SUPER ESCO AT THE MUNICIPAL LEVEL, CANADIAN INITIATIVE

GLOBAL ESCO NETWORK, 19/06/2025

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Introduction

Over 35 years of experience in energy efficiency (EE) financing, energy performance contracts (EPCs) and energy service company (ESCO) development and operation

As president of Econoler, he led the design and comanages three active Super ESCOs

- SOFIAC Canada
- SOFIAC France
- Fonds Africain en efficacité énergétique (FAEE)
- Currently launching a new Super ESCO initiative for the municipal sector in Canada

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AGENDA

1) Context
2) Introduction to the initiative
3) Legislative and regulatory changes
4) Mobilization of private sector financing
5) Multi-stakeholder environment
6) Innovative strategies
7) Current progress

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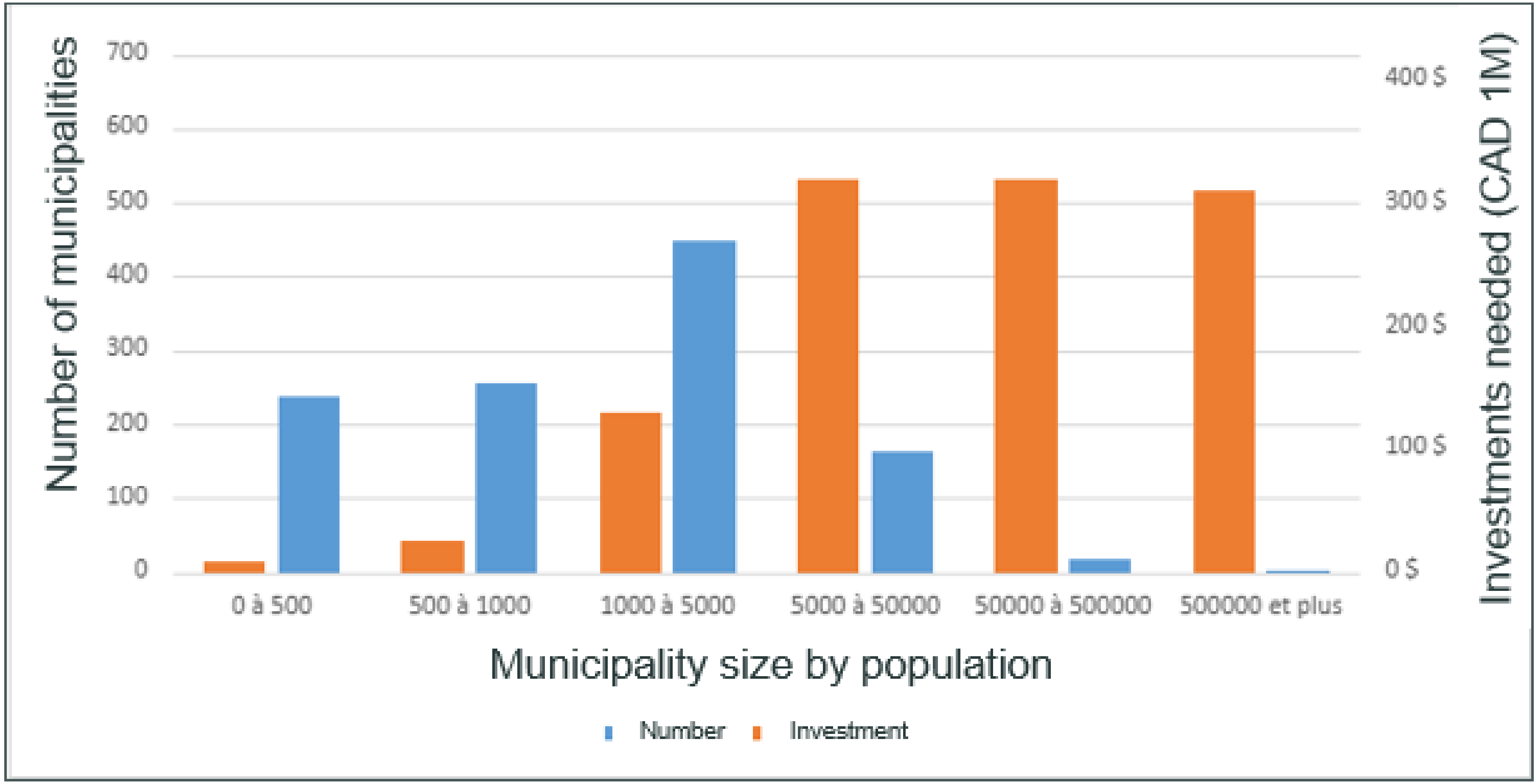
Contexts in Canada and Quebec

