

Category

Debt



Geography/ Location

AB, BC, MB, NB,
NL, NS, ON, PE,
QC, SK

Municipality Size

Medium



Tier

Enabling



Constraints

None

Administrative Capacity Required

Medium



Fiscal Tool Brief: Energy Service Performance Contracts (ESPCs)

Energy Service Performance Contracts let municipalities upgrade facilities with little upfront cost by using guaranteed energy savings to repay project costs over time.

Energy Service Performance Contracts (ESPCs) or in short Energy Performance Contracts (EPCs) are agreements between a municipality (or other entities) and an Energy Service Company (ESCO) to upgrade buildings and infrastructure for energy efficiency. Instead of the municipality paying upfront, the ESCO covers some or all of the project's costs, such as upgrading HVAC systems, lighting, or windows, and is repaid over time from the savings on energy bills. The ESCO guarantees a certain level of savings, so the municipality's repayments come directly from reduced utility costs rather than other sources. EPCs typically last from two to 20 years, depending on the measures implemented. Once the contract ends, the municipality keeps all future savings. This



makes EPCs a useful fiscal tool because they let municipalities modernize facilities, cut emissions, and lower operating costs without large upfront spending, while also shifting technical and financial risks onto the ESCOs. While ESPCs are presented as a form of debt in this Catalogue, whether they count as municipal debt or not depends on how each jurisdiction defines debt under its laws.

