

**Issue Summary from IPP Dialogue Sessions  
June to August 2006**

*During the summer of 2006, BC Hydro conducted a series of dialogue meetings with small groups of IPPs in order to gather input regarding the design of the 2007 Call for Power, including improvements to the acquisition process and enhanced contractual terms and conditions. Shown below is a summary of the key findings arising from these IPP dialogue sessions. It should be noted that this summary may not fully capture all the comments and suggestions made by individual IPP representatives but is intended to serve a basis for continuing dialogue.*

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**F2006 Open Call for Power**

- The existing call for tenders process is working and provides necessary certainty to bidders and financiers.
- While the Q&A process was fair and thorough, concerns were raised about the lengthy time for obtaining responses. BC Hydro should consider ways to provide bidders with an opportunity to speak with a real person to assist in responding to IPP questions, consider creative ways to provide information to bidders and providing earlier feedback on tender results.
- BC Hydro should encourage combined bids to obtain the desired energy profile (e.g. partner a thermal plant IPP with a run-of-river IPP to produce a more desirable profile).
- Call awards should not occur in summer as it is difficult to execute financing during vacation months.
- The size limit of 10 MW for the small project stream may lead to under-utilization of the resources and the need to bid incremental power into subsequent calls.
- Credit rating requirement for potential financiers is too high; also, 14 days to sign the EPA is overly short.
- BC Hydro should maintain the original call schedule during call execution.

**Acquisition Processes (CFT vs. RFP)**

- Prefer CFT process which is evolving and improving – provides certainty and reduces transaction costs.
- CFT to be clear and transparent – BC Hydro should identify which terms are negotiable and which are not.
- RFP may be helpful in certain areas, for instance, benefit agreements.
- BC Hydro could outline general terms and conditions where BC Hydro signs long term contracts with the first (X) MW of qualified projects with terms tailored to various generation technologies and geographic locations. Once a bidder meets certain requirements, an MOU would be signed outlining terms of the eventual EPA as well as timelines and milestones to progress to the second stage. At the second stage, BC Hydro would sign the EPA and attrition rates could be managed by reaching the milestones/timelines.
- BC Hydro could pursue energy-only RFPs that are not backed by the seller's own physical assets.

**Risk Allocation**

- BC Hydro/government should decide the appropriate risk profile between ratepayers, BC Hydro and IPPs.
  - a) Construction Risk
    - Construction cost escalation resulted in higher bid prices.
    - Do not batch process bids – removes competition for a small number of the same qualified contractors.
    - Risk assessment requirements for qualified contractors may be too onerous.
    - Consider developing list of pre-qualified contractors for tender applications.
    - No need for a construction cost escalation index in contract as it is priced into the bid; interest rate escalation is more of a concern – need a formula-based process in the contract.
  - b) Pricing Risk
    - If BC Hydro is publishing project costs they should be levelized bid prices; there is difficulty in defining a purchase price with a single figure.
  - c) Regulatory Risk
    - Posting of performance security prior to the BCUC's section 71 review is very expensive; should allow more than 90 days for regulatory process and potential appeals.
    - Permitting risk is a key emerging risk for all projects.

**Electricity Purchase Agreement (EPA)**

- Monthly firm energy delivery obligation should be extended to quarterly or annual delivery obligation.
- It is desirable for future EPAs to be consistent with EPAs from recent calls.
- Flexibility to fine tune size of the project post-EPA award allows for optimization of the project/resource.
- EPA should cover the construction cost-related increases during the call process.
- Liquidated Damages should be capped at lower levels.

- Projects should be provided opportunity for staged COD of multiple generators.
- Offer IPPs a choice of incentives to achieve COD by the prescribed target date.

### **Reducing Attrition**

- Progressive pre-qualification could improve attrition and save IPPs and BC Hydro unnecessary costs.
- BC Hydro should consider a site-specific call where BC Hydro obtains the permits for a given development or site and then auctions the development rights. The rights to the project and the infrastructure could revert back to BC Hydro at the end of the contract.
- Have higher security deposits instead of pre-qualification and allow IPPs to self select.
- BC Hydro should conduct a post-mortem to understand reasons for attrition and its future avoidance.
- Up to 50% attrition is acceptable and consistent with other jurisdictions.

### **Pre-Qualification**

- In some circumstances no pre-qualification is necessary; whereas in other situations it could be necessary and desirable (e.g., long or expensive process to submit tenders).
- Ensure that IPPs are legitimate – pre-qualification ensures that only those bidders that have the technical/financial capability of developing projects are accepted. However, smaller projects may be excluded unless there is some other qualifying mechanism such as a higher security deposits.
- Retain the pre-qualification process which is good for BC Hydro, lenders, EPC firms and communities. Should have 2 stages (pre-qualification and mandatory criteria) and then a bidding round. Price submitted in round #1 could be higher or the same as round #2 pricing. This would ensure cost-effectiveness and transparency in the process.
- Pre-qualification creates more administrative burden but may be a good idea to avoid a “gold rush” for signing contracts.

### **Transmission Issues**

- BCTC should provide information sooner and more alignment is required between BC Hydro and BCTC.
- Concerns were voiced regarding the BCTC process for selecting the most optimal route for the interconnection, and timing of the study results.
- Publish transmission information prior to bid deadline.
- Publish timing of transmission data in order to make the process more transparent.

### **Open Purchase Offer**

- Key features are the cut-off or size limit and the established price (including adjustments):
  - Cut off could be 10-50 MW; Fisheries prefer to have a 10 MW cap;
  - Suggest size cap of 100 GWh/year; increase size if no call in certain years;
  - Artificial size limit encourages sub optimization of resources, set a 20 MW limit;
  - Price could be based on last call plus inflation index; alternatively, could use Tier 2 stepped rate price.
- Removes the need for small projects in the call.
- Useful if it supports public policy (e.g. 50% green) but subject to criticism if certain technologies excluded.
- Designate areas in BC where there is transmission availability in order to shape the offer process.
- Open offer is beneficial if the project can be financed – developer knows project will go ahead.
- Have an open offer process after the call is established with a clearing price for a limited time period.
- Regulator onside with cost effectiveness of open offer process at the right price.
- Open offer for small projects is good – IPPs can self select based on stated price.
- Eligibility criteria could be COD or advanced stage of permitting approvals.
- Requires a long time horizon to assure IPPs that offer is still available once project is ready.
- Value for existing projects with excess power to sell once plant has been built.
- Provides certainty on timing and availability of contracts, IPPs budget and design for what is available.
- Encourages self selection – developers will bid in more advanced projects since there's less time pressure.
- Should have more flexible risk assessment and a permitting out option in the contract.

### **General Comments**

- Suppliers prefer consistency of major call elements as it allows them to develop their projects and tenders more effectively.
- The greater the certainty and clarity about BC Hydro's future acquisition plans, the higher quality the projects that will be submitted by IPP suppliers.
- Increased dialogue between BC Hydro and IPPs is valuable for all parties.
- Value of buying power from IPPs needs to be made clearer and communicated broadly.