

Chief Executive Officer's Report

Date: November 7, 2023
To: Board of Directors of the Toronto Atmospheric Fund
From: Chief Executive Officer

GOVERNANCE MATTERS

Risk Register

The following highlights the most notable risks for this period and our responses based on senior management's quarterly review of the anticipated risks. There is no material non-compliance in respect of The Atmospheric Fund's (TAF) legislative, regulatory or contractual obligations of which I am aware.

- Financial risk: There is a significant capital market downturn. While not a significant or consistent downturn, markets were volatile and the portfolio down year-to-date; more detail in the Q2 and Q3 reports (Item TA 4.3).
- Operational risk: Staff capacity and/or governance capacity are inadequate to deliver on TAF's mandate. Bench strength has been incrementally constrained due to several departures. We have recently completed hiring for one vacant and one new position and are in process for a second vacant role. Two staff have been on parental leave, and another is upcoming; there is no plan or need for backfilling these at this time. Capacity on both the Investment Committee and Direct Investment Committee has been bolstered which will help the impact investing team and Board decision-making.
- Operational risk: IT security. In response to increased phishing, staff emails have been removed from the website to reduce risks of email abuse/spam attacks. On a positive note, internet connectivity challenges have been resolved in the move to Union Station.
- Reputational: Actions taken by TAF staff, Board or Committees or by Low-Carbon Cities Canada (LC3) colleagues damage TAF's reputation in the eyes of its stakeholders, funders and/or the public. TAF's Retrofit Accelerator works with a growing number of private rental property owners/operators and with concerns about rising rents the team will increasingly need to be clear about how retrofits can mitigate costs, how benefits can be shared, and that public funds must not be part of above-guideline increases.

TO/TAF Governance

Most of the governance updates approved by the TAF Board and City Council in 2022 are being operationalized. Two outstanding items are currently underway: staff are

actively working with a consulting firm, Sense and Nous, to develop a Purchasing Policy. TAF's senior management team will be reviewing the draft policy in November, and input from Board members is welcome; please reach out if you would like to be engaged in the early review process. Work is also underway to develop a Debt Policy. Completion of both Policies for Board consideration and approval is targeted by February.

ON/TAF/TO Transfer Payment Agreement (TPA)

To the best of my knowledge, this confirms that TAF is in compliance with the terms of the Transfer Payment Agreement.

FCM/TAF/TO Funding Agreement (FA)

Discussions are under way regarding the review of the Funding Agreements (FAs) between the Federation of Canadian Municipalities (FCM) and each of the LC3 centres. The focus of the review is to update a handful of clauses, particularly those related to fund matching and leverage requirements which TAF is not subject to as we were considered to have met them from the outset via the Toronto and Ontario endowments. The LC3 network is also exploring the opportunity to simplify the FCM reporting process in a way that fulfills the Government of Canada's expectations while improving administrative efficiency. Staff will update the Board and City colleagues and determine if TAF's trilateral FA needs to be re-opened.

STAFF AND OPERATIONAL MATTERS

TAF has moved from 75 Elizabeth Street to Union Station. While a move was anticipated within several years, this was accelerated to make way for a warming centre and undertaken in just seven weeks with the support of all staff and ModernTO. The new office has already improved our operating environment and will allow us to update our hybrid work policy. If you're nearby, please come in for a visit!

TAF is re-hiring Coordinators for the Policy, Communications and Retrofit Accelerator teams. We have been able to extend contracts with our Impact Investing Intern, Caelin Palmer and Campaigns and Communications Intern, Mirha Syed to December and are benefitting significantly from their contributions.

STRATEGIC PROGRAMS

Accelerating Retrofits (including TAF's Retrofit Accelerator)

TAF has been conditionally approved to receive just over \$13 million from Natural Resources Canada's (NRCan) [Deep Retrofit Accelerator Initiative](#). The process was competitive with over 100 applicants and only 11 initiatives selected, including the LC3 centres in Metro Vancouver and Calgary/Edmonton. The workplan and budget are being updated and with the aim of having a contribution agreement completed by the end of the year. 2024 is shaping up to be a very busy and exciting year for TAF's Retrofit Accelerator!