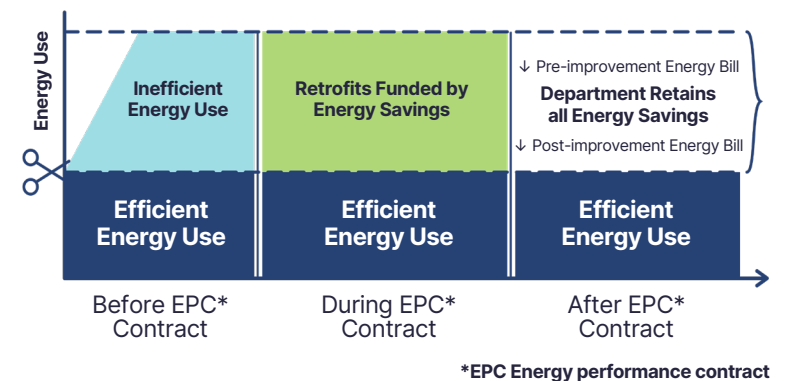


Figure 1. Energy Performance Funding Model¹

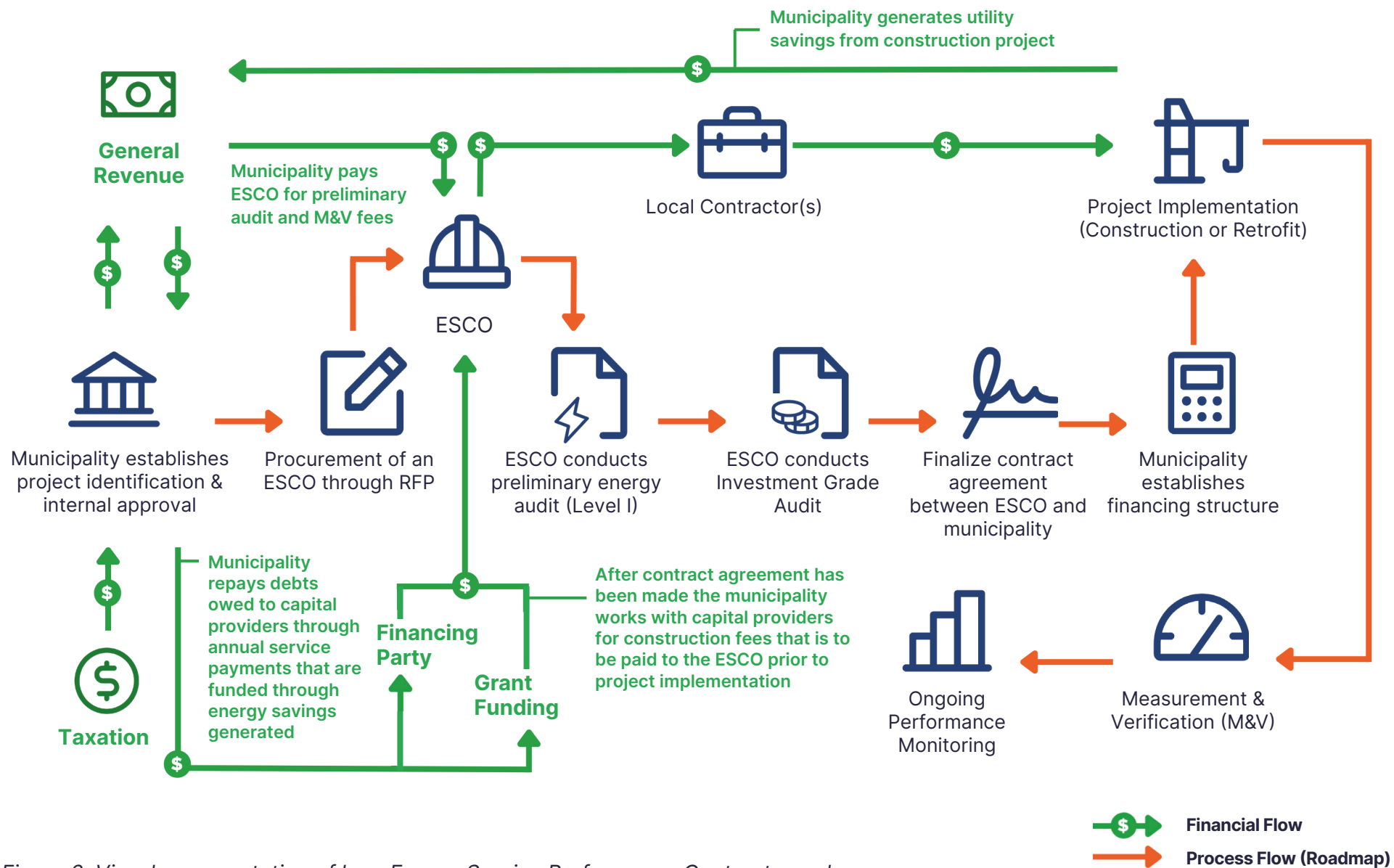


Figure 2. Visual representation of how Energy Service Performance Contracts work

Examples

EPCs have been implemented in all provinces and in various municipalities across the country, with over 280 projects completed in 2017.² These projects ranged in size from \$1 – 50 million and it was estimated that annual revenues for projects that had a performance guarantee was about \$300 million.³ [Windsor \(ON\)](#) implemented deep energy retrofits across 148 municipal buildings, including City Hall, libraries, pools, fire stations, wastewater treatment facilities and others. Through the EPC, the municipality achieved \$982,000 in annual energy cost savings. In Atlantic Canada, there are successful EPC case studies documented in Gander (NL), Halifax (NS) as well as Gagetown (NB) among others. In [Saskatoon \(SK\)](#), 35 buildings have gone through renovations to improve energy performance and operational efficiencies in civic facilities since 2017. The main improvements included: LED lighting retrofits, HVAC upgrades, building automation controls, and building recommissioning. [Vancouver \(BC\)](#) implemented an EPC through BC Housing's Housing Renovation Partnership, upgrading 171 residential buildings covering over 2 million square feet. The \$52 million project improved living conditions for 2,453 apartment units, achieved \$1.2 million in annual energy cost savings, and significantly reduced greenhouse gas emissions. [Quebec](#) was one of the first provinces to use EPCs over 35 years ago through Econoler, then a Hydro-Quebec subsidiary, and has since become Canada's most active jurisdiction in promoting them. Over the past two decades, provincial ministries have directed schools, universities, and hospitals with the highest energy costs to adopt

