

IPP Dialogue Session # 7

Following is a brief summary of the IPP consultation meeting held on July 21st regarding BC Hydro's power acquisition process and the design of the F2007 call.

Date/Time	July 21, 2006– 9:00 a.m. to 11:00 a.m.
IPP Participants	Michael Walsh– Brookfield Power Steve Davis – IPPBC
BC Hydro Participants	Joanne McKenna (facilitator) Dave Kusnierczyk

BC Hydro's Procurement Process

- Calls for Tenders (“CFTs”), and similar competitive tender processes, tend to be highly price competitive and effective means of driving down the cost of purchasing power for BC Hydro and its ratepayers. However, the following results can occur:
 - The projects selected may not be the “best” projects once quality and delivery issues are taken into account.
 - Bidders may use low-quality equipment for their projects or make overly-optimistic/aggressive assumptions on the construction and permitting time lines and costs. These in turn can contribute to the high attrition rate being experienced by BC Hydro.
 - The CFT creates a very high demand for a short time period creating pressures on a number of limited resources, e.g. permitting authorities, construction estimators, BCTC. This intense competition for limited resources may have resulted in scarcity pricing (higher cost for less service) which was reflected in the project bids.

Mitigation of Bidder Risk

- The more uncertainty an EPA contract has, the higher the bidder's risk and hence price. Sources of risk and uncertainty include:
 - Transmission uncertainty.
 - Permitting uncertainty.
 - Regulatory uncertainty.
 - Construction cost uncertainty.
 - Deemed energy profile (intermittent energy), including de-ratings.
- A bidder's price is also closely linked to how easily the project can borrow money. In addition to some of the items mentioned above, financing terms are directly linked to:
 - Revenue certainty.
 - Buyer termination rights, which may also be financing “show stoppers.”

Alternative Procurement Options:

Graduated Standing Offer

- BC Hydro should outline some general terms and conditions whereby BC Hydro is prepared to sign long term contracts with the first “X” MW of qualified projects.
- The terms can be tailored to various generation technologies and geographic locations.
- Upon an applicant reaching certain requirements, the parties would sign an MOU that would outline the terms of the eventual EPA as well as the timelines and milestones that the project would be required to meet in order to progress to the second stage.

- At the second stage when the project had reached a predefined maturity, BC Hydro would sign a standard EPA with the developer. The EPA would include timelines, milestones, liquidated damage terms, and termination rights.
- Attrition rates could be managed by tailoring the terms and requirements for reaching either the first or second stage. Should a project miss a milestone date, then it would lose its place in the queue.

Open vs. Rigorous Pre-Qualification

- BC Hydro could reduce the attrition rate by adopting a rigorous pre-qualification process, e.g. previously obtained a number of permits for the project in question. This would provide the incentive to developers to progress their project to reasonable maturity before attempting to obtain an EPA from BC Hydro. It is also consistent with the Graduated Standing Offer approach suggested above.

Open RFP – Financial Capacity/Energy Seller’s Choice

- BC Hydro should pursue energy-only RFPs that are not necessarily backed by the seller’s own physical assets. Proponents would be permitted to provide energy either from a specific site, a portfolio of generating assets or from an alternative source of energy either within BC or imported from neighbouring jurisdictions. Proponents would be responsible both for sourcing the energy on the most economic basis and transmitting it to the agreed delivery point. Available transmission capacity (ATC) would be dedicated to meeting these native load needs. Such an approach may be particularly suited to addressing short term supply gaps.

RFP – Site Specific

- For a site specific RFP, BC Hydro would obtain permits for a given development or site and then auction the development rights. The contract could be designed as a private-public partnership (PPP) project whereby the rights to the project and the infrastructure would revert to BC Hydro at the end of the contract. Such a process may be particularly appropriate for a large complex development project such as Site C, where only a handful of consortiums have the necessary depth of experience to take on such an endeavor.

Other Comments

- The role of private investment in the electricity system can result in the following benefits:
 - Higher degree of scrutiny and rigor involved with the private sector.
 - Appropriate transfer of risk to those best able to manage it, e.g. risks related to construction management, operation and finance.
 - Efficiencies of private sector in the management of large scale projects.
 - Greater ability to introduce new and innovative technologies, ideas, organizations, procurement methodologies that result in lower costs to the public.
 - Greater availability of additional capital to finance projects.
 - Freedom from the political cycle – the use of private finance may allow projects to be advanced against the election cycle.
 - Private investors will optimize projects to meet the stated needs of the user rather than the preferred capacity of the providers.
 - Decentralized ownership of the electricity system disseminates wealth, often to the local municipalities and First Nations, rather than concentrating it.

Notes prepared by J.McKenna – July 2006.