In addition to operational funding for Retrofit Accelerator, TAF continues to seek funding – capital and operating – for specific deep retrofit projects. We recently supported the development of multi-million dollar applications to [NRCan's Greener Neighbourhoods](#)

[Pilot Program](#) with Toronto Community Housing Corporation (TCHC) and CityHousing Hamilton (CHH), both for ambitious [Energiesprong](#)-like demonstration projects that include prefabrication and have the potential to be applied broadly in TCHC's and CHH's portfolios.

The Retrofit Accelerator team is continuously originating potential retrofit projects, recognizing that a large funnel is needed in order to achieve ambitious project implementation targets. For instance, three new potential electrification projects are in exploration phase: a condominium, a co-op, and a private apartment building totalling nearly 500 homes. The condominium will include our first Enhanced Reserve Fund Study (ERFS) - a reserve fund study that includes capital planning for a decarbonization pathway – which will be leveraged to other potential projects.

Electrification of Transportation

TAF's [EV Station Fund](#) continues to support the rollout of electric vehicle (EV) charging infrastructure across the Greater Toronto and Hamilton Area (GTHA) by providing rebates for up to 50% of project installation costs. The initial \$2M funding tranche received from Natural Resources Canada has been fully allocated and about 40% of the \$3M second tranche. Our efforts to prioritize multi-family buildings where high-mileage “ride-hailing” drivers reside is bearing fruit; the 14 multi-family projects approved since the EV Station Fund's re-launch include over 70 residential units with at least one ride-hailing driver.

In October, Toronto City Council approved a strategy which will require the vehicle-for-hire sector (which includes taxis, limousines, and private transportation companies such as Uber and Lyft) to fully transition their fleets to zero emissions by 2030. TAF advised on the development of the strategy and will continue to work with City and private sector partners to ensure that drivers have affordable access to the EVs and EV charging needed to make this strategy a success.

Electricity Systems

TAF issued its first [request for grant proposals](#) in August, targeting the design, development, and/or demonstration of demand-side distributed energy resources (DERs). Further details on this initiative are provided in TAF's Grant and Program Allocation Recommendations. Staff will integrate the learnings from this call into our future grants-related work.

The team continued to engage and advise on multiple electricity-related policy files, including the Federal Clean Electricity Regulations (detailed under Climate Policy), Ontario's post-2024 conservation and demand management (CDM) framework (see [TAF's submission to the Ministry of Energy](#)), and the potential build and/or expansion of multiple gas-fired electricity generating plants in the GTHA, including advising municipal staff and councils when requested.

Another avenue through which TAF aims to demonstrate, de-risk and scale DERs focuses on rooftop solar, and where relevant solar + storage, in the GTHA. To date this has included broad engagement with stakeholders in this ecosystem, identifying barriers to adoption, and initiating program design work that will carry into next year. We also

continue to support Toronto Hydro, in collaboration with the City of Toronto, in advancing its Climate Action Plan, including participation in a solar working group.

Climate Policy

The Zero Emission Vehicle Mandate that is being proposed was a notable piece of engagement in which TAF's Policy and Research & Innovation teams worked together and from Government of Canada data massively expanded the health benefit calculations of the Government for this regulation by almost \$90 billion in health savings. Similarly, TAF has been working closely with a variety of stakeholders including the City of Toronto to advocate for a strong federal Clean Electricity Regulation. Detailed comments on the draft regulation were submitted in November, focusing on the need for rigorous carbon quantification and for exemptions to the standards to be limited and phased out as quickly as possible. TAF's comments on Ontario's proposed Clean Energy Credits regarding how to ensure that funds raised would be used for new, zero-carbon electricity – referred to as “additionality” -- were incorporated in the final policy and continuing to assist Mississauga and Caledon in their Green Development Standards (GDS) development.

Research & Innovation

The Research & Innovation team supported the third grants round by evaluating ten applications and updating our technical review process. We quantified projects that included energy coaching services, building resiliency measures, embodied carbon for below grade parking spaces, and public charging in school parking lots. Also, as part of the targeted call for DERs, we helped evaluate the potential carbon reduction impact of six projects.

We developed the Building Performance Standards [policy primer](#) for municipalities in the GTHA, which was published and presented at the Dan Leckie Forum, held on October 10th. The primer included five case studies, a discussion of benefits, and best practice recommendations for policy design and implementation. The team was also invited to present two topics at the 2023 International Emissions Inventory Conference in Seattle, held September 26-29th. We presented our research on monetizing the health co-benefits of zero emission vehicles and impacts of fugitive methane on carbon inventories.

