IPPBC Independent Power Producers association of British Columbia

September 9, 2005

Robert J. Pellatt
Commission Secretary
B.C. Utilities Commission
6th Floor - 900 Howe Street
Vancouver, B.C.
V6Z 2V3

Dear Mr. Pellatt:

**Re: BCUC Project No. 3698388/BCUC Letter -28-05l**
**BC Hydro 2005 Resource Expenditures and Acquisition Plan**

Please find attached the direct evidence and professional qualifications of Mr. C. Ball with respect to the above.

Yours truly,

"Original signed by David Austin"

David Austin on behalf of the IPPBC

Cc: All Intervenors, BC Hydro

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**TESTIMONY OF CHRIS BALL**
**CORPFINANCE INTERNATIONAL LIMITED, ON BEHALF OF**
**INDEPENDENT POWER PRODUCERS OF B.C.**

## 1. Introduction

This testimony has been prepared on behalf of the Independent Power Producers of British Columbia with respect to the British Columbia Utilities Commission's ("BCUC") review of BC Hydro's 2005 Resource Expenditure and Acquisition Plan.

Mr. Ball is an Executive Vice President of Corpfinance International ("CFI") with over 30 years of domestic and international lending experience. He is a director of the IPPBC, Hydrovision Advisory Board, a multi-national conferencing organization specializing in hydro-electric facilities and a trustee of Algonquin Power Income Fund. Mr. Ball has participated in approximately 50 structured financings in relation to a variety of different electricity generating technologies including co-generation, hydro-electric, thermal, and wind. The financings were for generating projects ranging is size from 1 MW to 70 MW and located in Quebec, Ontario and British Columbia and the United States. In addition to being CFI's electricity generation specialist, Mr. Ball is also responsible for managing its structured loan portfolio and in this respect he has organized over $1 billion in debt financing.

Mr. Ball's complete CV is attached as Appendix A.

Mr. Ball has reviewed the evidence of BC Hydro filled on July 8, 2005 and in particular Exhibit C to the testimony of Mary Hemmingston entitled *"EPA Terms and Conditions – July 8, 2005."* He has discussed this evidence with other IPPBC directors and committee members and with BC Hydro as part of its consultative process prior to its filing, and as well, post filing.

## 2. Electricity Purchase Agreements

Electricity purchase agreements ("EPA") are one of the fundamental documents of any Independent Power Producer structured financing. The advisers to the financial institutions that provide the long-term debt for these projects, primarily life insurance companies and pension funds, carefully review the risk allocation contained in the relevant EPA. It is one of the prime factors that is used to determine the IPP's cost of long term borrowing which for Canadian borrowings is usually expressed as a rate of interest in percentage term or basis points above the interest rate of Government of Canada bonds with a similar maturity. Other prime factors include the experience of the IPP and the certainty of the fuel supply being used for generation. The higher the risk, the higher the interest but at any interest rate, long-term lenders expect full payment of all debt and interest.

The terms of an EPA can also affect the amount of equity that an IPP is required to invest in a project and the key lending benchmark is the debt service coverage ratio. The risk allocation can adversely affect the long term interest rate but just as importantly it can affect things such as the requirement to post LCs and/or cash – which should be deemed as equity thus raising the overall costs of the project – which in turn, will require the IPP to increase his bid price due to the fact that long term lenders won't finance projects that do not meet their normal debt service requirements. Furthermore, equity providers would not be in a position to accept uncompetitive returns relative to other industries.

**3. Appendix C "EPA Terms and Conditions"**

It would have been preferable if BC Hydro had filed its EPA and not just a summary of terms and conditions that are stated to have *"no contractual legal effect"*. This summary is commonly referred to as a *"term sheet"* in the business world but it is unusual to express it is having *"no contractual legal effect"*.

Subject to the provisions of the term sheet being in all material respects reflected in the provisions of the EPA and subject to no material omissions in the term sheet, my analysis of items No.8, 10, 11and 12 of this term sheet is set out below.

**No. 8 Price – Property Tax Rate Adjustment and other Costs – No. 10 Change in Law**

As flow-throughs have been restricted to that of 50% property tax rates and no capping of water rentals, as evidenced to date, the concern of having a 40 year fixed rate with an erosion of returns based on government actions will require the IPP to speculate going forward on what these actions will be. While it is common to accept property rate increases, a change of law such as water rental increases should be mitigated by the government or flow-through to the utility as a wholly-owned subsidiary thereof.

