CIB BIC

CIB's Public Retrofits Initiative – Frequently Asked Questions

Question	Answer
General	
What qualifies as a retrofit?	A project to upgrade energy-consuming systems in an existing infrastructure asset. Retrofits on a building could include items such as improving or replacing lighting fixtures, windows and doors, and HVAC systems. Also, the CIB will consider retrofit items, such as fuel switching and district energy, where they support the business case. The CIB could consider other types of existing assets.
How to get involved?	Please check the presentation as well as the Initial Information Sheet attached for more details and start with a conversation with the CIB team—we will discuss your portfolio and begin to work with you to assess the potential for investment. If there is mutual interest, we will work together with technical advisors to develop the business case. If the business case results in an agreement to proceed, we will assist you in your procurement process and selection of a private sector partner. In circumstances where you have a project(s) at a stage ready for due diligence and financing, the CIB will work together with you towards completing due diligence and financial close.
What benefits does the program have for Public Sector Owners?	• Achieve GHG emissions reduction targets • Address deferred maintenance while meeting emission targets and achieving indirect operation and maintenance savings • Assistance with building your business case, including energy audits, to develop marketable bundles of projects • Standardized measurement & verification approach to streamline project development and maximize market acceptance • Key features of the Public Retrofits Initiative below

Question	Answer
What are the key features of the Public Retrofits Initiative?	• No minimum upfront capital contribution from the public sponsor • No minimum payment guarantees from the public sponsor • Capital is repaid through energy savings to the extent possible • Full energy savings risk is transferred to the CIB and the private sector partners • Long-term monitoring and verification have standardized requirements and are the responsibility of the private sector partner
Eligibility	
The program talks about retrofits. What about new systems to reduce carbon, general administrative costs, etc.? Can we integrate battery energy storage system, solar, and geothermal in the retrofit project?	To the extent they are new systems serving existing buildings with the goal of reducing energy use and GHG production, they would fall within the retrofit definition.
For the minimum $50M project size, is this the capital cost of the total project or the loan size requirement?	The $50M is the minimum capital cost of the total project and not the loan size.
If one public sector institution cannot reach the scale you are looking for, would you consider bundling multiple institutional applications? Or could multiple institutions apply together?	The CIB will look at innovative approaches to help scale the project size, including bundling. It will be important to structure the arrangement in a manner that minimizes the counterparty risk on repayment of realized energy savings, and that the bundled components make sense together as a marketable opportunity.
Financing	
Is there a limited period in which the money needs to be spent (e.g., over X amount of years)?	The program does not have deadlines to spend CIB's investment. Construction timeframes will be determined in the bidding process and payback periods will be a function of the elements in individual business cases.
Are you able to share the terms of such financing with information on the expected repayment period and implicit interest rates?	The term depends on the project requirements. The CIB can work with public sponsors to develop a business case which will help determine viability of the financing, private sector contribution, the CIB potential financing options and payback periods. The levels/rates of each of those elements will vary according to the features and needs of each portfolio.

Question	Answer
Can you clarify how repayment would work?	From the CIB's perspective, the intent is to be repaid over the term of the contract, not the life of assets. Repayment would be made through realized energy cost savings alongside a minimum availability payment in case deeper retrofits project costs could not be fully covered by the savings generated. Other sources of funding could also be considered.
What if the energy savings are significantly higher than expected, would the public sponsor have to pay more than the underlying debt?	The CIB intends to structure the debt in a way that the term is fixed over an amortization period based on the expected savings to be realized. The amortization period should not vary depending on the performance of the project. Terms will need to be further explored. The CIB can explore options for "upside" sharing. However, there may be some pushback from the market given that the downside is fully borne by the private sector.
Is the intent to pay the debt to the private sector before the CIB, or are both parties to be paid back equally over the lifespan of the project return?	This is undetermined currently. In some cases, the CIB debt could be subordinated to the private sector debt in terms of priority of cash flow. However, both the CIB and private debt will be reimbursed over the contract term. The repayment of the CIB will be based on the project specific economics. For example, CIB repayment could be back ended to provide additional cushion for third party lenders and further reduce the cost of financing.
How does this affect our ministerial funding? If we still have the same operational costs, our cost per case does not go down, which can negatively affect our provincial funding.	The CIB is primarily focused on energy cost savings and energy savings achieved. If there are savings on operating and maintenance costs, these can be worked through with the public sector owner. The CIB is willing to work with public sector sponsors to understand the impact on provincial operational funding.
Carbon and Emission Reductions	
Can the public sponsor set emissions reduction targets for this program?	The public sponsor should be able to set emissions reduction targets for this program as part of a mutually developed business case.
Are there any carbon or energy reduction targets expected in addition to the financial savings?	The main objective of the Public Retrofits Initiative is to reduce GHG emissions. The CIB is looking forward to working with public sector sponsors to follow best practice and develop business cases that will be economically viable and help public sponsors meet their emission reduction targets.

