Chapter 17
SaskPower—Buying Power from Independent Power Producers

1.0 Main Points

The Saskatchewan Power Corporation (SaskPower) is responsible for supplying power to customers in Saskatchewan. To fulfill this responsibility, SaskPower uses a mix of self-generated and purchased power. Currently, it purchases about 20% of its power supply from independent power producers (IPPs). SaskPower procures power from IPPs through competitive and unsolicited processes.

SaskPower needs to have effective processes to buy power from IPPs. If it does not, it may choose a supplier who is not capable of providing power when needed. It may also pay too much for power, or its selection process may not be seen as fair and equitable, thus decreasing interest from potential IPPs.

SaskPower had effective processes to procure power from IPPs except for the following areas. It needs to update its procurement policies to reflect current practices, and strengthen its procurement policies to require a more thorough consideration, evaluation and documentation of risks to inform decision making. Also, it needs to use consistent processes to evaluate unsolicited IPP proposals.

2.0 Introduction

SaskPower is responsible for the generation, transmission, distribution, purchase, sale, and supply of electrical energy (power) in Saskatchewan. As part of its responsibilities, SaskPower operates $8.6 billion worth of generation, transmission, and distribution infrastructure to provide power to over 500,000 residential, commercial, and industrial customers throughout the province.

SaskPower's vision is to be a world-leading power company through innovation, performance and service.[1] Its mission is to provide reliable, affordable, sustainable power.[2] Saskatchewan's power system "is designed to meet customer demand in real time, as the supply of electricity and the accompanying demand must be constantly and precisely balanced. Since electricity cannot be stored economically on a large scale, changes in demand must be met by corresponding changes in supply."[3]

2.1 Meeting Growing Power Needs

As the province grows, power needs increase. For example, in 2013 SaskPower generated 23,155 GWh[4] of power, an increase of 1,026 GWh or 5% as compared to

[1] www.saskpower.com/about-us/our-company-and-strategic-direction/ (31 March 2015).
[2] Ibid.
[3] Saskatchewan Power Corporation, *Customer Guide to the SaskPower System*, p. 6.
[4] One gigawatt hour (GWh) is equivalent to the energy consumed by 125 typical houses in one year. GWh is a common unit to describe energy consumption.

2012. With the anticipated continued growth in Saskatchewan, SaskPower expects power needs to further increase.

One of SaskPower's areas of focus is electrical generation diversification. This means securing a balanced mix of power generation options (e.g., coal, natural gas, wind) to provide a sufficient supply of power for the province's future growth.[5] Its related goal for generation diversification is using more renewable generation technologies such as wind.[6] Also, it has strategic goals to pursue private sector engagement, which include:

- Pursuing a greater role for the private sector by leveraging skills, expertise, and resources to accommodate growth, and improve service delivery
- Forming partnerships and joint ventures using private sector expertise and investment capital, and limiting direct investment from the Government in the economy[7]

2.2 Independent Power Producers—An Alternate Source of Power

SaskPower refers to individuals or corporations who produce power that it can buy as independent power producers (IPPs). Buying power from IPPs is one way SaskPower fulfills its short- and medium-term power needs, secures a mix of power generation options (e.g., renewable generation technologies), and increases the role of the private sector in power generation.

In 2014, 11 IPPs,[8] with a combined available generating capacity of 851 Megawatts (MW),[9] supplied SaskPower with power at a total cost of $362 million. In this chapter, we refer to IPPs that are generating power as "operating IPPs". As shown in **Figure 1**, four of these operating IPPs generated power through gas-fired facilities, two through wind facilities, four through heat-recovery facilities,[10] and one through a biomass generation facility.[11]

Figure 1—Saskatchewan Independent Power Producers who Generated Power (Operating IPPs) in 2014[a]

Operating IPPs in 2014	Procurement Method	Type	Near Location	Available Generating Capacity MW
North Battleford Generating Station	Competitive	Gas-fired	North Battleford	260
Cory Cogeneration Station	Competitive	Gas-fired	Saskatoon	228
Meridian Cogeneration Station	Competitive	Gas-fired	Lloydminster	210

[5] Adapted from corporate information provided at www.saskpower.com/aboutus/our-company-and-strategic-direction/ (16 December 2014).
[6] Saskatchewan Power Corporation, *2012 Annual Report*.
[7] Adapted from Saskatchewan Power Corporation, *2015 Strategic Plan*, p. 18.
[8] These are independent power producers who have an available generating capacity of five of more MW.
[9] Megawatt (MW) is a unit of bulk power used to describe the output of a commercial generator. MW is a common unit to describe generation capacity, or the rate at which power can be generated.
[10] Heat recovery facilities convert heat emitted from other processes (such as compressor station turbines) into electricity.
[11] Biomass generation refers to the burning of plants, or plant-based materials to produce power.

Operating IPPs in 2014	Procurement Method	Type	Near Location	Available Generating Capacity MW
Spy Hill Generating Station	Competitive	Gas-fired	Esterhazy	86
SunBridge Wind Power Facility	Competitive	Wind	Gull Lake	11
Red Lily Wind Energy Facility	Program	Wind	Moosomin	26
NRGreen Kerrobert Heat Recovery Facility	Program	Heat Recovery	Kerrobert	5
NRGreen Loreburn Heat Recovery Facility	Program	Heat Recovery	Loreburn	5
NRGreen Estlin Heat Recovery Facility	Program	Heat Recovery	Estlin	5
NRGreen Alameda Heat Recovery Facility	Program	Heat Recovery	Alameda	5
Prince Albert Pulp Inc.	Unsolicited Proposal	Biomass	Prince Albert	10
Combined Available Generating Capacity				**851**

Source: SaskPower Contract Management.
[a] This table includes operating IPPs with an available generating capacity of five or more MW.

