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Introduction

The Atmospheric Fund (TAF) is a public agency established in 1991 by the City of Toronto and endowed by the City and the Province of Ontario. TAF works closely with stakeholders across the Greater Toronto and Hamilton Area (GTHA) to test and advance innovative programs to reduce greenhouse gas (GHG) emissions and air pollution. However, the views expressed in this submission do not necessarily represent those of the City of Toronto or other GTHA stakeholders.

TAF commends the Province for moving forward with the development of a new corporation focused on lowering one of the greatest barriers to large scale energy efficiency and GHG reduction activity – upfront capital. The following comments are intended to assist the Province with crafting a regulation that enables the corporation to accelerate the reduction of GHG emissions from major emissions sources, facilitate implementation and innovation, and de-risk low-carbon investments to mobilize private capital into this space.

<u>Summary of TAF Recommendations</u>

- Design the corporation to maximize potential for leveraging private capital
- Maximize synergy with existing or future programs administered by utilities and all levels of government
- Provide a clear mandate to focus on reducing GHG emissions from all sources in Ontario
- Within the buildings sector, require the corporation to serve all building types
- Provide the corporation with flexibility to adapt to evolving technology and market conditions
- Provide the corporation with the ability to use a wide range of financing tools
- Ensure transparency by requiring regular reporting on activities and outcomes
- Maximize the potential co-benefits of the corporation's programs

Recommendations in Detail

1. Design the corporation to maximize potential for leveraging private capital.

This corporation is a critical tool to provide public funds that can, and should, be leveraged to mobilize private capital. The importance of this activity should be conveyed in the corporation's mandate and in the preamble of the regulation. More importantly, the corporation must be designed in such a way as to facilitate the mobilization of private capital. The following two recommendations are intended specifically to enhance the potential for leveraging private capital:

- **Ensure the corporation is perceived as independent from undue political interference**

Section 8 of the draft regulation, obliging the corporation to comply with ministerial directives, is unnecessary and a danger to the real and perceived independence of the corporation. Appropriate governance and accountability measures have been established in the regulation to create an independent corporation. The Province retains appropriate oversight through appointment of the board of directors and the section 4 requirement to support the Climate Change Action Plan. The perceived independence of the corporation from political interference will be a critical concern for private investors

Recommendation: Remove section 8 from the regulation altogether

- ***Allow the corporation more flexibility in establishing subsidiaries***

Section 7(3) of the draft regulations requires express approval of the Lieutenant Governor in Council in order to establish any subsidiaries. The establishment of subsidiaries is a common business practice in the private sector and will likely be of particular importance in leveraging private capital. It would therefore be ideal if this requirement could be relaxed.

Recommendation: Amend section 7(3) to streamline the process of establishing subsidiaries.

2. Maximize synergy with existing or future programs administered by utilities and all levels of government.

While the proposed corporation will fill a critical role in the Province's Climate Change Action Plan, it must be acknowledged that a variety of other public or regulated entities already offer conservation programs, and the landscape of conservation programs will continue to evolve in the future. Currently, electric and gas utilities offer a range of conservation programs, for example. Municipalities are also engaged: for example, the City of Toronto's Home Energy Loan Program offers financing for residential retrofits through local improvement charges, and a number of Ontario municipalities are actively considering similar programs. Without active consideration of these external programs, there is a risk the corporation will duplicate existing programs and/or create confusion in the marketplace. The utility of the corporation would be maximized by consultation and collaboration with these other actors to ensure our collective effort at mitigating climate change does not occur in silos. The corporation has the potential to act as a “one-stop shop” for consumers, providing information on all available public programs (e.g. an EV incentive provided by MTO) to support climate change mitigation even if they are not administered by the corporation. We recommend that Section 6 include the requirement for the corporation to coordinate with other Ministries and utilities to avoid duplication of programs.

Recommendation: Include maximizing synergy with conservation and greenhouse gas reduction programs offered by other parties in Ontario as a program development priority under section 6(3).

3. **Provide a clear mandate to focus on reducing GHG emissions from all sources in Ontario.**

- **Make GHG reduction a primary objective for the corporation.**

Section 3(1) as it is currently written includes three distinct objectives for the corporation: stimulating the development of industry and businesses; furthering the deployment of technology; and reducing GHG emissions. Multiple objectives minimize the importance of GHG reductions as the ultimate objective of the corporation. This is exacerbated by the specific wording, which actually frames GHG reduction more as a characteristic of the technology to be deployed, rather than an objective in-and-of itself. In effect, the object statement confuses means and ends; deployment of technology is a means of reducing emissions, not an end unto itself.

