TORONTO

STAFF REPORT
ACTION REQUIRED

Supplementary Report - Repurposing of the Sustainable Energy Program and New Funding Model for City Energy Projects

Date:	October 22, 2012
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	P:\2012\Internal Services\Fac\Ex12018Fac- (AFS 16569)

SUMMARY

This supplementary report responds to the Executive Committee request of October 9, 2012 for further information that summarizes the findings and conclusions of a brief consultation process undertaken by the Facilities Management Division with Sustainable Energy Funds stakeholders, addresses changes to the program and options for continuing the Sustainable Energy Funds with increased financial returns to the City.

RECOMMENDATIONS

The City Manager recommends that:

This report and report EX23.14 "Repurposing of the Sustainable Energy Funds and New Funding Model for City Energy Projects" dated September 24, 2012, from the Deputy City Manager and Chief Financial Officer be referred to the Budget Committee for consideration during the 2013 Capital and Operating Budget deliberations.

Financial Impact

The financing of the Sustainable Energy program will not affect the City's internal sustainable energy program objectives. Refined business case analyses for internal City energy projects will be financed through recoverable debt, based on generating financial returns through reduced energy expenditures. The City will simply be changing the financing mechanism for the sustainable energy program.

The Sustainable Energy Reserve Funds will be reallocated to the Emerald Ash Borer (EAB) infestation which is a critical priority for the City that impacts the City's tree canopy. The necessary funding to address the EAB infestation is an operating budget expense as trees are not capital assets. The Parks, Forestry and Recreation Division 2013 Operating Budget has been developed based on the assumption that the Sustainable Energy Funds report will be adopted. If the Sustainable Energy Funds are not used to address the tree canopy shortfalls as recommended, then the only alternative funding option would be derived from a combination of budgetary (tax) increases, and/or expenditures deferrals. The Emerald Ash Borer program is likely to be significantly impacted by any change or delays in this decision.

The Acting Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting on October 9, 2012, the Executive Committee deferred consideration of EX23.14 entitled "Repurposing of the Sustainable Energy Funds and New Funding Model for City Energy Projects" until November 5, 2012 and requested the City Manager to report back at that time on:

1. Required program changes necessary only after consultations with the various stakeholders including building owners and managers, Toronto Hydro Electric Systems Limited, Enbridge Gas Distribution, City Agencies, Boards, Commissions, Corporations and Divisions.
2. All other feasible options currently being considered for the funding of the Emerald Ash Borer Infestation, with the objective of continuing the Sustainable Energy Funds with increased financial returns to the City.
3. The previously requested report on the merits of the Sustainable Energy Funds.

COMMENTS

In response to the request of Executive Committee, staff undertook a brief consultation process with twenty-one stakeholders on the Sustainable Energy Funds Program. A list of the respondents is attached as Appendix 1 titled "Sustainable Energy Funds Stakeholders Consultation – List of Respondents and questionnaire ". The 21 respondents noted in Appendix 1 included representation from the key sectors which the Sustainable Energy Funds serve (Municipal, Academic, Social and Health Care Services, Not-for-Profit and Private Sectors). Appendix 1 also includes the questionnaire which guided the consultations with stakeholders.

All respondents were consistent in expressing the opinion that the Sustainable Energy Funds have been an extremely valuable instrument to assist with the implementation of energy conservation projects. Additionally, a consensus of opinion from the respondents suggested that without the Sustainable Energy Funds, energy savings projects would not have commenced, the scope of work would have been reduced significantly or the energy savings projects would have been delayed for a number of years.

One of the primary reasons for establishing the Sustainable Energy Funds was to improve the target market's access to financing and allow building owners and managers to proceed with more comprehensive project components which would not be implemented without financing assistance. Energy conservation and renewable energy projects create significant direct, indirect and induced employment and other benefits within the City. Appendix 2 details the merits of the program.

The City recently undertook a review of Environment and Energy Functions as well as a review of the funding model currently in place for the Sustainable Energy Funds. Both of these reviews streamline and rationalize the City's approach to achieving its environmental and energy objectives. These reviews resulted in recommended changes that will enable the City to focus scarce resources on its internal priorities while allowing the Toronto Atmospheric Fund more ability to apply its resources to the external components of the City's energy program.