- Canada has the second-highest CO_2 emissions per inhabitant among G20 countries.
- Canada's per capita emissions are notably higher than the global average, roughly three times higher.
- The Province of Quebec targets a 37% reduction in GHG emissions by 2030 based on 1990 emissions.
- Energy costs in Quebec are among the lowest in North America, with electricity priced at USD 4-7¢/kWh and natural gas at 30-40¢/m^3.
- Municipalities cannot declare bankruptcy, and their debt levels are strictly regulated by the provincial government, limiting financial flexibility

Context – Quebec Municipal Market

1,100 municipalities



Context – Quebec Municipal Sector Specificities

- **Lack of in-house technical expertise and awareness** makes it difficult to assess opportunities and manage performance-based contracts.
- **Insufficient internal resources** prevent municipalities from dedicating staff time to project development and follow-up.
- **Limited borrowing capacity** restricts municipalities' ability to finance EE projects independently.
- **Small-scale projects are often unattractive to ESCOs** due to limited financial returns or scales.
- **Quebec Municipalities are members of two associations**, one being the Federation Quebecoise des Municipalités (FQM) that can tender projects in the name of municipalities.

Introduction – Initiative Roadmap

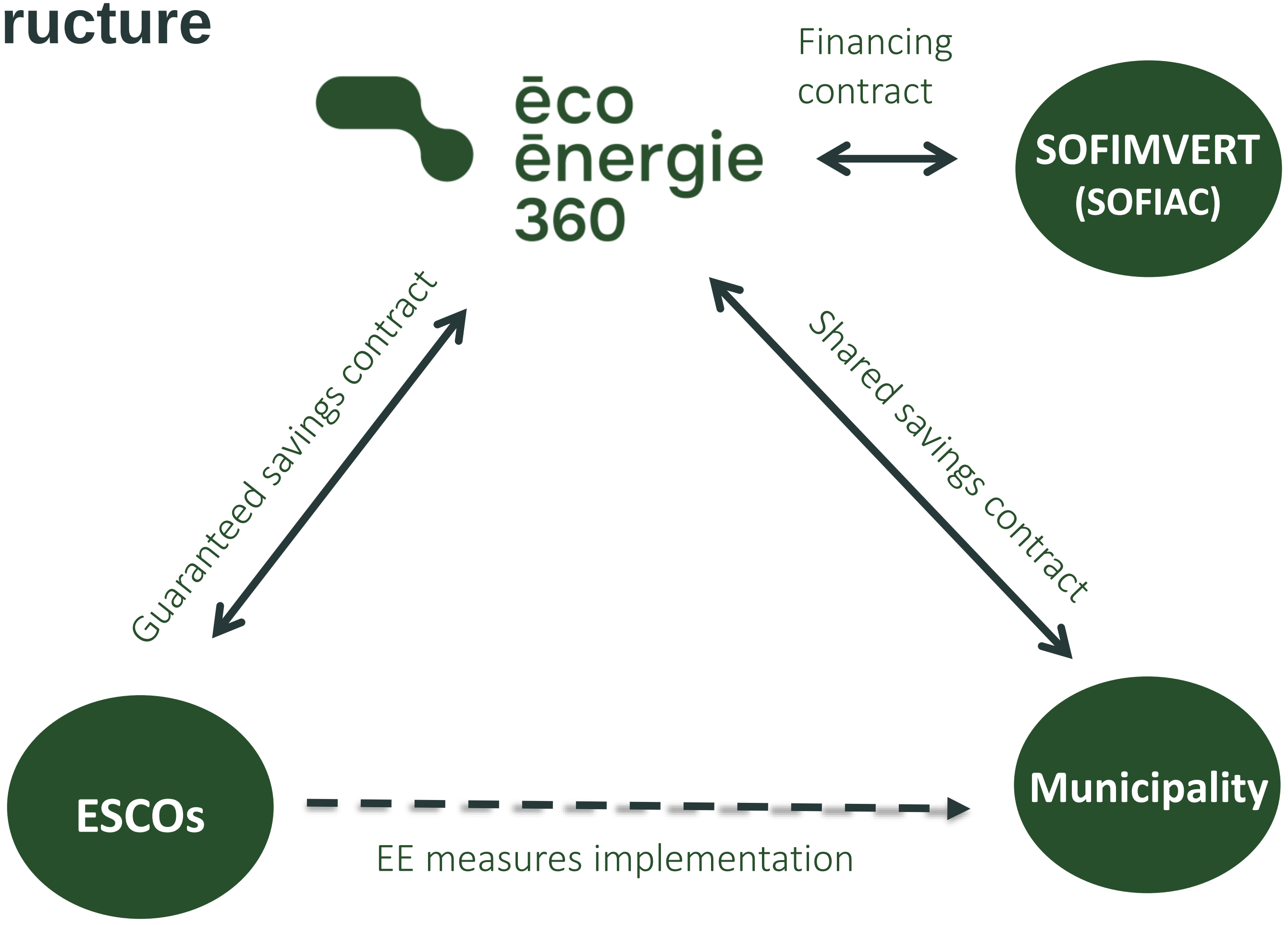
- **2020 – Concept development**: Partnership with FQM. Initial idea and early design.
- **2021 to 2023 – Regulatory foundations**: Key legislative and regulatory changes were introduced to enable the feasibility of the initiative.
- **2024 to 2025 – Initiative detailed design and securing capital**: A major financing round to support project deployment.
- **2026 – Launch phase**: The initiative is scheduled for investment.

