

Standing Offer Program (SOP) Review

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Welcome to the SOP Review Web Cast

Presenters:

Alison Briggs – Program Manager

Laura Creech – Lead for the SOP Review

Also joining us:

John Rich – BC Hydro, Generator Interconnection & Transmission Services

Charley Ye – BC Hydro, GITS

Sandra Witt – BC Hydro, Aboriginal Relations & Negotiations

Jim Ko – BC Transmission Corporation, Market Operations



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Agenda:

SOP Review - Engagement and Timing

Government Policy Direction and BC Hydro's Response

SOP Results to Date

Presentation of key issues:

- Eligibility Criteria

- Price

- Interconnections

- First Nations

- Transitioning from existing SOP to new SOP

Q&A period



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SOP Review – Engagement and Timing

October 2009 - SOP online questionnaire – closing February 12, 2010

Dec 09/Jan 10 - One-on-one feedback sessions with SOP applicants

January 2010 - *** Today's Web cast **** Start of the discussion

Mar/Apr 2010 - Smaller dialogue sessions – including regional and First Nations sessions

Spring 2010 - SOP Review report and filing with BC Utilities Commission (BCUC)

Summer/Fall - Regulatory approval of amended SOP

Government Policy Direction

BC Energy Plan (2007) Policy Action No. 11 directed BC Hydro to:

- Establish a standing offer for clean electricity projects up to 10 MW
- Simplify the process, contract terms and conditions
- Competitive pricing for small projects relative to other supply sources
- Ensure cost-effectiveness, transparency and fairness of the SOP

May be new government policy direction as a result of the Green Energy Advisory Task Force work currently underway

BC Hydro's Response

2007

- First Nations and Stakeholder Engagement
- Section 45 Application filed with draft SOP Rules and Electricity Purchase Agreement (EPA)

2008

- Negotiated Settlement Process (NSP)
- Negotiated Settlement Agreement (NSA) approved by BCUC
- Program launched and applications being accepted

2009

- SOP continues and SOP Review commenced

SOP Results

BC Hydro estimated in the first two years that:

- 10 to 50 EPAs could be awarded
- 90 to 900 GWh/year of energy

To date in the SOP:

- 6 EPAs have been awarded totaling approximately 190 GWh/year of energy
- 15 active applications of an additional 290 GWh/year of energy

How is it going? - It depends on your expectations

- From BC Hydro's perspective the response to the SOP has been positive
- However, we recognize:
 - The application review and project specific EPA amendment process takes longer than expected
 - Every application has its own challenges and has required requests by BC Hydro for additional information
 - Interconnection costs are surprising SOP participants. It is essential for developers to understand their interconnection prior to investing significant development capital
 - Regulatory filing and approval process is taking longer than expected

What is working?

- SOP is reducing post-EPA project attrition
- SOP Rules are fair, transparent and provide a high degree of certainty for developers/financiers
- SOP EPA is simpler than past contracts
- SOP is flexible for applicants – an open window and iterative process for completeness of applications

What needs improvement? – what we have heard so far

- Increase the price for energy and environmental attributes
- Reduce the interconnection costs borne by the developer
- Improve interaction between the Interconnection Process and the SOP
- Decrease the timeline to sign an SOP EPA
- Decrease the timeline to obtain BCUC acceptance of an executed SOP EPA
- Allow developers to keep the environmental attributes
- Increase the 10 MW size threshold

Discussion needed on key issues...

Eligibility criteria

Price

- Base price
- Regional pricing
- Environmental attributes
- Different pricing for different technologies

Interconnections

First Nations

Transition rules

Eligibility Criteria

Less feedback on the eligibility criteria than expected

Greater than 10 MW

- Should this level be raised? What is the correct number?

‘Proven’ versus ‘non-proven’ technologies

- BC Hydro is currently exploring the role of innovative and/or near-commercial projects as a separate initiative apart from the SOP Review

State of Readiness – permits, tenures

F2006 Call EPA holders – should they be able to participate?

