

IPP Dialogue Session # 8

Following is a brief summary of the IPP consultation meeting held on August 9th regarding BC Hydro's power acquisition process and the design of the F2007 call.

Date/Time	August 9, 2006– 10 a.m. to 12:00 p.m.
IPP Participants	Stephen Cheeseman – Chinook Power Tony Duggleby – Kabatic Power
BC Hydro Participants	Leon Cender (facilitator) Jim Scouras Laura Creech

Open vs. Closed Call

- Need to evaluate and reflect benefits of having individual technologies integrated with BC Hydro's system.
- Favour having a focus on renewables with BC Hydro acting as a leader in this regard.
- Need to demonstrate true costs for non-renewables such as coal projects.
 - Should incorporate societal impacts, e.g. Ontario does valuation of externalities.
 - Need to capture the risk associated with hydrocarbons.
- Combination of fuel types is the preferred solution.
- For wind projects, can evaluate how much time back-up power is required.
 - Don't require 100% back-up for wind power.
 - Excel study in the U.S. indicates that back-up requirement adds \$1.00/MWh.
 - Use industry to develop assumptions → adds transparency.
- Generally support open calls.

Standing Offer

- May be a place for standing offers for under 10 MW projects.
- \$55/MWh price used for the GPG call was a failure.
- Offer for projects less than 10 MW is prejudicial.
- Standing offer won't have a big impact but will make it easier for BC Hydro to deal with IPP projects.
- Europeans use a variation known as feed-in tariff with local engineering by governments.
 - This approach works if price is set high enough.

Acquisition Process

- Continue with CFTs but hold consultation meetings to better shape the calls.
- Support CFT approach given that terms and conditions are known upfront.
- Certainty of CFTs is essential to viability of IPP industry.
- Need to recognize renewable resources and their intermittent nature.

Fairness Monitor

- Makes no sense if reviewer is hired by BC Hydro.
- Issue of fairness is a BCUC problem.
- Having an ombudsman may be helpful if structured correctly.

Pre-Qualification Process

- Pre-qualification is costly for both the bidder and BC Hydro.
 - Takes time to gather adequate resource data.

- U.S. production tax credit for wind projects is applied to revenue and thus favours large firms; in Canada, the WPPI is a cash subsidy which allows small developers to compete.
- Pre-qualification process does not help the financing of projects.
 - Key for financiers is having a known revenue stream; thus, the issuance of an EPA facilitates financing.
 - For “angel” investors, the key determinant is having a market for the power.

Mitigation of Bidder Risk

- Having 50% of the bid price not subject to escalation is too much risk.
- Favour more cost flow-throughs (e.g. zoning and land tenure costs); BC Hydro has the ability to flow through such costs.
- IPPs require some protection against rising costs during the construction period.

Attrition and Risk Assessment

- Should acquire surplus power to increase reserves; BC Hydro has a long way to go before it has too much power.
- Allow industry to self-select and fail.
- Attrition in F2006 Call should be lower due to the CFT implementation steps.
- Economics will dictate if projects are built.
- Don't like securities but understand why they are required.

BC Hydro's Procurement Process

- BC Hydro worked hard to make the F2006 Call as fair as possible.
- Renewables were somewhat penalized in F2006 Call, e.g. firm energy; LDs.
- Need to have known, pre-set calls; timing of calls is getting better.
- Calls are relatively complicated → BC Hydro is trying to be all things to all people.
- Pleasantly surprised by magnitude of F2006 Call awards; sends a significant and clear market signal.
- Favour having more support from BC Hydro on IPP issues, e.g. rezoning; higher prices.

EPA Terms & Conditions

- Monthly firm energy doesn't work; intermittent resources can meet annual firm deliveries.
- There's no cost to BC Hydro to provide power backstopping using the Heritage dams.
- Support the concept of running projects for 1-2 years and then locking down the contract.
- EPA terms caused developers to bid higher due to risks being undertaken.
- Strongly favour removal of LDs for intermittent projects.
- Look at Danish experience for integrating wind projects into a hydroelectric system.
- For wind farms, consider staged or staggered CODs given timing of turbine installation.

Consultation Comments

- Small discussion groups allow for more open dialogue and opportunity to be heard.

Notes prepared by L. Cender – August 2006.