- **Public sector grant of CAD 900k** dedicated to establishing the **legal and financial infrastructure** required for large-scale deployment.

- **Capitalized costs of CAD 300k** invested in conducting **investor compliance, documentation design, and eligibility assessments.**

Introduction – Municipal Super ESCO Concept

Typical Super ESCO Structure



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Introduction – Municipal Super ESCO Key Features

- ÉcoÉnergie360 is a turnkey program for municipal asset retrofits and decarbonization.
- No upfront payment and no impact on the long-term net debts of municipalities.
- Uses an EPC tailored to the needs of municipalities.
- The program manages the entire tendering process with ESCOs.
- Savings are measured and verified by an independent third party.
- Assets belong fully to municipalities from the start of projects.
- All available financial incentives are fully applied to projects.
- The municipality keeps the value of energy savings, up to a maximum of 10%.

Legislative Changes – FQM Sole Source Procurement

Municipalities in Quebec are public bodies and are generally **not permitted to enter into private contracts by mutual agreement** (non-tendered contracts) with the private sector.

› The FQM and its subsidiaries are subject to **public tendering rules** outlined in the *Cities and Towns Act that is focused* on the use of the lowest bidder approach.

› However, regulations enable the FQM to sole source financing to the private sector.

Legislative Changes – Selection Criteria

2023 c573.1.0.1 - Cities and Towns Act

- A municipal council may choose to use a weighted evaluation system for bids, whereby each offer is scored based on multiple criteria.
- In addition to price, points can be awarded for the quality or quantity of goods, services, or work, delivery terms, maintenance services, the experience and financial capacity of the insurer, supplier, or contractor, and any other criterion directly related to the market.
- For contracts aimed at improving the energy performance of equipment or infrastructure, a criterion based on projected energy savings may replace the price criterion as long as the total amount the municipality commits to pay must not exceed the energy savings generated by the improvement.

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Regulatory Changes – Municipal Debt Ratio Mitigation

- Municipalities have limited borrowing capacity, which makes capital-intensive projects like building retrofits financially challenging.
- Under a shared savings agreement with the city, SOFIMVERT provides the upfront financing, allowing the city to implement the project without incurring any debt.
- A provision in municipal budget reporting classifies EE retrofit investments as self-financing with debt linked to equivalent revenue generation.
- This structure helps municipalities preserve their debt capacity while enabling critical energy upgrades.

