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Getting More Bang for Ontario's Energy Efficiency Bucks

Background & Objective

- There are many opportunities to **generate financial returns (ROI) from retrofits** of commercial, residential, institutional buildings and industrial facilities.
- In addition to operating savings, retrofits create good jobs ranging from professionals (engineers, energy managers) to trades (electrical, mechanical, insulation) to labourers.
- This brief presents the Minister of Finance with recommendations for how the Ontario Government can achieve more impact – energy savings, carbon reduction, jobs – from the public funding provided for energy efficiency retrofits and engage capital markets in the transition to a low-carbon economy.

The Problem

- Granting public funds (including cap & trade revenues) for basic retrofits encourages projects that could/should be done with some or no public funding. This 'free-ridership' applies in all sectors, including BPS, social housing, etc.
- Grants "crowd out" other investors who can't compete with public capital. There will never be enough public capital to support all cost-effective energy efficiency, so Ontario needs engaged private capital providers.
- There are competing demands for public funds whether for social housing, schools, social services – all public dollars need to be used effectively.
- Understanding of financing and financing capacity within the public sector is limited versus standard funding models (ie: TPAs, capital grants)

There are Solutions

- **Leverage and/or Revolve** – two options to make public dollars go farther:
  - Require that recipients of public funds contribute at least 50% of the total project value with the balance secured from commercial capital providers.
  - Provide public funding as very low interest loans, not capital grants.
- **Stack** – to accelerate carbon reduction (given the low price of natural gas) and facilitate private investment in the commercial elements, public dollars should be restricted to non-commercial elements of retrofits, ie: measures with > 8 year payback.

Recommendations

1. **Establish a leverage policy and expectation**
   - Require all energy efficiency financing to be leveraged
   - Set underwriting guidelines, including exemption criteria.
2. **Add financing capacity**
   - Support all Ministries providing funds for energy efficiency with retrofit-relevant financing expertise, ie: project intake, due diligence and underwriting skills
   - Or, ideally, provide this capacity centrally
3. **Attract co-financing**
   - Make it easy for capital market participation by offering strategic credit enhancements (loan guarantees or loss reserve), project origination and due diligence services.

About The Atmospheric Fund (TAF)

TAF is a non-profit corporation established in 1991 and endowed by the City of Toronto and recently the Province of Ontario to innovate, demonstrate & de-risk, and help scale urban solutions to climate change in the Greater Toronto & Hamilton Area. As a leader in impact investing, TAF has developed and deployed specialized financing approaches to un-lock low-carbon investment opportunities, with a priority on generating ROI from energy efficiency in both new construction and existing buildings.