the sustainability requirements, the auditor issues a certification to the supplier valid for the next five years. If the auditor assesses that there is a breach of the sustainability requirements, the supplier loses his certification and DONG Energy will terminate the cooperation with the supplier in question. In principle, the supplier can obtain the certification again by implementing the measures necessary to ensure that the supplier is once again in compliance with the sustainability requirements.

## Continuous inspection of the suppliers

To ensure that DONG Energy's suppliers of wood pellets are in continuous compliance with the sustainability requirements, an independent third party auditor will inspect the supplier annually. This applies to both the suppliers of wood pellets using FSC or PEFC certified wooden material in the production, and to the suppliers whose wooden material complies with the requirements for sustainability stated in the Supply Base Evaluation related to an SBP certification. The purpose of the inspection is to give the auditor the opportunity to identify, by personal inspection, any changes in the supplier's production conditions which may result in a breach of the sustainability requirements.

During the inspection, the auditor bases the assessment on the documentation which the supplier has submitted in connection with the latest inspection and reviews the documentation together with the supplier. The inspection gives the auditor an opportunity to ask the supplier questions which can contribute to identifying any changes in the production. Therefore, the auditor has access to new data and to the wood pellet production, if required.

If the auditor assesses in connection with the inspection that there is a breach of the sustainability requirements, the supplier loses his certification and DONG Energy will terminate the cooperation with the supplier in question.

Read more about the FSC certification, including FSC's requirement for environmental responsibility, social responsibility and economic responsibility on [www.fsc.org](http://www.fsc.org)

Read more about the PEFC certification, including PEFC's requirement for biodiversity, reforestation, social responsibility, protection of groundwater and soil conditions and legal harvesting of wood on [www.pefc.org](http://www.pefc.org)