**No. 11 Liquidated Damages – Large Projects Only**

LD's have primarily been used as an incentive to ensure that a fuel can be delivered as expected, namely gas. To attempt to utilize the same philosophy for other fuels such as wind and water is impractical in light of the fact that the IPP besides the operations of his plant is not in control of the supply of these fuels. Therefore, to predict going forward for short and long-term trends on a monthly basis is both speculative and unrealistic. At best, past data can be modeled to provide a level of confidence, however, as damages would impact the company's ability to meet it's debt obligations a series of worst case scenarios would be required to be implemented to ensure that a lender on a non-recourse basis would be able to have adequate cash flow to offset any defaults. The cash required to be put aside to meet these events would once again, increase the cost of the project and therefore, the overall price per megawatt of the utility.

**No. 12 Performance Security**

Performance security is to be taken as evidence of the ability of the IPP to perform. If a number of small projects i.e. 40 MW, do not perform, there will be almost no overall impact on the system. The cost of the performance security will once again, impact on pricing. On larger scale projects i.e. 400 MW, the utility would be impacted by the non-performance of such a project not coming on line and therefore, to make it reasonable for all parties, a sliding scale of performance risk would be more appropriate than that of a per megawatt cost, based on the fact that smaller projects normally on a per megawatt basis do not have the advantage of economy of scale.

## 4. Conclusion

On the basis of the analysis of the above items of the term sheet, and assuming an IPP generating project of about 40 MW, the long term cost of debt will approximately 10% higher than otherwise and the bid price which the IPP will require to have a financeable project will be approximately $5 per MWh higher than otherwise.

# Christopher J. Ball

## Experience

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| Executive Vice President<br>Sept. 2001 – Present | **Corpfinance International Limited**<br>Christopher Ball brings over 30 years of domestic and international lending experience to Corpfinance.<br><br>Due to the diversity of his professional experiences and his commitment to future focused initiatives, Chris has become CFI's co-generation hydro infrastructure business specialist, where he has developed in excess of 50 infrastructure financings Pan Canada and in the U.S. In addition to his work in the increasingly important energy sector, Chris is also responsible for managing CFI's structured loan portfolio, where he has organized over $1 billion in debt financing. |
| President<br>Nov. 2004 - President | **CFI Capital Inc.**<br>A provider of equity to the Canadian Market, specializing in the infrastructure field., through the CFI Capital's largest initiative, it's $80 million Infrastructure Opportunities Fund, where Chris is a fund manager. The fund has been active in the placement of a number of capital issues in the energy field. The fund's participants are Ontario Teachers' Pension Plan, Teachers' Retirement Allowances Fund (Manitoba), Kilmer van Nostrand and The Canadian Medical Protective Association |
| February 2000<br>V.P. Marketing | Hiring, training and motivating the marketing staff to build quality portfolios and develop quality business and customers is encompasses this responsibility. |
| January 1994<br>Vice President | Duties included increasing the prominence of the energy financing activities of the company and all marketing functions that this entails. Ongoing duties continued and included developing new products and methods of financing for other areas within the company, developing new customers, underwriting and negotiating terms of structured deals, preparing credit presentations and reviewing closing documentation. |
| January 1988 | Joined Corpfinance International as a General Manager and as a principal. |

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| Oct. 1981 – Nov. 1987<br>Vice President | **Standard Chartered Bank of Canada**<br>Responsible for establishing the cross-Canada presence of Standard Chartered, a schedule II bank.<br><br><u>Accomplishments</u>:<br>Opened and started up all their Canadian commercial offices.<br><br>Establishment of commercial credits and a professional loan portfolio in excess of $500 million.<br><br>Bank's Canadian Representative for the Republic of China. |
| 1971 – 1981<br>Various Positions | **Canadian Imperial Bank of Canada**<br>Managerial positions for a decade. |

## Other Achievements

Director of the Independent Power Association of British Columbia;

Director of the oldest non profit housing board in the city of Toronto, Interfaith Homes Inc.;

Recognized speaker within the Hydro Electric Industry and is a member of the Hydrovision Advisory Board;

Trustee of Algonquin Power Income Trust;

Member of the Association of Power Producers of Ontario (“APPrO”);

Member of Canadian Council for Public Private Partnerships;

Member of Ontario Waterpower Association;

Director and Principal of Corpfinance International.