Base Price

Cannot discuss the most recent call results

- Clean Power Call is still in progress (i.e. No EPA awards)

Can discuss factors that could/should be taken into account in setting new base price

Factors that could affect how base price is determined:

- Cost and availability of supply resources
- Need/demand for energy
- Prices paid in comparable jurisdictions for similar products

Base Price Adjusted by Region

Regional adjustments reflect the “all-in” cost of acquiring the electricity by including:

- Cost of Firm Transmission (CIFT) for transmitting the electricity from plant gate to load
- Losses resulting from transmitting the electricity from plant gate to load

Feedback has been that developers in certain regions of the province feel “penalized”

To date, regional diversity has not been a policy driver for the SOP

Environmental Attributes (EAs)

Clarification of \$3.10/MWh value for certified “green” energy:

- BC Hydro purchases energy and all EAs under the base price of the EPA
- The additional \$3.10/MWh is only paid for EcoLogo certified EAs

Environmental Attribute Pricing Issues:

- IPPs are asking for the ability to keep EAs or for BC Hydro to dramatically increase the EA price
- Value for EAs is uncertain, market for Renewable Energy Credits (RECs) is not mature/liquid
- Future obligations vis-a-vis climate change are unknown

Different Pricing for Different Technologies

BC Hydro has not been given a policy directive in the SOP to pay more for technological diversity

BC Hydro does have a mandate to provide cost effective electricity to the ratepayer

BC Hydro SOP

- Pricing based on marginal cost of energy
- Generally yields the most cost-effective energy for the ratepayer
- 'Pick the low hanging fruit' first

Ontario's Feed-In-Tariff Program

- Pricing based on cost of generation plus return
- Promotes diversity of sources and wide range of solutions on development/maturity curve
- May result in over-build of technology/segment



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Interconnections – A process within a process

- Generator Interconnections and the SOP are separate processes that necessarily overlap
 - Valid interconnection costs must be understood by both the developer and BC Hydro prior to EPA offer
- For Interconnections, IPPs must deal directly with either the Distribution (D) or Transmission (T) entities
- D and T systems are dynamic. Study results are only valid for a short duration; generation or load may be added or removed from the systems which affects available line capacity and operations
- Interconnection to the D and T systems can be technically complex and the complexity is not always proportional to generator size

Interconnection – Types of studies?

Grid system impacts and interconnection costs are determined by conducting interconnection studies

There are three types of interconnection studies each with a different cost and level of accuracy of cost estimates

- **Preliminary Study** (least expensive, less accuracy, preferably done prior to investing significant development capital)
- **Impact Study** (required prior to EPA offer, more expensive, generally more accurate than preliminary study)
- **Facilities Study** (required prior to being interconnected – can be before or after EPA signing, most expensive, most accurate)

Aligning the Processes – Which study and when?

The current level of study chosen prior to EPA offer is the Impact Study level

- This has caused a disconnect between state of readiness requirements for permits vs. interconnections
 - After Impact Study applicants still need to complete the Facilities Study in order to sign an Interconnection Agreement and commence construction of interconnection works

There has been confusion as to when developers can undertake certain interconnection studies

Some developers are surprised at the number of studies and the time it takes to work through the Interconnection Process, especially smaller (< 1 MW) projects

First Nations

BC Court of Appeals Decisions

- Carrier Sekani Tribal Council v. British Columbia Utilities Commission (2009 BCCA 67)
- Kwikwetlem First Nation v. British Columbia Utilities Commission (2009 BCCA 68)
- Decisions were issued February 18, 2009
- The two decisions have significant implications for BC Hydro's role in First Nations consultation with respect to the proposed sale of power to BC Hydro
- BC Hydro has an obligation to uphold the honour of the Crown by ensuring that adequate consultation with First Nations has been undertaken.
- The BCUC assesses the adequacy of consultation as part of the Section 71 filing of the EPAs



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Implications for SOP

- BC Hydro requires documentation from proponents on their consultation efforts to assess the adequacy
- Because the SOP requires major permits to be in place, proponents or Crown agencies will have undertaken the required consultation in respect of these permits
- However, BC Hydro *may* have to seek additional information to make a determination on the adequacy of consultation to undertake its Crown duty or to prepare for BCUC filing
- Revised SOP Rules and all EPAs will have to address this new requirement

Transitioning from existing SOP to new SOP

The transition rules are part of the SOP Review and will require BCUC review

BC Hydro is considering:

- SOP applicants that provided a complete application prior to the new SOP Rules being accepted by the BCUC will be grandfathered under the 2009 SOP Rules and eligibility criteria
- A “complete” application would include all required information to demonstrate compliance with the eligibility requirements and First Nations consultation, as formally acknowledged by BC Hydro
- All SOP applicants, regardless of their stage in the process, will receive the new SOP EPA terms and SOP price other than those that have signed an EPA

Questions and Answers