As shown in **Figure 2**, the number of operating IPPs providing five or more MW of power has grown slowly from seven IPPs with combined available generation capacity of 470 MW in 2008 to 11 IPPs with combined available generation capacity of 851 MW in 2014. By 2014, the power bought from IPPs was about 20% of SaskPower's total generation capacity (see **Figure 2**). SaskPower has contracted to buy a further 307 MW from IPPs who were still developing their generating capacity at February 2015. In 2015, SaskPower plans to enter into additional agreements with IPPs.[12]

Figure 2—Number and Available Generating Capacity of Operating IPPs from 2008 to 2014

Year	Number of Operating IPPs	Available Generation Capacity (MW)*	Percentage of Total Generation Capacity (MW) [a]	Total Spent on Power from IPPs (in thousands)
2008	7	470	13%	$167,177
2009	7	470	12%	$131,193
2010	7	470	12%	$119,647
2011	9	582	14%	$136,152
2012	10	593	14%	$148,515
2013	11	851	20%	$257,812
2014	11	851	20%	$362,221

Source: SaskPower Contract Management and adapted from information obtained from SaskPower.
[a] Calculated based on Available Generating Capacity of IPPs divided by Total Available Generating Capacity (MW).
* This table includes operating IPPs with an available generating capacity of five or more MW.

As noted in **Figure 1**, SaskPower has used various methods to procure power from IPPs. Its agreements with IPPs are initiated in the following ways:

[12] Saskatchewan Power Corporation, *2011 Annual Report*, p. 20; Saskatchewan Power Corporation, *2014 Annual Report*, p. 34.

- **Requests for proposals** (a competitive procurement process). As reflected in **Figure 1**, in 2014, SaskPower contracted for 795 MW (94% of total IPP-sourced power) of power from five operating IPPs. Each of these IPPs was the successful bidder to a request for proposal to buy power. Also, in 2012, through a competitive procurement process to buy wind power, SaskPower contracted for an additional 177 MW of power from the Chaplin Wind Energy Project; SaskPower expects this project to begin producing power in late 2017.

- **Standing offer and self-generation programs**. These are programs designed to buy small amounts of power generated using renewable resource technologies (e.g., Flare Gas Power Generation Program, Green Options Partners Program, Net Metering Program, and Small Power Producers Program). In 2014, SaskPower contracted for 50 MW (5% of total IPP-sourced power) of power through these programs. 46 MW of this power is generated through the five IPPs listed in **Figure 1** with various IPPs generating another 4 MW of power.

- **Unsolicited proposals**. These are unsolicited proposals provided to SaskPower from potential IPPs interested in selling power to SaskPower. As reflected in **Figure 1**, SaskPower received 10 MW of power from one operating IPP. In addition, in 2012, SaskPower contracted for an additional 106 MW of power from biomass generation projects with two IPPs. One of these IPPs ceased operations in 2014. SaskPower is uncertain when the other IPP expects to begin producing power because contract details, such as financing, were not finalized at February 2015. In 2014, SaskPower received 22 unsolicited proposals to sell power to SaskPower.

SaskPower has made its Sustainable Supply Development Branch (Supply Branch) responsible for identifying and pursuing opportunities to procure power through IPPs.

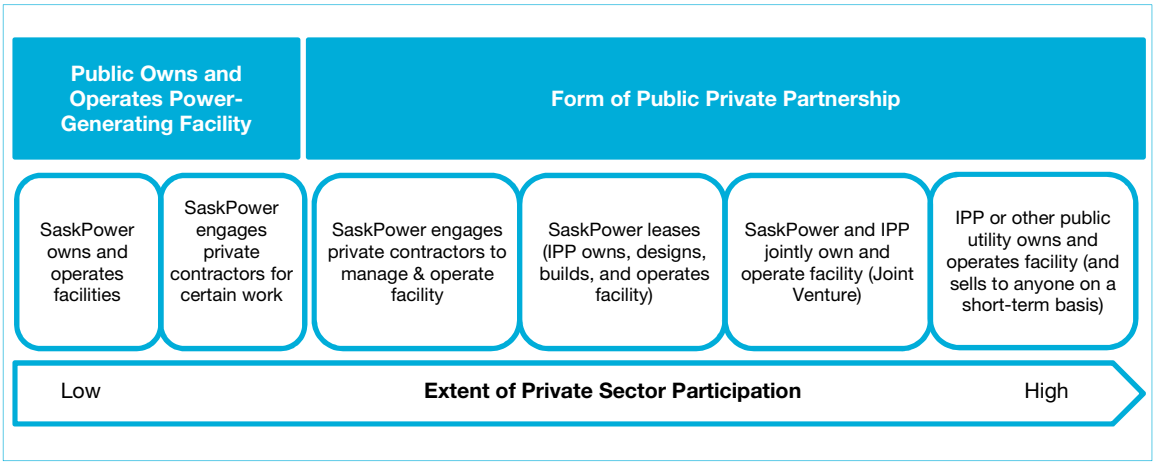
2.3 Agreements with Independent Power Producers

SaskPower enters into agreements with IPPs that are typically for at least a 20-year period. At December 31, 2014, SaskPower had agreements to buy power from operating IPPs worth $3.4 billion over the next 20 years.[13] It is also committed to buy power worth a further $2.6 billion over the next 20 years from IPPs who, at February 2015, were not producing power (e.g., have not built the agreed-upon facility or were not capable of supplying power).[14]

Similar to public-private partnership (P3) arrangements, agreements between SaskPower and IPPs to buy power can vary. See **Figure 3** for variations in extent of the IPP (private sector) participation in the project. In most cases (e.g., Red Lily Wind Energy Facility), SaskPower agrees to buy all of the power produced from a facility owned and operated by an IPP over the long-term (lease); in others (e.g., Cory Cogeneration Station), SaskPower jointly owns the facility (project consortium) and shares in management and operation of the power-generating facility (joint venture). With joint arrangements, the project consortium has a lease with SaskPower.

