

REQUESTOR NAME: CLOUDWORKS ENERGY INC.  
INFORMATION REQUEST ROUND NO: 1  
TO: BRITISH COLUMBIA HYDRO & POWER AUTHORITY  
DATE: JULY 8, 2008

PROJECT NO: 3698514/Order No. G-96-08

APPLICATION NAME: **2008 LTAP**

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**1.0 Reference: IR Topic #37: Clean Power Call Action Items: Appendix M: Schedule 2 (RFP Schedule)**

**TOPIC: Time Period Between Proposal Submission and EPA Award**

Under the current proposal, bidders are required to submit a Proposal on November 25, 2008 and then find out if they have been awarded an EPA between mid-April and June, 2009. Responsible bidders will require a firm construction cost at the time of the proposal submission. However, we have been informed by large EPC contractors that because of the tight construction market they cannot hold their bids firm for 7 months – and it should be noted that this 7 month period does not include the time required for a Section 71 approval by the BCUC. To cover post-submission, pre-construction cost escalation risk, bidders will need to increase their energy bid prices, unnecessarily increasing costs to the ratepayer.

In addition, unlike past BC Hydro Calls for Power, bidders will not know their generator-specific, non-cash, Network Upgrade bid “penalties” at the time of bid submission. While generator-specific NU’s do get blended into other NU’s in the portfolio analysis, bidders are more likely to modify their bids lower to remain competitive (i.e., a high NU penalty requires a lower bid to remain competitive) if they know their generator-specific NU penalty ahead of the submission deadline. Bidding “blind” on NU’s may unnecessarily result in higher bids.

Questions:

- 1.1 Would it not make more sense for ratepayers and bidders alike to delay the time of bid submission to the spring of 2009 when the outcome of the LTAP will be closer at hand, Preliminary Interconnection Study results will be available to bidders and contractors will not have to hold their price such long periods?

If not, please explain why.

**2.0 Reference: IR Topic #37: Clean Power Call Action Items: Appendix M: Schedule 7 (EPA Term Sheet): Post COD Pricing: Escalation (pg 5)**

**TOPIC: Choice of Index: Canadian CPI vs. BC CPI**

The choice of BC CPI as an index is a departure from previous Calls that used Canadian CPI. While this may seem like a minor change it has significant implications for those bidders that need to access non-BC based pools of capital. In fact, most of the capital provided for IPP projects in British Columbia does come from outside of the Province. Debt and equity lenders in Canada and abroad are very used to

Canadian contracts using Canadian CPI. Traditional bank lenders are conditioned to the positive impact Canadian CPI has on debt coverage ratios over longer term contracts such as the EPA's BC Hydro offers. To introduce a new index will increase uncertainty (risk) and therefore increase debt costs (spreads and terms), increasing bid prices and ratepayer costs.

Similarly, insurance institutions and pension funds commonly look to the Canadian CPI to hedge long term actuarial and retirement obligations respectively. The use of BC CPI would represent uncertainty and their costs of capital will increase accordingly.

Questions:

- 2.1 Does BC Hydro perceive any benefit to using BC CPI relative to Canadian CPI?
- 2.2 Would BC Hydro consider changing the index (both pre and post COD) back to Canadian CPI so that IPP's can access greater pools of capital at lower costs with less punitive lending terms?

If not, please explain why.

**3.0 Reference: IR Topic #37: Clean Power Call Action Items: Appendix M: Schedule 7 (EPA Term Sheet): Delay in Network Upgrades: T-Connected Projects (pg. 10)  
TOPIC: Time Certainty of Interconnection**

The capital intensive nature of wind and hydroelectric power projects makes time certainty a critical success factor to providers of capital. Understandably, bidder's contractors face very punitive liquidated damages for schedule delays. However, in the draft Term Sheet bidders are asked to accept full risk for delays in the construction of BC Hydro Network Upgrades (NU's), the timing and delivery of which is quite beyond the bidder's control. The prospect of reaching the end of the construction schedule with fully allocated project capital costs but no interconnection because of delayed NU's, is obviously an unnerving one to providers of capital. Under this proposal, bidders and their capital providers have no means of controlling when (or even if) the network upgrades would eventually be completed. Moreover, they have no financial recourse should such a delay transpire. At the very least this will increase the amount of contingency required by lenders. At worst, this questionable shift of risk to the bidder will significantly reduce the breath of capital pools available to bidders, increasing costs of capital considerably and, by extension, ratepayer costs.

A major role of a private power producer in this Clean Power Call is to shoulder risks effectively on behalf of the ratepayer. Commonly, these are risks over which BC Hydro has no control, such as financing costs, construction costs and permitting. However, it would seem difficult to imagine how transferring risk to the bidder from such an important issue that BC Hydro has some control over, is in the best interests of the ratepayer.

Questions:

- 3.1 Does BC Hydro believe it has any direct or indirect control over the construction scheduling of its NU assets for projects that may be constructed under the 2008 CPC?
- 3.2 If yes, please explain how it is in the interest of ratepayers to transfer NU scheduling risk to bidders under the 2008 CPC from BC Hydro?
- 3.3 If no, outside of regulatory reform, is there anything BC Hydro can do to make the timing of its NU completion more certain?

