

Cap and Trade Update: Funding Innovation at Institutions

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Introduction

Ontario's Cap and Trade System under the *Climate Change Mitigation and Low-Carbon Economy Act, 2016*, could mean additional financial challenges for institutions arising from new compliance costs. In its Climate Change Action Plan (announced on June 8, 2016) Ontario commits to a fund to assist hospitals, universities and colleges to retrofit their facilities with energy efficient and renewable energy technologies. The details of the fund are still to be developed.

In the meantime, energy services companies and institutions could partner in order to get a head start on costly retrofits. Willms & Shier recently assisted an institutional client to implement comprehensive energy and water conservation measures at two of its campuses through such a partnership.

Energy Conservation under a Cap and Trade System

Many institutions will be mandatory participants under the Cap and Trade System and others, based on the nature of their industry, may choose to be voluntary participants.

In an environment where energy costs will continue to escalate and compliance requirements under the Cap and Trade System will become more stringent over time, institutions will need to look at ways to reduce their energy costs and carbon footprint.

The lack of funding constitutes one of the greatest hurdles to implementing comprehensive energy conservation measures for many institutions.

Energy Performance Contracting

Energy performance contracting offers an innovative way to finance energy and water conservation measures.

What is an energy performance contract? In the simplest terms an energy performance contract is a form of contracting where an energy services company ("ESCO") provides an institution with a package of energy and water saving measures that will pay for themselves over a specified period of time.

The institution uses the energy saving achieved to finance the project costs including identification, design, construction, implementation and long-term financing of the energy conservation measures.

The ESCO guarantees that the savings arising from implementation of these measures will pay for the project costs over time and where there is a deficiency the ESCO pays the amount of that deficiency to the institution. The institution can obtain security for the ESCO guarantee through several means including parent guarantees, letter of credits, performance bonds etc.

Opportunities under Cap and Trade System

The increased cost of energy and the compliance costs of the Cap and Trade System will increase the value of energy savings arising from implementing energy conservation measures.

Institutions that are able to unlock the significant energy savings at their facilities will be well positioned to comply with any obligations their industry may be subject to under the Cap and Trade System and to take advantage of any future offsets that may be offered.

Effectively drafted energy performance contracts provide significant potential for both energy and financial savings. Contact us to learn more.

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