EPCs. Quebec is now launching a municipal Super ESCO program, [ÉcoÉnergie360](#), designed to accelerate decarbonization by bundling small municipal projects into larger, more attractive packages. The mechanism provides turnkey EPC services with no upfront costs, financed through SOFIAC's CAD \$300 million fund, structured so repayments come from verified energy savings without impacting municipal debt capacity. Projects will target buildings, water and wastewater plants, and streetlighting, with investments deployed over six years and repaid within fifteen. The initiative entered its final structuring phase in 2025, with implementation scheduled to begin in 2026 and roughly 200 municipalities already engaged.⁴ Lastly, in the recently announced [Budget 2025](#) the uptake of Energy Performance Contracts is highlighted by the Department of National Defence, recognizing the model has a high potential to modernize critical infrastructure, lower recurring utility costs, and advance Canada's climate commitments through third-party financed retrofits. The federal government's endorsement shows that EPCs are now viewed as a scalable and low-risk solution for improving energy efficiency across large, complex facility portfolios while maintaining fiscal discipline, meaning that modernization occurs without adding to public debt or increasing operational budgets.⁵ These examples demonstrate the flexibility of EPCs across different jurisdictions and sectors.

Relevance to Advancing Adaptation

EPCs can support climate adaptation by enabling municipalities to retrofit public buildings without needing upfront capital. These upgrades such as improved cooling, ventilation, or energy systems help facilities remain safe and functional during extreme weather events. For instance, [Windsor \(ON\)](#) upgraded 148 facilities, saving nearly \$1 million annually in energy costs, while improving resilience in wastewater systems, libraries, and emergency services. In [Kingston \(ON\)](#), EPCs helped conserve 11,000 cubic metres of water annually by modernizing arena systems, a key adaptation in areas facing future water stress. A mid-sized municipality facing more frequent heatwaves could use EPCs to install passive cooling systems, efficient lighting, and smart controls in schools and care homes, thereby reducing vulnerability while cutting emissions. These measures can also improve air quality and indoor comfort especially in schools and community centres contributing to important health and social equity benefits during extreme heat events. Looking ahead, EPCs could be expanded to integrate solar and battery storage systems in civic buildings, which may enhance energy autonomy and help maintain services during grid failures linked to climate impacts.

Accessibility

EPCs are broadly accessible across Canada, with enabling programs and model frameworks available at federal, provincial, and utility levels. The mechanism is open to all orders of government, as well as to schools, hospitals, and housing authorities, and does not require access to specific grant programs. Federal initiatives such as Natural Resources Canada's Federal Buildings Initiative

(FBI) and the Department of National Defence's expansion of EPCs⁷ under Budget 2025 demonstrate strong public sector confidence in the model and provide templates that municipalities can adapt easily. At the provincial level, Hydro-Québec, BC Hydro, and SaskPower offer technical assistance and prequalified ESCO lists to simplify procurement. Many municipalities also rely on turnkey models or shared-service arrangements, such as Quebec's ÉcoÉnergie360 Super ESCO, which aggregates smaller municipal projects into larger, fundable portfolios. Smaller or rural municipalities, however, may face barriers due to limited staff capacity or legal expertise in performance contracting. These can be mitigated through provincial support programs, regional collaborations, and standardized contract templates developed by NRCan.⁸ Overall, the accessibility of EPCs depends on institutional readiness and technical capacity.

Feasibility

At the economic level, feasibility is increased by the guaranteed savings model, in which third-party ESCOs finance and implement upgrades, recovering costs through verified reductions in utility bills. This structure reduces risk for municipalities and preserves borrowing capacity, making it especially attractive in periods of fiscal constraint. For medium-sized communities, specialized financing programs such as the Super ESCO, can lower transaction costs and expand the uptake. From a social perspective, EPCs are generally well accepted, particularly due to their cost-neutral structure and visible operational improvements. Feasibility could be strengthened through bundling projects across departments or municipalities to achieve economies of scale. For example, Quebec's municipal Super ESCO model shows how bundling can attract more competitive ESCO bids.