[13] Saskatchewan Power Corporation, *2014 Annual Report*, p. 108.
[14] Ibid., p. 116.

Figure 3—Types of Public-Private Partnership Arrangements



Source: Adapted from World Bank Public-Private Partnership Agreements.

The long-term nature of SaskPower's arrangements with IPPs and its intent to use IPPs as a way to fulfill its short- and medium-term power needs and diversify its power-generating options increases the importance of SaskPower having effective processes to buy power from IPPs. If SaskPower does not have effective processes to buy power from IPPs, it may choose an IPP that may not be capable of supplying power in the short- or medium-timeframe needed. This may place SaskPower at risk of not meeting the power needs of its customers or having to seek alternate sources at a potentially higher cost. Also, ineffective procurement processes may increase the risk of paying too much for this power which in turn would increase the cost of power to its customers. Also, ineffective processes could increase the risk of actual or perceived favouritism when selecting IPPs resulting in complaints from potential IPPs and decreased interest of potential IPPs.

3.0 Audit Objective, Scope, Criteria, and Conclusion

The objective of this audit was to assess whether SaskPower had effective processes to procure power from independent power producers that were in place at February 28, 2015. We did not examine power bought through SaskPower's standing offer and self-generation programs.

We examined SaskPower's corporate-wide procurement policy and procedures documents, and its purchasing practices and procedures specific to buying power from IPPs including its processes to monitor IPPs' performance. In addition, by focusing on the last two agreements SaskPower signed with IPPs, we assessed whether its processes operated as expected.

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate SaskPower's processes, we used criteria based on the work of our Office. SaskPower's management agreed with the criteria (see **Figure 4**).

Figure 4—Audit Criteria

1.	**Set policies for independent power procurement**
	1.1 Develop policies for independent power procurement
	1.2 Align policies with externally-imposed requirements (e.g., regulator, public policy)
	1.3 Update policies periodically
	1.4 Monitor and report on compliance with policies
	1.5 Approve supply plans for independent power procurement (e.g., competitive bid, single source)
	1.6 Communicate plans for procurement of power
2.	**Define the specifications for required power**
	2.1 Define the need in sufficient detail for both the independent power producer's and SaskPower's understanding
	2.2 Define specifications to encourage open and effective competition within government and organizational policies
	2.3 Set criteria for evaluation of proposals
3.	**Obtain quotations fairly for competitive bids**
	3.1 Obtain appropriate authorization to initiate purchase
	3.2 Communicate procurement process to potential vendors
4.	**Select suppliers for power**
	4.1 Conduct due diligence to evaluate potential suppliers to meet established specifications
	4.2 Determine risks to project completion
	4.3 Document decision for vendor selection
	4.4 Obtain appropriate approvals to enter into power purchase agreements
	4.5 Inform bidders of tender decision
	4.6 Obtain appropriate written contractual agreements (e.g., adequate provisions and dispute resolution, legal sign-off)
5.	**Monitor fulfillment of power contracts**
	5.1 Assess performance of independent power producer against agreement
	5.2 Take timely corrective action if necessary
	5.3 Report on steps taken

We found that SaskPower had, at February 28, 2015, other than for the following areas, effective processes to procure power from independent power producers.

SaskPower needs to:

- **Strengthen its procurement policies by requiring a more thorough consideration, documentation and evaluation of risks each time it decides to buy power from independent power producers.**
- **Update its procurement policies to reflect the practices it currently uses when buying power using a competitive procurement process – that is, require the use of Fairness Monitors, and written evaluations on the abilities (experience and financial resources) of potential independent power producers, and of the technical merit of proposals to buy power from independent power producers.**
- **Use consistent processes to evaluate unsolicited proposals provided to SaskPower from potential IPPs interested in selling power.**
- **Communicate to potential independent power producers, who submit unsolicited proposals to supply power, the evaluation process and criteria against which unsolicited power proposals are considered.**
- **Document its rationale for key requirements set in Request for Proposals and related due diligence requirements as part of the competitive independent power producer procurement process.**

4.0 Key Findings and Recommendations

In this section, we set out the criteria (*expectations*) and our key findings along with related recommendations.

4.1 Policies for Independent Power Procurement Needed

4.1.1 Policies and Procedures Needed to Address Risk Assessment, Monitoring Compliance, and Proposal Evaluations

We expected that:

- *SaskPower would develop, and its Board would approve, policies for buying power from independent power producers that align with and augment its general procurement policies (e.g., corporate-wide policies). These policies would align with externally-imposed requirements (e.g., the New West Partnership)[15,16] and define processes and responsibilities unique to buying power from independent power producers (e.g., risks resulting from long-term agreements, handling unsolicited procurements). SaskPower's policies would require documented risk assessments.*

- *SaskPower's policies would assign responsibility for monitoring and reporting on compliance with them.*

- *SaskPower would periodically update these policies.*

SaskPower has a current Governance Manual, Procurement Policy, and a Signing Authority Policy that apply to buying power from IPPs. SaskPower's Board of Directors approved each of these documents in recent years. SaskPower also has a Procurement Procedures document that was approved by its Executive in 2013.

The Governance Manual sets out the required recommendations and approvals for buying power from IPPs. Prior to proceeding with any power generation project (including projects with IPPs), the Manual requires management to obtain the approval of SaskPower's Board of Directors (Board), the Board to obtain the approval of the Board of Directors of Crown Investments Corporation of Saskatchewan[17] (CIC Board), and the CIC Board to obtain the approval of Cabinet.

In 2014, the approval process began to change as CIC advised SaskPower that it no longer needed to obtain CIC Board or Cabinet approval for power-generation projects with available generating capacity less than 40 MW. At December 2014, SaskPower had not yet updated its Governance Manual.

