89.0 Reference: Volume 2, Appendix I, Power Smart 10-Year Program

1.89.0(e) Please provide for the Weyerhaeuser/ Kamloops 30 MW turbo generator and Canfor/Prince George 48 MW turbo generator load displacement projects announced this past year:
(i) the specific rate impact evaluations that were undertaken in support of the incentives to be provided;
(ii) a summary of the major assumptions used in the evaluations;
(iii) a summary of the major contract provisions regarding payment schedule, performance, liquidated damages, scheduled and unscheduled maintenance, work stoppages or plant shutdowns;
(iv) a summary of any differences in the main contract provisions used in new supply calls and these projects;
(v) the reasons why these projects were not bid into or selected in BC Hydro’s Customer-Based Generation Call in 2002;
(vi) the effect these projects are expected to have on the timing and amount of new supply acquisitions, imports and exports
(vii) a summary of the life cycle environmental impact these projects are expected to have.

RESPONSE:

(i) Please see BC Hydro’s response to BCOAPO IR #1.89.0(b).

(ii) The summaries of the major assumptions used in the evaluations are as follows:

Weyerhaeuser project
- Project cost of $28 million
- Hog fuel supply is available over the term of the contract
- Project can deliver 155 GWh annually over the contract term of 10 years
- Customer would not proceed with the project without the requested Power Smart incentive

Canfor project
- Project cost of $81 million
- Hog fuel supply is available over the term of the contract
- Project can deliver 390 GWh annually over the contract term of 15 years
- Customer would not proceed with the project without the requested Power Smart incentive

(iii) To manage risk, the contract provisions provided in the Load Displacement Agreements address a number of project eventualities, with mitigation expectations, and financial implications if performance is not met.

Payment Schedule – the standard schedule provides for project payments in three instalments. The first 25% follows evidence of initial project expenditures of that amount, the next 50% upon project completion and operation, and inspection by BC Hydro, and the last 25% after completion of a Measurement and Verification
(M&V) report which follows 6 months of operation. Construction cost overruns are the responsibility of the customer, while construction cost underruns greater than a threshold amount are shared equally between BC Hydro and the customer.

Project Performance – the projects have an annual target for load displacement, to be met each year of the agreement. To provide operational flexibility for the project and customer site, a load balancing account is provided to allow a make-up opportunity for occasions when the annual production of the project comes up short. A one-year period is provided to make up any deficiency, before a pro-rated refund of the incentive based on the amount of the deficiency is required. A positive balance of up to 10% of the annual load displacement may be established in anticipation of future downtime. The M&V process is used to track the project performance.

Liquidated Damages – are provided for in the event that the customer uses the project to obtain market sales of electricity rather than providing BC Hydro with load displacement savings. Damages are calculated using Mid-C prices.

Maintenance – any planned maintenance during the months of November through February must have the prior written consent of BC Hydro.

Work Stoppages – are treated as force majeure events, and result in an extension of the term of the agreement equal to the period of the force majeure.

Plant Shutdowns – any temporary shutdowns are treated as force majeure events, while a permanent shutdown results in a prorated repayment of the incentive, and termination of the agreement.

(iv) The table below provides a summary of the major terms of the contracts in question. It is not an exhaustive summary of all contract differences.

The load displacement agreements with Canfor and Weyerhaeuser are confidential. To facilitate a comparative assessment of contract provisions, a generic Load Displacement Agreement is attached. The 2002 Customer Based Generation EPA can be found at:

http://www.bchydro.com/info/ipp/ipp4090.html
The 2003 Green Power Generation EPA can be found at:
http://www.bchydro.com/info/ipp/ipp4799.html

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<thead>
<tr>
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<tbody>
<tr>
<td>Contribution</td>
<td>Capital contribution for project construction through an Power Smart incentive.</td>
<td>No capital contribution. Power paid for upon monthly invoices from IPP.</td>
</tr>
<tr>
<td>Delivery Profile</td>
<td>Expected to be firm within tolerances and load balancing account. Provisions for 1821 consumption or 1880 consumption/back-up.</td>
<td>Firm with tolerances – liquidated damages apply for non-delivery outside of tolerances.</td>
</tr>
<tr>
<td>Termination Payment</td>
<td>Repayment of incentive on pro-rata basis.</td>
<td>Based on “mark to market” for replacement energy (subject to cap).</td>
</tr>
<tr>
<td>GHG Intensity</td>
<td>No specific provisions.</td>
<td>Bid price adjusted for GHG intensity for ranking. Liquidated damages apply if target GHG intensity exceeded.</td>
</tr>
<tr>
<td>Maintenance of Green Criteria</td>
<td>No specific provisions.</td>
<td>Bid price adjusted for GHG intensity for ranking. Liquidated damages apply if target GHG intensity exceeded.</td>
</tr>
<tr>
<td>Recall Option</td>
<td>No provision for market sales.</td>
<td>20 percent of contract deliveries. Exercise of option results in $2/MWh decrease in energy purchase price for residual deliveries.</td>
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</table>
(v) Neither of the project proponents bid into the Customer Based Generation Call and hence the projects could not be selected under that Call. The choice to bid into CBG or to submit a project to Power Smart is left to the customer.

(vi) The energy savings from these projects are incorporated within the 10-Year plan, contributing to the overall impact that Power Smart resources have on BC Hydro resource decisions.

(vii) Please see BC Hydro’s response to BCOAPO IR #1.89.0(c).