Risk

There is a risk that projected energy savings under an Energy Performance Contract may not fully materialize, particularly if the initial energy use baseline is inaccurate or if operating conditions change after retrofits. Since the repayment of the ESCO is tied to verified cost savings, discrepancies between projected and realized performance can lead to financial shortfalls or contract disputes. To mitigate this, municipalities are encouraged to adopt standardized Measurement and Verification (M&V) frameworks, such as the International Performance Measurement and Verification Protocol (IPMVP) used under Natural Resources Canada's Federal Buildings Initiative, which establishes transparent and verifiable savings methodologies. Moreover, there could be contractual and legal risks associated with the complexity of multi-year EPCs. Misaligned expectations, unclear performance obligations, or insufficient documentation during procurement can expose municipalities to disputes over responsibilities or maintenance standards. Finally, reputational and political risks may emerge if projects underperform or if promised savings are not clearly demonstrated to the public or council. Because EPCs are often promoted as self-financing and low-risk, failure to achieve expected outcomes could undermine confidence in both the mechanism and municipal climate commitments.

Scalability

EPCs are scalable across jurisdictions and project types, particularly where sufficient administrative capacity and project bundling opportunities exist. They have been successfully implemented from coast to coast to coast, with hundreds of projects completed nationwide. One of the model's key strengths is its ability to bundle and aggregate projects across multiple facilities jurisdictions, enabling municipalities of different sizes to access competitive financing and shared technical expertise. Looking ahead, EPCs could scale even further by integrating renewable energy, electrification, and climate resilience upgrades for example, by adding solar panels, battery storage, or passive cooling systems into existing contracts. This re-imagined approach could position EPCs as a long-term, self-financing mechanism that support both mitigation and adaptation goals, while strengthening energy security and operational resilience in municipalities.



Evaluation Matrix

Scoring: High = +1 | Medium = 0 | Low = -1

Criterion	Rating	Score	Key Evidence	Assessment
Effectiveness & Performance	Medium	0	Savings-backed financing; indirect adaptation benefits	Enables efficiency upgrades with indirect resilience benefits, but does not directly target adaptation outcomes.
Economic Efficiency	Medium	0	ESCO-led delivery; contract complexity	High capital efficiency through private delivery, offset by complex measurement, verification, and contract management.
Equity & Fairness	Medium	0	Public asset upgrades; no direct user charges	Benefits are broadly shared, though not specifically targeted to vulnerable populations.
Political Acceptability	High	+1	No upfront cost; guaranteed savings model	Strong political support due to cost neutrality and visible operational savings.
Feasibility (Admin/Legal)	Medium	0	Requires ESCO procurement and legal expertise	Widely implementable but constrained by procurement complexity and capacity requirements.
Coherence (Portfolio Fit)	High	+1	Aligns with asset management and climate programs	Integrates well with infrastructure renewal and broader energy and climate frameworks.

Best Use Context

Most effective for municipalities seeking low-capital upgrades to existing infrastructure assets. Works best where sufficient administrative or external capacity exists to manage contract complexity, and where efficiency improvements can be integrated into broader resilience and asset management strategies.

Context Factor	Relevance	Notes
Municipal Size	Medium	Larger municipalities benefit more from scale and internal capacity.
Administrative Capacity Required	Medium	Requires procurement, legal, and technical expertise.
Development Pressure	Low	Not dependent on growth; applicable to existing assets.
Climate Risk Targeting	Low	Primarily targets energy efficiency, not specific climate risks.
Fiscal Flexibility Required	Low	Minimal upfront capital required due to third-party financing.

Recommended Citation

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