The proposed internal changes to the City's program include:
1) centralizing energy and environmental policy coordination and implementation across the City;
2) refocusing funding of internal energy initiatives from recoverable debt through the capital budget program so that funding is available for projects with modest expected return on investment;.
3) channelling limited reserve funds to the protection of the tree canopy which is a critical environmental initiative and to avoid operating/tax increases to finance the Emerald Ash Borer program.

The proposed external changes include:
1) through a supplementary report from the City Manager it is recommended that the amount of TAF funds available to invest externally be increased to 60%. Specifically that the range of assets permitted in mandate-related loans and financing (private direct lending/investment) rise to 60% from the 40% previously approved by Council in 2010. This will allow considerable funding to be redirected to external projects and applications;
2) rescinding TAF's requirement to provide mandatory funding to energy projects internal to the City;
3) rescinding the requirement to provide funding to cover the City's participation fees in the Greater Toronto Area Clean Air Council.

Should these changes be approved by City Council it further reinforces the role of TAF as the primary program area providing grants and loans to external groups and organizations for energy, environment and climate change related objectives as set out in the TAF Act. Further work will be undertaken between the City and TAF and the City and Toronto Hydro to identify how their long-range strategies and objectives should relate to the City's environmental and energy objectives.

It must be emphasized that the Sustainable Energy program objectives for City initiatives will not be impacted by the revised financing mechanism.

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SIGNATURE

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ATTACHMENTS

Appendix 1: Sustainable Energy Funds Stakeholders Consultation – List of Respondents and questionnaire
Appendix 2: Merits of the Sustainable Energy Funds

Appendix 1: Sustainable Energy Funds Stakeholders Consultation – Summary of Responses, List of Respondents and Questionnaire

Consultation responses are summarized thematically as follows:

Institutional Stakeholders:

Institutional stakeholders commented that access to capital is now more difficult and therefore the Sustainable Energy Funds are a key alternative source of capital for energy projects. Respondents also indicated that, government support is rapidly diminishing. Furthermore, stakeholders depend on return on investment to provide support for energy projects. Given that the investment returns have been at historic lows, the Sustainable Energy Funds is a much needed alternative source of support that can be used to leverage additional project financing for energy conservation and renewable energy projects.

It was expressed by respondents that interest free loans from the Sustainable Energy Funds make good business sense.

Not-for-Profit Stakeholders:

Not-for-Profit stakeholders concurred with the institutional stakeholders' opinions but also suggested that the Sustainable Energy Funds Program should not be capped at 49% of the total project cost as in many cases a higher cap would allow more projects to be implemented. They also commented that procedures respecting the processing of applications should be streamlined to accelerate the approval process.

Respondents further provided a consensus view that access to the Sustainable Energy Funds empowered the participants to plan and implement holistic energy retrofits where the short payback measures combined with the Sustainable Energy Funds allowed deeper, more sustainable work to be done.

List of Respondents:

1. The Board of Governors of Exhibition Place
2. Toronto Artscape Inc
3. Facilities Management Division – Energy & Waste Management Office
4. Parkdale United Church Foundation
5. Sunnybrook Health Sciences Centre
6. Toronto District School Board
7. Brookbanks Non-Profit Homes Inc.
8. West Park Healthcare Centre
9. Harbourfront Centre
10. Toronto Community Housing Corporation
11. Toronto Hydro-Electric System Limited
12. Toronto Catholic District School Board
13. Toronto French Catholic School Board

14. Victoria University in the University of Toronto
15. Energy Services Association
16. Bio Char Foundation
17. Greening Sacred Spaces
18. Evergreen Brickworks
19. The University of Trinity College in the University of Toronto
20. Tower Renewal Office
21. Parks, Forestry & Recreation Division

Questions responded to by Sustainable Energy Funds stakeholders:

1. What was the value of Sustainable Energy Funds to your organization/project(s)?
2. What would have happened to your project(s) without the Sustainable Energy Funds?
3. How would your actions have been different without the support of the Sustainable Energy Funds?
4. Is access to capital to support your project(s) easier now that it was 2 to 3 years ago?
5. What changes would you suggest to the Sustainable Energy Funds?
6. Would your organization be prepared to submit written comments respecting your views on the Sustainable Energy Funds?