[15] The New West Partnership Trade Agreement (NWP) is an accord between the governments of British Columbia, Alberta, and Saskatchewan that creates Canada's largest barrier-free, interprovincial market.
[16] Saskatchewan's Crown Corporations, including SaskPower, became subject to the NWP July 1, 2012.
[17] Under *The Crown Corporations Act, 1993,* CIC is SaskPower's parent or holding company.

The Procurement Policy provides broad guidance for procurement at SaskPower. The Procurement Procedures include more specific processes designed to establish a fair procurement process. We refer to these documents collectively as procurement policies. The procurement policies list certain roles and responsibilities related to buying any goods and services. The procurement policies include specific rules over key procurement requirements, such as advertising the procurement, prohibited communications, conflict-of-interest management, opening requests for qualification (RFQ) and handling requests for proposal (RFP) submissions. They detail different procurement evaluation methods. Also, the procurement policies outline required review and approval of the purchasing methods chosen (e.g., RFP, single source).

As well, the procurement policies place additional requirements to control the use of single-source buying methods so that SaskPower makes purchases in a fair and open way. For example, the procurement policies set out criteria as to when staff may use a single source.

Also, the procurement policies require the use of an Evaluation Committee for purchases greater than $10 million, or covering a span greater than five years. As previously noted, typically agreements with IPPs are for at least 20 years. The procurement policies outline the responsibilities of this Committee (see **Figure 5**).

Figure 5—Evaluation Committee Responsibilities

An Evaluation Committee is responsible for:

- Maintaining, promoting and documenting integrity in the purchasing process
- Evaluating tenders, proposals, or quotations in keeping with the established mandatory requirements, evaluation criteria and methodology
- Documenting the evaluation process
- Preparing any evaluation report or other required documentation
- Approving the result of the evaluation
- Seeking approval to proceed with a contract with the successful vendor
- In conjunction with purchasing, debriefing unsuccessful vendor(s)

Source: Adapted from SaskPower's Procurement Procedures.

Procurement, by nature, poses risks. Procurement of services to be provided over long periods such as SaskPower's arrangements with IPPs can pose risks over and above day-to-day purchases of goods and services (e.g., long-term capacity of supplier to deliver service; soliciting sufficient interest from potential suppliers to obtain a fair price).

Similar to a recommendation of PriceWaterhouseCoopers LLP in the *CIC SaskPower Smart Meter Procurement and Contract Management Review* (see **Figure 6**), we found the procurement policies did not specifically require SaskPower to assess and document risks associated with procurement.

Figure 6—Related Recommendation from SaskPower Smart Meter Procurement and Contract Management Review

Recommendation 1

The risk assessment process should be strengthened in the Purchasing Policy & Procedures to clearly require a more thorough consideration, documentation and evaluation of risks as potential risk indicators are identified during the development of a procurement strategy, as part of project planning, and monitored for new or changing risks during the period of the contract.

Source: *PWC Report – Crown Investments Corporation Smart Meter Review* (27 October 2014).

In the case of procuring of power from IPPs, such a risk assessment would outline key financial (e.g., ability of IPPs to finance the construction and operation of a power-generating facility), technical (e.g., reliability of technology chosen to produce power), and operational risks (e.g., reliability of the fuel supply to produce power) that SaskPower faces. A risk assessment would also outline how SaskPower plans to mitigate those risks, or transfer those risks to the IPP. As previously noted, SaskPower can use its agreements with IPPs to assign risks to the intended party and set processes to ensure it has sufficient and timely information to monitor risks over the term of the arrangement – typically 20 years.

A risk assessment would also help SaskPower develop a documented rationale on RFP requirements. For example, the risk assessment should help identify minimum financial, technical, and operational requirements for IPPs to meet. As well, the documented rationale on RFP requirements should indicate the extent of information requested by SaskPower in order to verify IPPs' RFP submissions.

Without explicitly assessing risk, SaskPower may retain an inappropriate amount of risk in its arrangements with IPPs, which may expose it to increased costs, or litigation. Documenting the results of its explicit identification and assessment of risks associated with buying power from IPPs would enable SaskPower to show that it gives them appropriate consideration prior to and when entering into arrangements with IPPs.

At February 2015, SaskPower had committed to implementing the recommendations set out in the *CIC Summary Report on Smart Meters*. At February 2015, it was revisiting its policies related to procurement, including risk management. As well, the Supply Branch noted it is also developing a risk assessment for its next competitive IPP procurement. The draft procurement policies discuss implications of the New West Partnership (NWP) to reflect externally-imposed requirements.

SaskPower's Signing Authority Policy clearly outlines required review and approval of agreements with IPPs.

SaskPower expects all supervisors and management to comply with policies and as part of their supervisory role, monitor the compliance of their subordinates with policies. In addition, SaskPower has an internal audit function whose responsibilities include assessing and reporting to the Audit Finance Committee (a subcommittee of SaskPower's Board) on SaskPower's compliance with policies – this includes procurement policies.

Other than the Governance Manual, SaskPower did not have policies specific to buying power from IPPs. While SaskPower has recognized that buying power from IPPs differs from general purchases of supplies and services, it focused on developing procedures to use when making decisions about buying power from IPPs. Although not required by policy, the Supply Branch indicated that it expected its staff to use these processes in addition to the requirements set out in SaskPower's policies.

Since 2010, the Supply Branch has developed and used process management frameworks, as set out in **Figure 7**, to guide its procurement process when it decided to buy power generated from a particular generation option (e.g., wind) from IPPs. In this chapter, we refer to this process as SaskPower's Competitive IPP Procurement process.