Question	Answer
Will you include carbon tax avoidance or just energy savings?	At this time, the CIB would primarily rely on energy savings to develop a comprehensive and viable business case as the bank will need to crowd in private capital. Project sponsors can use the carbon credits as additional benefits that could be earned through this program. If the public sponsor would like to monetize these credits, the CIB can discuss further.
Due Diligence Process	
What data and information are required to do the assessment of our portfolio? What will the assessment process look like? How long will it take?	• Initial surveys, buildings database (age, square footage, energy consumption, occupancy rate, energy baseline data for each building, Utility rates, etc.) • Any other energy models, audits realized • The process may take several months depending on buildings assessed and the work done to date by the owner.
Many of the projects put forward in our submission are time sensitive. When will we know if a project qualifies for CIB's financing?	The CIB can work with public sponsors on projects to understand the viability. Once all the necessary details are available, we can evaluate the investment potential within a reasonable timing.
Will seed funding be available to help develop an energy master plan prior to development of the business case?	The CIB is happy to provide advisory services including financial modelling free of charge. Additionally, we are currently working with our federal partners to determine possible funding approaches for the costs of development, such as energy audits.
How do you create the baseline and who creates and approves it? What happens when there is disagreement about the baseline development? What will be done about 2020?	This will need to be further explored on a mutually developed business case based on best practices. The CIB has asked its technical consultant to propose a procurement process that will allow for the energy model to be reliable by financial close to materially reduce change orders following financial close. Changing the baseline following building occupancies will happen, but the CIB intends to work with public sponsors to reduce any ambiguity in the contract agreement. The CIB recommends using 2019 data instead of 2020.

Question	Answer
How is the appropriate risk and reward determined on specific projects? For example, if a project has a high internal rate of return and net present value, will the public sponsor be able to participate in the project in a way which will benefit it as well?	The CIB's goal is to achieve a viable financial case where all investors are repaid primarily using energy savings (to the extent possible), not create a burden on the public sector budget. We are also looking at financing large projects (ideally $50 million and higher in capex); therefore, it is critical that we work with public sponsors to ensure there is a credible and viable business case before we move to the approvals / investment stage.
Would a system-by-system approach rather than a building-by-building approach be appropriate for this model?	A system-by-system approach may be possible and can be explored within the business case that is mutually developed by public sponsors and the CIB.
Will the International Performance Measurement and Verification Protocol (IPMVP) be used for measurement and verification(M&V)?	Yes, IPMVP will be used for M&V in conjunction with project-specific and relevant industry best practices. The details will be available in the M&V frameworks and guidelines prepared by the CIB's technical consultant for the Public Retrofits Initiative and it will be available to the CIB's public sector sponsors.
How is the data set that is used for M&V decided upon and approved?	Data must be consistent, reasonable, relevant, verifiable, and reliable. Data accuracy will be evaluated by considering measurement, data capture, sampling, data analysis and engineering judgment based on M&V practitioners' technical knowledge, expertise and experience. Decision and approval of data will be mutually agreed upon by the CIB's technical consultant and the public sponsor's M&V practitioner in accordance with M&V guidelines and industry best practices provided by the CIB's technical consultant.

Question	Answer
In the Public Retrofits Initiative, how is the private sector willing to take on all the risk without a guarantee? Does it have something to do with better standards developed up front when developing the business case/models to give the private sector more confidence in being able to generate sufficient savings?	The due diligence performed up front (including independent energy audits) will provide more confidence to bidders, along with the participation of the CIB as a risk-bearing investor. To illustrate the latter point, let's say there is a project of $10M. In a typical Shared Savings Energy Performance Contract model, the private entity would provide 100% of the project financing through private third-party lenders and in some cases Energy Service Company's (ESCO) own equity. Private lenders have typically been reluctant to rely only on the project economics and therefore require additional guarantees. If the CIB finances 40–70% of the project at a very low interest rate, and utilizing subordinated debt, it would give some buffer to the senior lender to justify the lack of guarantees.
How would a public sponsor adjust for changing energy costs?	Typically, ESCOs are not exposed to energy price fluctuations since these could be unpredictable. Instead, they measure the energy savings in physical terms, valued at a pre-agreed energy price. The CIB will work with the public sponsor to determine what energy pricing assumptions should be included.
Project Structure	
How many agreements would the public sponsor need to enter? How many parties are there engaged in this work?	The public sponsor would enter a single agreement, the Energy Performance Contract (EPC) or the Project Agreement, with a Special Purpose Vehicle (SPV), subject to legal due diligence prior to procurement. Then, the SPV would sign additional contracts, such as Loan Agreements, EPC contract (e.g., with ESCO for construction and O&M), and possibly an M&V contract (if independent M&V provider is used).
Will the CIB select the private sector partners, or do we need to go to public tender?	The CIB would not choose the private sector partners. If you are already working with a partner you've chosen, we could evaluate our participation in that context. If you do not have a partner selected, the CIB would work with you through the tender process you would typically use for procurement at this value.

Question	Answer
What happens if the public sponsor decides to sell an asset that it was currently using or if use of the asset changes? How are non-routine adjustments to the reporting period determined and approved? What if there is disagreement about those adjustments?	As with any longer-term agreement, adjustment mechanisms will be developed. As part of the initial assessment, the CIB would also recommend not including any building that has a high probability of disposition.