

## When is the Network Upgrade security provided?

Security is typically provided to BC Hydro at the time the Interconnection Agreement is being executed. The Security must be provided at least 30 calendar days prior to the commencement of the design, procurement, installation, or construction of the Network Upgrades.

## How much security needs to be provided?

Prior to entering into any agreement for the design, engineering or construction of Interconnection Network Upgrades (INU), the Interconnection Customer must deliver the Network Upgrades (NU) Security to BC Hydro for 100% of the INU Costs as estimated in the final Interconnection Study. The required amount of NU Security may change from time to time to reflect the full amount of INU Costs estimated plus any Transmission Network Upgrade (TNU) Costs that are triggered due to Project changes made by the Interconnection Customer relative to the information provided as part of the Interconnection Application.

## What form of security is required?

The Interconnection Customer shall provide BC Hydro a standby irrevocable letter of credit or other form of security that is acceptable to BC Hydro. Such security shall be granted in favour of BC Hydro and shall be in an amount sufficient to cover the costs for designing, constructing, procuring and installing the Network Upgrades, less any customer funded amounts. The security shall be:

- a) issued or confirmed by a branch of a domestic Canadian financial institution having a minimum credit rating not less than Standard & Poor's A-, Moody's A3 or Dominion Bond Rating Service A (low). If the issuing financial institution is not a domestic Canadian financial institution, the Sovereign (Country) debt rating shall not be less than Standard & Poor's AA, Moody's Aa2 or DBRS AA and the financial institution must be acceptable to BC Hydro. BC Hydro, at its discretion, may accept a Sovereign debt rating of Standard & Poor's AA-, Moody's Aa3 or DBRS AA(low) if the issuing bank has a rating of not less than Standard & Poor's A, Moody's A2 or DBRS A. If such credit rating agencies publish differing credit ratings for the same financial institution, the lowest credit rating of any of the credit rating agencies shall apply for purposes of this section;
- b) available for presentation in Vancouver (B.C.) Canada; and
- c) for a term of not less than one year and providing that it is renewed automatically, unless the issuing or confirming financial institution advises otherwise as specified in the letter of credit.

A template of an approved Letter of Credit is available upon request.

## How is the security reduced?

The methodology used to reduce the NU Security varies depending on whether the project is connected to the Distribution or Transmission System and if the power was procured under the Standing Offer Program (SOP). The three different methodologies are described below:

- a) For non-SOP distribution interconnected projects, BC Hydro shall reduce the outstanding balance of the security by an amount equal to 20% of the total Security on each of the 1<sup>st</sup> to 5<sup>th</sup> anniversaries of the Project's Commercial Operation Date (COD).
- b) For non-SOP transmission interconnection projects, security is reduced in a similar but more prescriptive manner. BC Hydro shall reduce the outstanding balance of the security as per the provisions in the Open Access Transmission Tariff. Section III.D.3(c)(i) of Attachment O of the OATT refers to Release of and Reducing Outstanding Balance of Security for NRIS.

*If Interconnection Customer's Generating Facility is designated as a Network Resource, the Transmission Provider will, subject to paragraph (ii) below, **at the end of each calendar year beginning with the calendar year during which the Generator Facility achieves Commercial Operation, agree to a reduction in the then outstanding amount of the Security by an amount equal to the capacity of the Generating Facility designated as a Network Resource during that calendar year multiplied by the LTF PTP rate,** excluding the costs of scheduling, losses and ancillary services.*

- c) For SOP Projects on both the Distribution and Transmission Systems, the NU Security will be returned to the Developer within ten (10) Business Days after the date that is ninety (90) calendar days after COD.

## Can BC Hydro call on the security?

For non-SOP projects, if the Interconnection Customer's Generating Facility fails to achieve commercial operation within 3 years of the target date for commercial operation, as set out in Attachment 4 of the Interconnection Agreement, or if this Agreement is terminated before the 5<sup>th</sup> anniversary of COD, BC Hydro may call on the full outstanding balance of the security at that time.

For SOP projects, if the Project Energy Purchase Agreement (EPA) is terminated prior to 90 days after COD, or if the Interconnection Customer's Generating Facility fails to achieve commercial operation within two (2) years of the target date for commercial operation as stated in the EPA, BC Hydro may call on the full outstanding balance of the security.

## **How does the INU security work in conjunction with the Standing Offer Program's INU Threshold and actual project costs?**

The Interconnection Customer must deliver the NU Security to BC Hydro for 100% of the INU Costs as estimated in the final Interconnection Study. Once the project has reached Commercial Operation and financial closure of the interconnection project's actual costs is completed by BC Hydro a financial reconciliation will take place 90 days following the COD.

The following two outcomes are possible:

- a) Final INU costs are less than the INU Threshold: In the cases where the actual Interconnection Network Upgrade cost is less than the eligible INU Threshold, BC Hydro will release the full amount of the NU Security.
- b) Final INU costs exceed the INU Threshold: In the cases where the actual Interconnection Network Upgrade cost is in excess of the eligible INU Threshold, BC Hydro will i) require the Interconnection Customer to provide cash payment for the final INU costs in excess of the INU Threshold ii) release the full amount of the NU Security.

For example, the Interconnection Study estimates the INU will cost \$1,000,000. An NU Security of \$1,000,000 is provided by the Interconnection Customer. The project capacity is 5MW, therefore the INU Threshold is  $5,000\text{kW} \times \$150/\text{kW} = \$750,000$  (for simplicity, the CPI escalation of the INU Threshold multiplier has been disregarded in this example). Ninety (90) days after COD, the actual cost of the INUs is determined to be \$950,000. The Interconnection Customer provides cash payment for \$200,000, the difference between the actual NU costs and the INU Threshold and then BC Hydro releases the \$1,000,000 NU Security.