Additionally, the object statement limits the corporation to emissions from buildings and industry, specifically excluding the largest source of emissions in Ontario (transportation), as well as implicitly excluding other significant sources (agriculture and waste). While buildings and industry should be the corporation’s immediate priorities, the regulation should not prevent the corporation from ever addressing other emissions sources which collectively account for nearly 50% of Ontario’s emissions. The program development criteria in section 6 are sufficient to ensure that buildings and industry remain the priority sectors. At a minimum, the corporation should have flexibility to address other emissions sources where they intersect with buildings and industry (e.g. EV charging and vehicle-to-grid infrastructure in buildings).

Recommendation: Amend section 3(1) to position GHG reduction as a primary objective and move technology deployment to a sub-paragraph; delete section 3(2) entirely.

Example language:

3. (1) The object of the corporation is to stimulate the development of industry, trades and business undertakings in Ontario that further ~~the deployment in Ontario of technology that is commercially available and that~~ **the transition to a low-carbon economy, and to** reduce greenhouse gas emissions ~~from buildings and from the production of goods,~~ **in Ontario,** by

(a) Supporting the deployment of commercially available technologies that reduce greenhouse gas emissions;

- **Make GHG reduction the primary program development criteria**

The order of importance of the priorities set out in Section 6(3), as they are currently listed, may lead to confusion regarding the corporation's primary focus, which should be to maximize GHG reductions. We recommend that Paragraph 1 should be listed as the most important priority for program development with all other priority considerations subordinate to paragraph 1 to ensure that any programs developed by the corporation serve the ultimate objective of reducing GHG emissions.

Furthermore, the GHG criteria should include consideration of the *additionality* of the emissions reductions being supported. Additionality refers to the question of whether the emissions reductions would be likely to occur absent the corporation's program(s). While financial incentives are critical tools for advancing climate action, incentive programs can be subject to a high rate of *free-ridership*[1]. The same can be true of financing programs. If the corporation develops programs without regard to limiting free-ridership, a high proportion of the funding will support projects that would have occurred anyways.

Recommendation: Amend section 6(3) make GHG reduction the top priority and include consideration of additionality.

Example language:

(3) In developing its programs, the corporation shall determine an appropriate balance among the following priorities, with particular emphasis on the ~~priorities~~ **priority** set out in paragraph~~s~~ 1 ~~and 2~~:

[1] A free-rider in this context is a legitimate program participant who would have undertaken the project (e.g. a retrofit) anyways even if the incentive was not available.

1. Maximizing absolute greenhouse gas reductions **that are additional to what would likely have occurred without the program(s).**

4. Within the buildings sector, require the corporation to serve all building types.

If the aim of the corporation's programs is to maximize absolute GHG emissions reductions, it should develop programs for a broad range of building types. The draft regulation requires programs to be developed for residential buildings and industry, but is silent with respect to commercial buildings and buildings owned by the broader public sector, which emit considerable GHG emissions and would benefit from access to more financing options. It is also unclear whether the corporation is required to develop programs for multi-residential buildings, as the term "residential" is often used to apply exclusively to single-family homes.

Recommendation: Amend section 6(1) to include reference to commercial, multi-residential, and broader public sector buildings; or alternatively, amend section 6(2) to explicitly reference these other building types as areas where the corporation may develop programs.

5. Provide the corporation with the flexibility to adapt to evolving technology and market conditions.

- **Expand the corporation's object to be broader than technology deployment**

While there is no doubt that adoption of low carbon technologies is critical to achieving Ontario's climate targets, technology deployment is not the sole means to achieving GHG reductions. The draft regulation places too much emphasis on technology deployment, potentially limiting the corporation's ability to support other GHG reduction strategies. For example, the Climate Change Action Plan prioritizes transitioning to near-net zero new construction. One of the single most critical elements of a net-zero building is exceptionally high airtightness. This level of airtightness is not typically achieved through innovative technologies, but through intensive training of the trades involved in construction, as well as aggressive quality assurance processes including air tightness testing at multiple stages of construction. A singular focus on technology deployment is guaranteed to fail in supporting the transition to net-zero new construction. The object of the corporation should not preclude supporting other GHG reduction strategies like capacity building and process improvements; technology is but one of several ways to generate GHG emissions reductions and the corporation should be required to consider all effective options.

Recommendation: Replace references to technology in the current sections 3(a) and 3(d) with references to GHG emissions reductions, and include reference to capacity building and addressing market barriers.

Example language:

(b) providing persons in Ontario with information and services ~~related to~~ **that facilitate greenhouse gas emissions reduction actions** ~~that technology~~;

(d) researching **and addressing** market barriers inhibiting ~~the deployment of that technology~~ **greenhouse gas reduction actions, including through support for capacity building and training activities; and**

- **Provide flexibility to adjust specific technology deployment priorities as market needs and technology options evolve**

As technologies evolve and new technologies become available, the technology deployment priorities of the corporation will also need to evolve. The regulation is unnecessarily prescriptive in setting out specific priority technology areas to the seeming exclusion of all others, especially as it provides no mechanism for expanding or revising technology priorities over time. The current wording could limit the scope of eligible GHG-reduction activities and discourage private investors if the perception is that this corporation will focus exclusively on the technologies listed in Section 6(2). TAF supports referencing fuel-switching and deep energy retrofits, because these strategies are critical to achieving Ontario's climate targets and are not likely to advance without new program supports. However, we suggest they be listed as independent priorities, while keeping the technology priority broad enough to encompass a wide and evolving range of technologies. The corporation itself would then develop and maintain a prioritized list of technologies that support greenhouse gas reduction. The references to technology in almost all the other priorities are also unnecessary, as all of these priorities should be broader than technology.