Figure 7—SaskPower's Competitive IPP Procurement Process

Stage One: Request for Qualifications (RFQ) Process Management Framework. This stage is intended to assess the experience and financial capabilities of IPPs to develop, own, and operate power generation facilities. This stage expects SaskPower to:

- Set, in an RFQ, established criteria. Criteria are to include both financial and technical requirements (e.g., type of power generation, related generation standards and desired amount of power supply, and minimum financial requirements).
- Set deadlines and the manner in which potential suppliers must respond (RFQ submissions).
- Establish an Evaluation Committee composed of individuals representing SaskPower's supply and business development and risk branches, representative(s) from CIC, and an external expert.
- Use the Evaluation Committee to evaluate the ability of the potential independent power producers (IPPs) responding to RFQ to meet the established criteria as set out in the RFQ.
- Use a Fairness Advisor to review SaskPower's management of the procurement process and attest to its fairness.

Stage Two: **Request for Proposal (RFP) Process Management Framework**. This stage expects SaskPower to:

- Set, in an RFP, established criteria consistent with the RFQ. Criteria are to include both financial and technical requirements (e.g., type of power generation, related generation standards and desired amount of power supply, and minimum financial requirements).
- Only invite potential IPPs, who have passed the RFQ evaluation process, to submit a Request For Proposal.
- Establish Committees composed of staff and external experts, as needed, with appropriate expertise to evaluate two components:
  - The potential IPP's ability to meet the set criteria (e.g., technical standards, financial requirements).
  - The price proposed by the potential IPP.
- Use the Committees to evaluate the responses to the RFPs.
- Make final selection based on the results of the evaluation.

Source: Information from SaskPower.

We found that SaskPower's Competitive IPP Procurement process not only aligned with the requirements of its procurement policies, but also included a number of additional requirements designed to make this process fair and equitable. Additional requirements included:

- The use of a Fairness Advisor to assess if SaskPower followed its tendering policies. The electrical industry commonly refers to Fairness Advisors who do this type of assessment as Fairness Monitors, and uses them to monitor complex procurements, such as buying power from IPPs.

- An evaluation of each IPP's ability (experience and financial resources) to successfully develop, own, operate, and maintain the project.

- An evaluation of the technical merit of proposals.

However, as noted earlier, SaskPower has not incorporated these additional requirements into its procurement policies. Policies help ensure staff have a clear understanding of what is expected and why. Not having procurement policies that include all key expectations increases the risk that SaskPower will not consistently use a fair and equitable procurement process when entering into agreements with IPPs.

1. **We recommend that SaskPower update its procurement policies to specifically require when buying power from independent power producers:**
   - **The use of Fairness Monitors**
   - **Written evaluations of independent power producers abilities (experience and financial resources)**
   - **Written evaluations of the technical merit of independent power producers' proposals**

SaskPower noted that it has used unsolicited proposals as a way to discover and single-source unique and time-sensitive power generation opportunities. SaskPower further noted that most unsolicited proposals it receives are not economically feasible, or would be best procured through a competitive process, or through SaskPower's standing offer and self-generation programs.

In 2014, the Supply Branch drafted a three-stage process, as set out in **Figure 8**, to guide procurement decisions when considering unsolicited proposals provided to SaskPower from potential IPPs interested in selling power to SaskPower. We refer to this process as SaskPower's Unsolicited IPP Procurement process.

Figure 8—SaskPower's Draft Unsolicited IPP Procurement Process

This is the draft three-stage process through which SaskPower evaluates unsolicited power proposals through the use of an Executive Steering Committee against the following criteria.

The proposals must:
- Not fit a current or planned SaskPower program (e.g., SaskPower's Standing Offer and Self-Generation Programs)
- Not be an electricity supply proposal that is currently or planned to be competitively bid
- Be a long-term (more than one year) opportunity
- Be a funding or research opportunity to develop a unique supply proposal for Saskatchewan

An Executive Steering Committee (Steering Committee) must recommend proposals to move forward through the first two stages. Steering Committee terms of reference outline the committee structure, composition, and authority to recommend an unsolicited power proposal to move to the next stage. The Steering Committee is to be typically comprised of several members of senior management.

Stage One: This stage expects SaskPower to:
- Ask interested suppliers making unsolicited proposals to complete an application form that describes the proposal
- Review and assess a completed application form against the above criteria

Stage Two: For proposals that pass the criteria, this stage entails a detailed evaluation of the cost and time to finish the facility, which includes an interconnection study (i.e., assessment of feasibility and cost of connecting the IPP to SaskPower's grid).

Stage Three: This stage is the negotiation of a power purchase agreement with the potential IPP.

Source: Information from SaskPower.

We found that although SaskPower's Unsolicited IPP Procurement process included requirements in addition to SaskPower's Procurement Policy, it did not fully align with the requirements of the procurement policies.

SaskPower's Unsolicited IPP Procurement process did not align with its procurement policies in the following areas:

- The draft terms of reference for the Steering Committee did not require committee members to make conflict-of-interest disclosures or set out the minimum number of

individuals to be involved at each evaluation stage as expected in the procurement policies.

- The Unsolicited IPP Procurement process did not include requirements similar to those set in policy for single-source purchases (e.g., the requirement to document why an unsolicited IPP meets the criteria to allow for a single-source). Because unsolicited proposals are not the result of a competitive process, buying power initiated by unsolicited proposals presents similar risks as buying goods or services from a single-source (e.g., risk of not paying the best price, or giving preferential treatment to certain suppliers).

Additional requirements in the Unsolicited IPP Procurement process included:

- Criteria to evaluate the fit and potential of the unsolicited proposal with the needs of SaskPower. This criteria is key because, unlike its Competitive IPP Procurement Process where SaskPower identifies the specific needs to buy a power from an IPP and has plans to make this purchase, it has not done so for an unsolicited proposal. While SaskPower has set criteria to evaluate fit, these criteria were not formally approved and remained draft at February 2015. We found that SaskPower determined that 4 of the 22 unsolicited proposals that it received in 2014 met its "fit" criteria (stage one).

