

IPP Dialogue Session # 3

Following is a brief summary of the IPP consultation meeting held on July 10th regarding BC Hydro's power acquisition process and the design of the F2007 call.

Date/Time	July 10, 2006 – 1 to 3:00 p.m.
IPP Participants	John Tapics, Compliance Coal Arthur Lilly, Global Cogenix Industrial Corp Chris Labridis, Synex Energy Resources Ltd. Graham Horn, District of Lake Country Kelly Boychuk, Ledcor Power Inc.
BC Hydro Participants	Joanne McKenna (facilitator) Jim Scouras Leon Cender

Open vs. Closed Call

Some IPPs supported an open call if it's just price.

- Other IPPs believe an open call allows BC Hydro to assess relative value of project types and location.
- One IPP indicated that an open call can put small projects at a disadvantage.
- Another commented that a call is not really open when projects are given adjustments for locations, etc.
- BC Hydro should not pick technology – so open call is good.
- Open calls tend to have more transparency.

Standing Offer

- This approach could remove need for small projects in call.
 - Could have prices based on last call plus inflation index.
 - Could increase size if no call in certain year.
 - Could use Tier 2 price from stepped rates.
- Standing offer is useful if it supports public policy, e.g. 50% green. Otherwise will face criticism if certain technologies excluded.
- Need to designate areas in BC where there is transmission availability; this might be a good way to shape a standing offer.
- Standing offer may be more economic for rate payers, could remove smaller projects from call stream.
- BC Hydro will always need to meet WECC reliability criteria.
- Could use COD as a cut-off for standing offer.
- Standard offer would be a big benefit if project can be financed, developer knows that project will go ahead; cut-off could be:
 - 10-50 MW
 - 50 MW has merit for EAO and income tax purposes
 - Provides operating transparent avenue

Risk Assessment

Should provide feedback to bidders shortly after Risk Assessment is completed.

- IPP expressed concern that the risk assessment generated a number of addenda.
- Test for Risk Assessment validity could be to compare the number of bidders who put performance security in F2006 Call as compared against GPG call.

- In U.S., there is a big emphasis on creditworthiness and high securities.
- Anything that BC Hydro can do to remove risk is helpful, e.g. reduced securities, standing offer.
- 14 days is tight for non-rated company – lenders view initial security as more equity (rather than debt).
- Large, bureaucratic banks can't provide pre-approval.
 - Have option for cash or bank draft.

Attrition and Pre-qualification

- What if projects don't get built; can they re-bid into future calls? Yes, if EPAs are terminated – they can re-bid.
- One IPP thought BCH should have higher deposits/security rather than pre-qualification.
- One IPP favours the security deposit but believes that it has to be enough dollars invested so that IPPs will self-select.
- In the F2006 Call, the level of securities did preclude some bidders from participating.
 - Key is to know that there are future calls in advance.

CFT vs. RFP

- One IPP suggested that small projects could take advantage of a standing offer 15-20 MW; medium could use the CFT 20-50 MW; and large projects could use the RFP-like negotiation for 50+ MW.
- General agreement with the above mentioned approach; however, would estimate small at 10MW and large at >100 MW.
- If large projects can obtain higher prices, small projects should be able to piggy back.
- Question was asked as to how many projects BC Hydro can negotiate at one time?

Risk Allocation

- Allocate risk where it belongs, e.g. fuel risk; coal has ever increasing winter ratio.
 - One IPP heard \$14/MWh for firm energy premium in F2006 Call.

Fairness Monitor

- IR reports were self-evident; didn't add much value.
- Key to fairness is transparency.
- Does not see a big benefit in using one.

Duration of Process

- BCH needs to have a more realistic index than CPI; have an adjustment after 5 years to match actual experience.
- EPA should cover the cost increases during call process.
- Hydro Quebec has EPA adjuster for escalation for certain construction participant to check.
- Problem with rising interest rates during the tender process.

Acquisition Process

- An IPP commented that they believed more people in BC beginning to understand processes:
 - Calls modest relative to other provinces.

- F2006 Call process seemed awkward, e.g. Q&As.
- BCH needs to look at creative ways to provide information to bidders.
- BC Hydro could find 5 or 10 people to respond to bidder queries and have person to person discussions – these would be more useful.
- Should not penalize projects that have variable output due to oscillating resources.
- BCH and IPPBC need to define value proposition for buying IPP power and communicate this broadly.

Consultation Comments

- Small group is good idea.
- Small group provides more candid discussion, could double size for BC Hydro admin efficiency need to reduce call time.
- The size of this group is a perfect.
- Helpful process; expressed willingness to participate in future workshops.

Notes prepared by L. Cender – July 2006