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Office of the Minister of Infrastructure and Communities

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Dear Mr Belanger and Ms Khinda,

RE: Solar Electricity and the Canada Infrastructure Bank

The Pan-Canadian Framework on Climate Change and Clean Growth establishes our national strategy to mitigate and adapt to climate change while transitioning to a low carbon economy. It sets milestones that need to be met to fulfill our global obligations under the Paris Agreement including a 30% reduction in greenhouse gas emissions below 2005 levels by 2030. The decarbonisation of our electricity sector and commitment to 90% non-emitting electricity by 2030 is central to achieving this goal. Immediate actions will be required to ensure that we are on the right path to achieving these ambitious goals and realizing the resultant benefits.

The introduction of the national carbon pricing regime and performance standards for natural gas -fired electricity generation are two key measures to ensure that investments in the electricity sector trend toward lower emissions over time. Funding announced in Budget 2017 will stimulate near-term activity in the demonstration and deployment of renewable energy generation technologies. The Canada Infrastructure Bank could also play a role in leveraging additional private sector investment in solar electricity generation facilities whose value and risk profile differs from those that traditional lenders and sources of finance are yet to accept or service.

Solar electricity facilities are capital intensive projects that require long-term financing. Currently, private financing is available for projects (“Bankable Projects”) which have: i) revenue certainty (a fixed, long-term stream of income from a creditworthy off-taker evidenced by a fixed price contract with said off-taker), which supports the operating demands of the project as well as the principal and interest payments on the debt; and ii) a minimum “bite size” of \$10,000,000 (to address the lenders’ opportunity cost of performing the due diligence on the project, structuring the debt and other transaction costs). Absent additional extenuating factors, existing Bankable Projects benefit from relatively low financing costs (typically 100-200 basis points over the Canadian Dealer Offered Rate) and a relatively wide pool of potential lenders.

Unfortunately, from a national perspective, many solar electricity facilities which would otherwise support the greenhouse gas emission reduction and clean energy initiatives of the pan-Canadian Framework on Clean Growth and Climate Change either do not meet one or more of criteria “i” or “ii” above. Therefore, these facilities do not attract lenders willing to provide the leverage for long-term investment or only attract lenders willing to lend at high interest rates which, despite the significant leverage (80-90%) on most solar electricity generation projects, eliminate any reasonable return on equity to the project’s sponsor (“Unbankable Projects”). For instance: long-term fixed price contracts may not be available (e.g. “behind-the-meter” or “merchant” generation, partial off-take agreements or energy storage projects); technologies may be classified as “emerging” (e.g. energy storage); or projects may be too small relative to transaction and diligence costs (e.g. individual or portfolios of residential, commercial, industrial or community-scale solar electricity generation facilities). Unbankable Projects, therefore, are subject to a “financing gap” which acts to prevent sponsors from pursuing these projects and, in turn, from contributing to our 30% emissions reduction and 90% non-emitting electricity targets by 2030.

The Federal Government could address the “financing gap” by enabling the Canada Infrastructure Bank to, amongst other things: i) provide credit support (guarantees, subordinated loans) to projects thereby turning Unbankable Projects into Bankable Projects; and ii) provide loan financing directly to Unbankable Projects; and iii) could concentrate funding, credit support, project selection and monitoring functions by¹:

¹ Adapted from OECD (December 2015) Green Investment Banks: Policy Perspectives

1. Standardizing project selection, due diligence and monitoring processes for the provision of financing, which creates efficiencies and lowers transaction costs.
2. Reducing individual project-level costs by amortizing “overhead” (including relevant technical and financing expertise) over a large number of projects while simultaneously lowering risk through diversification.
3. Funding projects whose technology is ready for deployment but which does not have a sufficiently long commercial operating history and which the market has failed to fund through equity financing.
4. Validating and signaling the risk-return profile of deployment-ready green technologies and projects thereby attracting additional private investment
5. Intervening in Unbankable Projects by providing credit support.
6. Using excess profits and returns to fund equity positions in industry-changing (riskier) projects and technologies.
7. Providing credible and transparent reporting methodologies.
8. Being able to accept lower rates of return due to the Federal Government’s low borrowing costs.

Canada needs all of the available market-ready technological solutions at all scales to achieve its ambitious climate change policy objectives. Broadening the investor base to deepen the capital pool and to enable broader participation across society would contribute to this greatly.

However, the financing gap that currently faces potential investors in small-scale renewable projects is limiting participation from a key demographic to climate action: small- and medium businesses and communities. By extending the financial products and services to Unbankable Projects to close this financing gap as discussed in this letter, the Canada Infrastructure Bank could support the attraction of significant additional private sector investment creating emissions reductions and jobs across Canada.

Ensuring that these financial products and services are available to the Proponents of the Federal Government's national programs (e.g. Natural Resources Canada's emerging renewables, diesel displacement in northern and remote communities, smart-grid etc) would provide early learning for the Canada Infrastructure Bank and would provide more bang-for-the-buck of funds committed.

We look forward to responding to additional questions that you may have and thank you for your consideration.

Best regards,



John Gorman
President & CEO
Canadian Solar Industries Association (CanSIA)