- Use of a Steering Committee to conduct due diligence by assessing the proposal against Committee-reviewed evaluation criteria guidelines for similar technologies in stage two.

However, as of February 2015, we found the Steering Committee had not set criteria guidelines (such as minimum technology standards and financial viability) for any particular technology.

While the starting point for unsolicited proposals differs from proposals SaskPower initiates in its Competitive IPP Process, we expected that SaskPower would use equally rigorous processes for both types of proposals. That is, we expected its processes to include evaluations of the financial viability of the IPP, and of the technical merit of the unsolicited proposal.

Not having consistent evaluation processes, SaskPower risks accepting proposals from unsuitable IPPs who may not have the capacity to supply power as agreed upon, and being viewed as not treating potential IPPs equitably and fairly. Also, use of inconsistent evaluation processes may result in SaskPower paying too much for power, retaining too much risk, or not being able to depend on the IPP as a reliable power source.

Furthermore, as noted previously, the Unsolicited IPP Procurement process remained a draft at February 2015. In common with its Competitive IPP Procurement process, SaskPower has not made the Unsolicited IPP Procurement process a formal requirement – that is, a policy. Not having an approved process that aligns with SaskPower's procurement policies and outlines all expectations for addressing unsolicited proposals increases the risk that SaskPower will not consistently use a fair and equitable procurement process, or may choose an IPP that is not able to deliver the required power.

2. **We recommend that SaskPower use consistent processes to evaluate unsolicited proposals provided to SaskPower from potential independent power producers interested in selling it power.**

4.1.2 Identifying the Need to Buy Power from IPPs – Power Supply Plans Approved

We expected SaskPower to develop and approve short- to long-term plans for buying power. We expected these plans would include and demonstrate the use of independent power producers. SaskPower would also evaluate general risks of the use of IPPs in its supply plans.

In 2014, SaskPower developed a 20-year supply plan that it intends to update every two years. It also annually develops a 10-year supply plan to determine how to meet its power needs. These plans include power from all of SaskPower's sources of supply (i.e., generated from its own plants, as well as power bought through SaskPower's standing offer and self-generation programs, from other provinces (e.g., Manitoba), and from IPPs). The Director of the Supply Branch approved these plans as required.

We found the supply plans included the results of SaskPower's assessment of risks related to the use of IPPs. For example, the *2014 10-Year Supply Plan* includes the risk of IPP projects not meeting their planned operation dates (i.e., the date power facilities are to begin generating and supplying SaskPower with power), and contingency plans to meet Saskatchewan's power demands should this occur.

SaskPower also develops specific plans, as required, when considering new sources of power supply. For example, before embarking on the wind power procurement in 2010, SaskPower's Board approved a Wind Power Deployment Strategy. The Strategy set out SaskPower's plans to develop wind power in the province, and considered the broad risks associated with wind power and the use of IPPs.

4.1.3 Plans for Buying Power from Independent Power Producers Communicated

We expected that SaskPower would communicate its plans to buy power to potential independent power producers in a fair and equitable way.

We found SaskPower, through its Competitive IPP Procurement Process, uses three main methods to communicate its plans to buy power from IPPs. SaskPower:

- Notified an internally-maintained list of IPPs that have previously expressed an interest in becoming an IPP in Saskatchewan
- Informed manufacturing and financial organizations relevant to the type of generation it was seeking (e.g., wind turbine manufacturers for wind power)
- Posted its procurement plans on its website

SaskPower also plans to post future requests for proposals (RFPs) on MERX, a tendering website that advertises public government contracts across Canada.

4.2 Documented Rationale for Key Proposal Requirements Needed

We expected that SaskPower would develop requirements (e.g., type of power generation option, amount of power needed, operation date) when buying power from independent power producers. Those requirements would be designed to solicit sufficient responses from interested potential IPPs. They would be based on its documented assessment of risks of the specific project. Such an assessment would show the communication with, and agreement between key branches within SaskPower (e.g., legal, finance), and outline the rationale for selecting specific requirements and evaluation criteria.

Also, we expected that SaskPower would set detailed criteria for how it evaluates both solicited (RFP) and unsolicited proposals to buy power from independent power producers so that proposals are evaluated consistently and fairly.

Consistent with its procurement policies, SaskPower's Competitive IPP Procurement Process includes setting detailed requirements for projects (i.e., in RFQ and RFP documents). When developing its requirements, SaskPower varies its criteria depending on the type of power generation and technology expected. Its Competitive IPP Procurement Process (see **Figure 7**) makes a RFQ and RFP Coordinator responsible for developing the RFQ and RFP documents.

For the wind power proposal we tested, we found:

- The requirements in the RFP reflected the requirements in the RFQ.
- The requirements in both the RFQ and RFP documents gave IPPs sufficient information (e.g., wind study and financial requirements) for them to understand the requirements, and were designed to encourage open competition as shown by 15 proposals received.
- Both the RFQ and the RFP contained detailed information regarding project description, instructions to bidders, and the evaluation process. They each described the type of generation, the capacity required, and the desired operation date.
- The RFP included very detailed requirements for potential IPPs to meet. For example, to help ensure the solvency of IPPs, SaskPower set a minimum net worth of IPPs for IPPs to be eligible to bid. To mitigate technological risks, SaskPower set specific turbine technology standards (e.g., submission of a wind study data for 12 months signed off by a wind resource expert).[18]

  While it was evident that SaskPower considered risks during its procurement process, similar to its lack of policy in this area (see **Section 4.1.1**), we found that

[18] In its RFP, SaskPower required a turbine model being proposed to either have, or be in the process of obtaining, an A-Design Statement of Compliance to IEC 61400-1 standards from an accredited certification agency.