The team has finalized the analysis for our annual carbon emissions inventory and presented our 2022 findings to city staff at Peel, York, Hamilton, Halton, Toronto, and Durham. The team has also been invited to present to several municipal climate change working groups later this year. Design updates are underway and the 2022 carbon inventory will be published on November 21.

Communications & Campaigns

The Dan Leckie Forum, held October 10, convened over 50 representatives from GTHA municipalities, community and industry groups, to advance Building Performance Standards in the GTHA. The forum included case study presentations, a legal authority review, and insightful discussions on the challenges and opportunities of building

policies, including market readiness, affordability and equity. A primer was developed that provides an overview of the approaches and value proposition.

A new [Retrofit Accelerator web page](#) has been launched to streamline the user experience for building owners interested in advancing a deep retrofit and increase lead generation.

Recent TAF communications has included on an urban perspective [blog](#) on the federal proposed Clean Electricity Regulations, a [blog explainer](#) about distributed energy resources, a [media release](#) on our Kite Mobility investment, and a [statement](#) championing Toronto's acceleration of its Building Performance Standards policy.

Recent media coverage featuring TAF experts includes references to our inventory and work on gas plants in [The Pointer](#), industry publications about our [investment in Kite Mobility](#), CBC coverage of our work with City of Toronto on a vehicle for hire bylaw in [English](#) and [French](#), and [more can be found on our website here](#).

Impact Investing

The three recently-appointed members of the Direct Investment Committee participated in an orientation session in September and joined their first meeting in October.

A strategic discussion about the future positioning of TAF's direct investment portfolio provided the staff with some guidance including:

- Consider ways to protect ourselves from having deals that TAF develops scooped up by other investors (e.g. commitment fees).
- Explore opportunities for first-loss positions in Special Purpose Vehicles (SPVs) to attract more capital.
- Aim for larger investments considered in the three million range in TAF capital.
- Focus on opportunities and market gaps where TAF has a unique advantage, applying the concept of additionality.
- Maintain flexibility with sectoral/focus area allocations; ie: guidelines rather than hard targets.
- Explore opportunities to manage and/or mobilize more funds, including co-investments, separate funds.

To reduce barriers for adoption of EVs in the vehicle-for-hire (VFH) sector, which will spark demand for public fast charging investments, provide more public exposure to EVs and accelerate the adoption of EVs overall, work has progressed in developing an innovative financing mechanism, in consultation with a major VFH company. Agenda Item TA.4.8 describes the proposed investment to advance a financing that covers the incremental cost of purchasing an EV over internal combustion engine vehicle.

As part of our objective to stimulate the goods, services and capital needed to implement retrofits we have been engaging with several major financial institutions to

make commercial scale retrofit financing available. A couple are translating into functional collaborations and work to mobilize private capital will continue. .

In partnership with co-investment partner Good & Well TAF participated in an Impact Measurement and Management (IMM) workshop with the aim of co-creating environmental and social performance metrics for our new investee [Kite Mobility](#). These metrics will enable Kite to meaningfully report their impact to each of their investors . The expectation is for this to be the first of many IMM workshops to support future investees and help TAF monitor the impact of our total portfolio.

We are now fully advanced on two Direct Investments approved earlier this year and have closed with both new Alternative Investment Infrastructure Fund Managers. The Fixed Income Subcommittee had a kick off meeting in September and will be undertaking a deeper assessment of prospective fixed income providers including in-person interviews with shortlisted managers later this year.

Low Carbon Cities Canada (LC3)

Senior staff from the seven LC3 centres and representatives from the National Office gathered in Ottawa for a Summit during the week of October 30th. The three days of programming were jam-packed with sessions focused on sharing network-wide learnings (e.g., comparing the centres' activities and investments to date, discussing progress on supporting shared equity and Reconciliation goals) and exploring concrete collaboration opportunities (e.g., advancing affordable and resilient low-carbon housing solutions, expanding collaborative investment approaches, and supporting the rollout of comprehensive EV-ready retrofits in multi-family buildings). LC3 participants also connected with federal government officials and other community partners via bilateral meetings and hosted approximately 75 guests at a reception. As relationships across the network continue to strengthen and the centres carve out their local niches, we see growing opportunities to deepen our network collaboration and realize the full power of the LC3 vision.

Grants, including summary of completed Grants

No grant projects within TAF's portfolio were completed since the last Board meeting.

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SIGNATURE

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