Recommendation: Amend section 6(3)2 to include a more general technology priority, add new paragraphs to reference fuel switching and deep retrofits, and replace references to technology sections 6(3)3, 6(3)4, and 6(3)5.

Example language:

2. Stimulating the use of technology described in subsection 3 (1). ~~that supports,~~

~~i. fuel-switching technologies that reduce reliance on fossil fuels,~~
~~ii. energy storage, and~~
~~iii. deep energy retrofits.~~

3. Stimulating economies of scale that will further the **corporation's object** ~~deployment of technology described in subsection 3 (1)~~.

4. Stimulating private sector financing that will further the **corporation's object** ~~deployment of technology described in subsection 3 (1)~~.

5. ~~Stimulating the use of technology described in subsection 3 (1) to~~ addressing specific needs of low-income households.

6. Provide the corporation with the ability to use a wide range of financing tools.

The corporation is uniquely positioned to be able to pursue a range of financing solutions to support its object. While "engaging in financing activities" is referenced in section 3(1)(c), it would be prudent to provide further detail in the regulation of the types of financing activities the corporation may deploy. As written, it is unclear whether the corporation would be authorized to engage in corporate finance (to stimulate the development of industry, trades, and business undertakings), project finance (to support technology deployment), or both. Moreover, the term "financing activities" may be interpreted narrowly to refer to lending or equity investments, to the exclusion of other important financing strategies such as credit enhancements. Financing tools, if designed properly, can spur market development and growth, not only within the industries receiving capital but also amongst the private investment sector in Ontario. To do so, the corporation must be provided with clear authority to explore and utilize a wide range of potential financial solutions, and to develop its own financial innovations.

Recommendation: Consider including in the regulation a non-exclusive list of financing activities that the corporation may utilize to further its object. At minimum, the list should include lending to individuals and businesses, provision of credit enhancements, equity investments, and the sale of financial assets.

7. Ensure transparency by requiring regular reporting activities and outcomes.

We recommend that the regulation include provisions with regard to regular public reporting of the corporation's activities, including results and future priorities. While a section requiring the corporation to undertake regular audits exists, this assesses only the accounts and financial transactions of the corporation. Broader reporting on the corporation's activities and impact would provide greater transparency and accountability.

8. Maximize the potential co-benefits of the corporation's programs

There is growing recognition that climate change mitigation strategies have enormous potential to generate multiple benefits beyond energy cost savings and GHG reductions. According to the International Energy Agency the non-energy, non-GHG benefits of energy efficiency often account for the majority of the total benefits[2]. In the context of the proposed corporation, these co-benefits could include: direct, indirect and induced job creation; improved Indoor Environmental Quality and related health and productivity impacts; reduced need for energy infrastructure investments; improved industrial productivity; climate change adaptation and improved resilience; and poverty alleviation.

While the regulation rightly establishes that funds from the Greenhouse Gas Reduction Account must be used to support the reduction of greenhouse gas emissions, the corporation could be directed to consider opportunities to maximize such co-benefits in the development of its programs. In fact, section 6(3)5 already includes poverty alleviation as a priority. This paragraph could be expanded to reference a broader range of public benefits.

Recommendation: Amend section 6(3)5 to include a broader range of public benefits that could be considered in program development.

Example language:

5. Stimulating ~~the use of technology described in subsection 3 (1) to~~ **co-benefits including:**
    i. **Job creation**
    ii. **Improved indoor environmental quality that supports Ontarian's health, wellbeing and productivity;**
    iii. **Reduced need for new energy infrastructure**
    iv. **Improved industrial productivity**
    v. **Climate change adaptation and improved resilience;**
    vi. **Addressing** specific needs of low-income households.

[2] International Energy Agency, *Capturing the Multiple Benefits of Energy Efficiency*, 2014.

Conclusion

TAF appreciates the opportunity to provide feedback on the proposed regulation. We also look forward to continuing opportunities to provide input on the corporation's program development and strategic direction. The proposed corporation has the potential to have a transformative impact, accelerating the transition to a low-carbon economy, and we encourage the province to move forward with the establishment of the proposed corporation. We welcome the opportunity to provide further input and are available for in-person meeting with Ministry staff and officials.

Sincerely,

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The Atmospheric Fund