SaskPower did not document its risk assessment. Because of this, SaskPower was unable to show us how it developed the RFQ and RFP requirements based on its identification and assessment of risks. As noted in **Section 4.1.1**, the Supply Branch was developing a risk assessment for its next competitive IPP procurement.

- SaskPower did not require the bidders to submit evidence for some key requirements. For example, the IPPs were not required to submit information demonstrating their plan to obtain environmental permits[19] from the Ministry of Environment within a set period of time. We found that SaskPower did not document the rationale for its requirements over what information bidders must submit to enable it evaluate and validate the proposals submitted.

  The successful bidder in this project failed to obtain environmental permits by the date set out in the RFP and later, in its agreement with SaskPower. This resulted in the IPP experiencing delays (i.e., development of planned power-generating facility is later than expected); SaskPower does not expect this project to meet the planned operation date as outlined in its original agreement with the IPP. As a result, SaskPower plans to use its mitigation strategy for procuring an alternate source of power in the short-term if needed. In addition, SaskPower renegotiated its agreement with this IPP with a revised planned operation date of late 2017.

A documented risk assessment would include the rationale for selecting requirements set out in the RFQ and RFP. It would also list which documents SaskPower needs to request from bidders in the RFQ and RFP and explain what information they should contain in order to evaluate and validate proposals submitted. As well, a documented risk assessment would indicate the due diligence steps SaskPower must take to verify information submitted (e.g., contacting third parties to verify various elements in the proposal). Without a documented rationale on key RFQ and RFP requirements, it is unclear whether SaskPower sufficiently identified and mitigated its key risks.

3. We recommend that SaskPower document its rationale for key requirements set in Request for Proposals and related due diligence requirements as part of the competitive independent power producer procurement process.

As previously noted (towards the end of **Section 4.1.1**), as part of its draft Unsolicited IPP Procurement Process, by February 2015, we found that the Steering Committee had not set criteria guidelines (such as minimum technology standards and expected cost) for any particular technology. In addition, the Steering Committee had not set requirements with respect to the abilities (experience and financial resources) of IPPs submitting power proposals.

Without evaluation criteria that includes minimum technology and financial requirements and assessing the IPP's ability to own and operate a facility, SaskPower risks inconsistent and inadequate evaluations of unsolicited IPP proposals. As a result, SaskPower could pay too much for power, retain too much risk, or not be able to depend on the IPP as a reliable power source (see **Recommendation 2**).

[19] Environmental permits are required for projects that are considered to be developments; most power generation facilities would require environmental permits before the start of construction.

4.3 Obtains Quotations Fairly for Competitive Bids

4.3.1 Consistent Communication of Criteria Needed

We expected that SaskPower would obtain appropriate authorization to initiate buying power from an independent power producer (i.e., issue properly-approved RFQ and RFP). As well, to obtain quotations fairly, we expected that SaskPower would communicate its independent power procurement process, and any changes to this process, to IPPs.

As noted in **Section 4.1.1**, SaskPower uses its policies to set the approvals that staff must obtain to initiate a procurement. It varies the level of approval depending on the size and complexity of the purchase. As previously noted, under the Governance Manual, SaskPower must obtain the approval of senior management, its Board, CIC Board, and Cabinet before it proceeds with buying power from an independent power producer.

To help ensure a fair and equitable procurement process, SaskPower's procurement policies require that it communicate the evaluation process to all bidders. As well, the procurement policies require that any changes to evaluation processes be communicated to all bidders.

For the wind power proposal we tested, we found that:

- SaskPower received appropriate approval for the project from its Board of Directors prior to the procurement starting.
- SaskPower clearly outlined its procurement process to IPPs in the RFQ and RFP. When changes were made or clarifications needed in the RFQ and RFP process, it adequately communicated this information to all IPPs.

SaskPower noted that its preferred method to buy power from independent power producers is to solicit proposals for specific projects and use a competitive procurement method. As such, SaskPower indicated that it has made a conscious decision to not communicate how it addresses unsolicited power proposals. It further noted that it prefers to rely on interested parties approaching it.

However, inconsistent with its procurement policies, for the unsolicited proposal we tested, we found that SaskPower did not share with interested potential IPPs the process it planned to use to evaluate the proposal. Not communicating its process and the criteria against which unsolicited power proposals are considered, SaskPower risks appearing biased, which could hurt its reputation.

4. **We recommend that SaskPower communicate to independent power producers who submit unsolicited proposals to supply power, the evaluation process and criteria against which unsolicited power proposals are considered.**

4.4 Selected Suppliers for Power

4.4.1 Bidders Evaluated and Selected Based on Requirements

We expected that SaskPower would:

- *Obtain adequate information to confirm that IPPs met evaluation criteria.*
- *Conduct due diligence to evaluate RFP responses from IPPs against the criteria set out for both competitive and unsolicited proposals. This would help mitigate risks to project completion.*
- *Require those charged with evaluating proposals to consider and declare, in writing, conflicts of interest (e.g., sign a conflict-of-interest statement).*

For the solicited wind power proposal we tested, we found that SaskPower's Supply Branch followed the Competitive IPP Procurement Process described in **Figure 7**. We found:

- Use of an Evaluation Committee consistent with its procurement policies.
- Evidence that the Evaluation Committee evaluated the RFQ submissions against the criteria set out in the RFQ, and only potential IPPs that met those were invited to submit a detailed proposal for the RFP evaluation process.
- Evidence that the Evaluation Committee and Price Proposal Committee evaluated RFP submissions as expected.
- SaskPower was unable to find signed conflict-of-interest declaration forms from both members of the Price Proposal Committee. SaskPower stated all committee members signed these forms. At February 2015, SaskPower had recently developed a new records information management system that includes a documentation retention schedule for procurements. SaskPower expects this system to help maintain all relevant procurement documentation.