Appendix 2 Merits of the Sustainable Energy Funds

The Sustainable Energy Funds program follows the value-based approach to project/program development known as the "Three-Pillar Success Criteria". The Three-Pillar Success Criteria are: (i) Business Sense (Return on Investment + Economic Growth + Risk Mitigation, etc.) (ii) Increased Energy Security (Energy Adequacy and Reliability), and (iii) Environmental Benefits (Reduced Environmental Footprint and the creation of tradable Carbon Credits).

Facilitation of Partnerships

The City's revolving loan funds programs combined with the facilitation of 3rd party financing, including cases where no City funds are loaned, have leveraged private sector investments of over $850 Million through the Better Buildings Partnership to date. The observed leveraging ratio is in the range of ten to one, meaning that for every dollar the City causes to be loaned, private and not-for-profit sectors energy conservation projects attract ten times this amount in 3rd party financing for the full implementation of the projects.

There are two main leveraging strategies used by the City:

The City's revolving loan funds help to allow the implementation of projects that are much larger in scope with additional investments. A comprehensive suite of supporting services are also provided to the sector to ensure that program participants remain engaged and to encourage the industry to continue to plan, develop and implement more projects. This type of leveraging occurs primarily in the planning and implementation of private sector projects. Not-for-profit projects have been observed to offer a lower Ontario Power Authority: leveraging ratio. City Agencies, Boards, Commissions, Corporations and Divisions offer the lowest leveraging in the range of one to one or slightly higher.

In the second strategy, the City provides a suite of services to the buildings sectors which includes; pre-audit services, energy modelling and simulations, facilitation of energy performance contracting (including 3rd party financing), project pre-evaluation, technical services, calculation and coordination of financial incentives payment, advisory services regarding Ontario Power Authority and Toronto Hydro-Electric System Limited program rules and guidelines. This strategy also involves the provision of value added services such as technical assistance, project post-implementation evaluation, 3rd party measurement and verification services, case histories, promotion and the City's recognition of the achievements of participants. This leveraging strategy has enabled the Better Buildings Partnership to achieve 90 MW of contracted electricity conservation in the city, enabling electric connections equivalent to the construction of an additional fifteen new multi-residential mixed-use buildings approximately 40 storeys high (the size of the Festival Building developed by The Daniels Corporation) to be constructed in Toronto.
Ontario Power Authority:

Since inception, the Sustainable Energy Funds have served as a means to attract partnerships with other entities such as the Ontario Power Authority. A partnership agreement which amounted to approximately $40 Million in new revenues to the City was executed between the City of Toronto and the Ontario Power Authority for the period 2006-2010. This partnership proved to be very successful and resulted in the City of Toronto meeting and exceeding its target of 90MW of electricity conservation which form the part of the foregoing agreement.

The City has seen substantial and sustained growth in energy demand as new multi-residential developments are built across the City. As well, existing buildings place greater energy demand on the electricity system as they age. This increase in demand resulting from growth and aging buildings, has and will continue to impact the capability of the electricity infrastructure. Implementation of sustainable energy initiatives, with the participation of the Sustainable Energy Funds, reduces the demand on the system and allows for growth, deferring the need for incremental capital investments in new electricity infrastructure and supply sources. Energy sustainability initiatives (such as energy conservation, demand response, district energy and renewables, etc.) are the most expeditious ways to provide utility capacity for new initiatives in a constrained environment.

Toronto Hydro:

A similar partnership agreement which amounted to approximately $2 Million in new revenues to the City, was executed between the City of Toronto and Toronto Hydro Electric System Limited for the years 2011-2014, which also recognized the benefits of leveraging the Sustainable Energy Funds to gain greater participation rates and higher technical penetration in support of Toronto Hydro's energy conservation targets and the City's Sustainable Energy Plan.

Conservation and Demand Management initiatives supported and leveraged by instruments, such as the Sustainable Energy Funds, serves to allow more economic development under these conditions. Assessment growth is a critical component for the City's fiscal sustainability. The Sustainable Energy Funds play an important role in reducing electrical consumption and increasing capacity available for new development, in effect, allowing new development and residents without increasing overall electricity demand.

Ontario's Long Term Energy Plan forecasts residential and small business electricity bills to increase by 3.5 percent annually over 20 years and industrial rates are forecasted to increase by 2.7 percent annually over the same timeframe.[1] The Sustainable Energy Funds supports energy efficiency improvements which provide significant utility cost savings to participants and allows energy cost savings to remain in the local economy.

[1] http://www.mei.gov.on.ca/en/pdf/ en.pdf MEI_LTEP_