

IPP Dialogue Session # 4

Following is a brief summary of the IPP consultation meeting held on July 11th regarding BC Hydro's power acquisition process and the design of the F2007 call.

Date/Time	July 11, 2006 – 10 a.m. to 12:00 p.m.
IPP Participants	Dave Keevil, Canadian Hydro Developers Don Hunchuk, Princeton Energy Inc. Sean Ebnet, Green Island Energy Ltd Ron Percival, Dokie Wind Energy Inc. Jim Gemmill, Eaton Power
BC Hydro Participants	Joanne McKenna (facilitator) Jim Scouras Leon Cender

Open vs. Closed Call

- Should have firm vs. green (non-firm) calls. At known dates several years into the future. Will allow for better bids with lower risks as projects that are “not quite there yet” with permitting would be held back. Now we have the “bid at cost” as we don't know when we'll get the next chance. Bad bids waste everyone's time.
- Problem in paying different prices, need to differentiate paying more for green.
- In Ontario, have Force Majeure on permitting which allows IPPs to avoid LDs for issues that are outside of IPP control such as permitting delays. Firm vs. Clean calls will avoid bidding run of river projects into open call which is fitting a “square peg into round hole”. If Firm is required, define firm as available at 90% capacity 90% of the time. Given the amount of potential Clean vs. Firm in BC, there may be needed a premium to get the Firm when required.
- Could model individual projects into integrated system and determine value to BC Hydro rather than using adjustments as a coarse tool.
- Not convinced that separate technology streams makes sense.
 - Has political overtones.
- Supports not having technology only call but segregated by firm vs. non-firm and clean vs. non-clean.

Standing Offer

- This approach can address size based on capacity factor.
- Will need to establish market price as there isn't one yet; the F2006 Call will set price.
- \$110/MWh in Ontario is not enough based on the number of hoops with respect to permitting in Ontario (this is why a Force Majeure in Ontario is an absolute necessity to mitigate LD risks), could have standing offer after a call established, the clearing price for limited time period.
- Need to get regulator onside with cost-effectiveness with a standing offer at the right price.
- Can't go away from pre-qualification process, good for BC Hydro, lenders, EPC contractors, communities, should have 2 segments, i.e. pre-qualification and mandatory criteria – then have the bidding round. Bidding round 1 must have a price component to allow BCH to look at the expected price. In the second round the price should be the same or lower. This would ensure cost-effectiveness and transparency in the process.

- For standing offer, who sets the price and how is it adjusted; arbitrary size limit may result in uneconomic development.
- Standing offer for small projects is good, can make decision based on stated price.

Transmission Issues

- BCTC process is governed by OATT.
 - Can work more on info exchange.
- BCTC doesn't define firm – BC Hydro does.
 - Maybe able to look at transmission requirements on more creative basis.
 - Were not able to use a curtailment approach.

Attrition and Quality Control

- EAO process is effective screening mechanism; this IPP favoured screening out invalid project so that they don't hurt the IPP industry.
- One IPP commented that if you spent \$3 million on EAO process, you are a serious bidder.
- Tender process must be maintained, sets best price for rate payer.
 - Will always be attrition; 50% is acceptable. BC Hydro/Government needs to have a clear expectation of attrition (even if not made public).
 - Should be certain permits, agreements in place at pre-tender to reduce attrition, e.g. First Nations, water license, DFO agreement, etc. if BCH to reduce attrition rates and avoid risk of not getting the committed power.
 - Need to ensure that IPPs are legitimate. Pre-qualification of bidders would ensure that only those that have the abilities are accepted. However, the “mom and pop” operations would be excluded unless there was some other mechanism to adapt such as a higher deposit. BCH/Government needs to decide the right risk profile between ratepayers/BCH/IPP.
- The VI CFT was the most stringent, forced one IPP to spend lots of dollars; F2006 call process was more relaxed. One way to screen is to ask for lots of info from IPPs.
- Front end development dollars is high cost, i.e. equity, cost of money falls after EPA obtained (the cost to inventory projects is passed on in the bid price - however, keeping a project inventory is a good business practice and the cost of doing so is part of the game).
 - High profit projects are gone.
 - Want to be in business for long haul; need to know that development \$\$ spent isn't wasted, i.e. can be kept in inventory for next 5 years.
 - The more risk borne by IPPs, the higher the cost of capital.
 - If BC Hydro insists on reliable project safeguards, need to provide call certainty in future years.
 - See IPPs going the same way as oil and gas industry.
- One IPP commented that attrition hurts the IPP sector; may cause exclusion of legitimate projects (if an IPP can't perform, the project can be picked up by those that can perform. Not everyone can be successful in any industry. If it was easy, everyone would be doing it).
- Attrition also causes transmission problems.
- Need to deal with risks.
 - Big push to bid today given future uncertainty.
 - Suggest firm call and green call each year, i.e. March and November.
 - BC Hydro can make strong argument for need based on call experience and attrition.

Securities

- Costs developers money.
- There should be an opportunity for IPPs to fix things.
- One good thing about stepped process is that allows IPPs to clean up ambiguities (provides both parties time to deal with issues).

Pre-Qualification

- Concern expressed about elongating process for pre-qualification. (Pre-qualification with updates to documentation once per year. Then bid projects on a known timed basis. Pre-qualifying projects particularly without price will be of limited value).
 - Should shorten call process and make it repetitive.
 - Cut off may be determined by transmission planning.
- One IPP favoured having a bidder qualification.
- Jamming “square pegs into round holes” forces up prices for years (as per F2006 Call). This goes back to Firm vs Clean. If Firm defined, then no one can try to force inappropriate projects into the wrong CFT.
- Private sector creates efficient, low cost power
 - Liability for bidders to clean up ambiguities.
 - 2-step pre-qualification process provides some opportunity.
 - Opportunity for meeting with pre-qualification bidders to discuss all required changes.

EPA Risks

- Greatest risk is leading up to COD having the ability to adjust output $\pm 10\%$ is significant – should broaden this idea.

Pricing Indexing

i.e. using some form of construction index.

- It's interesting but tricky to do.
 - Developers try to manage construction risk.
 - However IPPs don't have control over certain items such as property taxes.
 - BC Hydro has benefit of portfolio effect, index IPPs need to price in such risk.
- Need balance of risk allocation.

Fairness Monitor

- Serves no value.
- BCUC provides that service.

Consultation Comments

- Process is quite valuable, hope it continues.
 - Should take input to wider group.
- Talking about fine tuning – Negotiated Settlement Process good step.
- Meeting is extremely useful.
- We've been hammering away for 4 years on these issues, it's been a struggle, but BC Hydro has been listening and the process is absolutely necessary, learning from others.
- Fantastic opportunity, wants to be involved in future.

Miscellaneous

- BC Hydro has done amazing job with the F2006 Call; lots of pressure, complexity and lobbying.
 - Just need to make adjustments.
 - Complainers typically have not made the investment.

Notes prepared by J. McKenna – July 2006.