Private Sector Financing – SOFIAC Model

- **ESCO Performance Guarantees**: Reduce investment risk by ensuring a minimum level of energy savings.
- **Limited Partnership Agreements (LPAs)**: Provide a clear and transparent legal framework for SOFIMVERT (SPV) as a SOFIAC investment.
- **Attractive Returns on Equity**: Returns on equity aligned with infrastructure-grade investment benchmarks.

Private Sector Financing – Structure

- Shared Overperformance: Any performance exceeding guaranteed savings is shared between the fund and the municipality, aligning incentives.
- Low-Risk Municipal Profile: Municipalities represent a stable and low-risk counterparty for long-term investment.
- Strong Environmental and Social Governance (ESG) Alignment: The program qualifies as an ESG-friendly investment targeting EE and public infrastructure improvements.
- CAD 300 Million in Initial Capital: Raised out of an estimated adressable market of CAD 1.5 billion split between municipal buildings, water and wastewater treatment facilities, and streetlighting facilities.

- **Up to 6 years for capital deployment**, during which projects are identified, financed, and implemented.

- **Up to 15 years for repayment**, allowing for long-term recovery of invested capital through shared savings or performance-based returns.

Multi-Stakeholder Environnent

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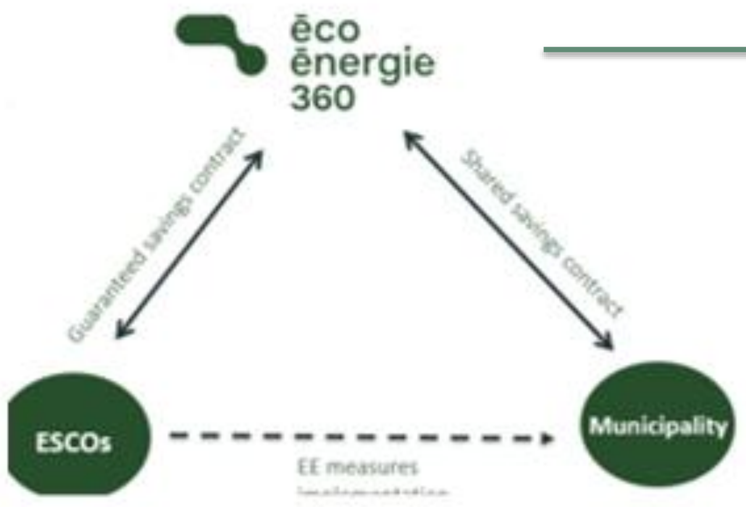
SOFIMVERT



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Multi-Stakeholder Environnent

Aspect	Large Cities	Small Cities
Project Size and Attractiveness	Large-scale projects with higher savings potential; attractive to ESCOs	Smaller projects
Internal Capacity	Have technical, legal, and procurement teams to support project execution	Limited or absence of capacity
Procurement Complexity	Complex and formal processes; slower but structured	Simpler processes

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Innovative Strategies – Measurement and Verification (M&V)

- Optimize cost-effectiveness by balancing precision with affordable M&V activities.
- Focus on large buildings only, where energy savings are significant and measurement is most impactful.
- Use standardized M&V approaches across similar building types, reducing transaction costs.
- Accept deemed savings for small assets generating interesting, but limited savings.
- Use a sampling-based approach guided by a program-level audit to ensure representativeness and cost-efficiency.
- Use independent third-party M&V experts to increase credibility.

Innovative Strategies – Aggregation of Municipalities

- **Bundling Strategy**: Small municipalities are grouped with a larger city to form balanced bundles, enhancing project scales and making projects more attractive to ESCOs.
- **Tendering Efficiency**: Each bundle is managed through a single public tender, streamlining procurement and reducing administrative burdens for smaller cities.
- **Grouping Projects**: Into limited bundles to limit transaction costs and increase ESCO interest.

Latest Status

- The project is now entering the final phase of legal and financial structuring.
- The final financing round is scheduled for Q3 2025 to support large-scale deployment.
- Approximately 200 municipalities are already engaged and have begun the onboarding process.

QUESTIONS?

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THANK YOU

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