While SaskPower evaluated the proposal based on requirements set out in the RFP, as previously noted in **Section 4.2**, these requirements could be strengthened by requiring bidders to submit more information to enable a more thorough evaluation of the proposals.

While SaskPower received numerous unsolicited proposals in 2013 and 2014, none of these projects have proceeded past the second stage (i.e., detailed evaluation of cost and time to finish power-generating facility) of its draft Unsolicited IPP Procurement process.

4.4.2 Documentation of Proposal Evaluations and Agreement Requirements Needed

We expected that SaskPower would:

- *Document its decision to buy power from a particular independent power producer (IPP) along with the basis of this decision*
- *Obtain approvals for each decision consistent with its policy and communicate its selection decision to IPPs*
- *Negotiate an agreement consistent with the requirements set out in the request for proposals (for competitive proposals) and with its evaluation criteria for unsolicited proposals*
- *Have a documented risk assessment that demonstrated whether SaskPower transferred risks, as intended, to the IPP through provisions in its agreements with IPPs*

SaskPower expected proposal evaluators (both solicited and unsolicited) to document the results of their work including the decision to buy power from a particular IPP. Under its Governance Manual, SaskPower was required to obtain approval from its Board to enter into an agreement for all IPP proposals. Under its procurement policies, SaskPower was also required to offer a debrief to help IPPs understand why they were not successful at their request.

SaskPower's Signing Authority Policy requires SaskPower's Chief Executive Officer (CEO) and legal and finance branches to indicate whether they each agree with the terms in the agreement based on their respective expertise prior to SaskPower finalizing the agreement. This process applies to agreements that SaskPower enters into with IPPs.

For the solicited wind power proposal and unsolicited proposals we tested, we found that:

- SaskPower's Supply Branch obtained the necessary approvals to notify the successful bidder consistent with the Governance Manual and communicated its selection decision
- SaskPower's Supply Branch obtained the necessary approvals to enter into a power purchase agreement consistent with the Signing Authority Policy
- The related Evaluation Committee and Price Proposal Committee had adequate documentation that showed the results of their evaluations using the requirements set out in the RFP, and their recommendation to management
- SaskPower offered a debrief session to unsuccessful bidders

For the unsolicited proposal we tested, we found that:

- SaskPower's Supply Branch obtained the necessary approvals to enter into a power purchase agreement consistent with the Signing Authority Policy.

- SaskPower provided the Board with its recommendation to proceed with the unsolicited proposal without a documented evaluation of the proposal. As a result, it is unclear whether SaskPower conducted sufficient due diligence in evaluating this project (see **Recommendations 2** and **3**).

Each of the agreements we tested included standard provisions. These provisions included operations and maintenance, billing and payment, default and termination, dispute resolution, and details on facilities to connect the IPP to SaskPower's electrical grid.[20] They also set out the date by which the IPP was expected to produce power.

We found provisions in the agreements showed that SaskPower considered and mitigated various risks. For example, SaskPower required IPPs to provide it with security payments and letters of credit before it undertook work to connect them to its electrical grid. However, because SaskPower did not have a documented risk assessment, it could not show us whether it retained and transferred risks as it intended through provisions in the agreement (see discussion in **Section 4.1.1** about the need for a more thorough consideration, documentation, and evaluation of risks as potential risk indicators during the development of a procurement strategy).

4.5 IPP Contracts Actively Monitored

4.5.1 Performance of Independent Power Producers Assessed

We expected that SaskPower would regularly assess the power production of IPPs and compare it to the agreed-upon production in the agreement. It would identify issues of IPP performance (i.e., identify when power production does not meet the contracted amount). We expected that SaskPower would take corrective action with independent power producers both those actively generating power and those not yet generating power.

In each of its agreements with IPPs, SaskPower requires an Operating Committee to be established. An Operating Committee is typically composed of two representatives from SaskPower and two representatives from the IPP. The Committee provides a formal communication tool between SaskPower and the IPP to discuss any matter related to the agreement and resolve disputes. Each of these Committees maintain minutes of their meetings.

For an IPP whose power-generating facilities are not yet producing power, the related Operating Committee meets as needed to monitor the IPP's progress (e.g., progress in achieving necessary permits and meeting construction timelines) towards meeting the operating date set out in the agreement. For operating IPPs, Operating Committees are required to meet at least annually to discuss ongoing operations.

For the wind power proposal we tested, we found that the Operating Committee worked as intended by identifying and addressing the reason for delay in power production. As of February 2015, the Operating Committee was actively trying to resolve the issue identified.

[20] SaskPower's electrical grid is the network that delivers electricity from power generation facilities to consumers.

For all IPPs listed in **Figure 1**, we found evidence of SaskPower monitoring whether Operating Committees met as required (at least annually) and were addressing issues as expected.

In addition to Operating Committees, SaskPower has a monitoring structure to address day-to-day operations and assess power supply and usage. It uses its Supervisory Control and Data Acquisition (SCADA) system[21] to monitor its power grid at all times, and assigns account managers to monitor the performance of individual active power suppliers including IPPs. It escalates any issues or deviations from expected power delivery to the Manager of Power Contracts daily.

Also, account managers maintain regular contact with operating IPPs to discuss challenges or issues that arise. As well, on a monthly basis, they prepare reports for senior management that compare the power delivered to the agreed power delivery documented in the agreement.

SaskPower takes corrective action in accordance with provisions set out in each agreement (e.g., penalty structures). We found the monthly reports indicated instances where SaskPower took corrective action against IPPs that were not meeting power delivery as per their agreement.

SaskPower indicated that if the Operating Committee is unable to resolve identified issues, it escalates the issues to the Vice President of Resource Planning, and then to the legal department. We found that issues identified are escalated to the Operating Committee by SaskPower. In the course of our audit, we did not see evidence of any issues that were escalated beyond the Vice President of Resource Planning.

4.5.2 Reporting Done on Steps Taken

We expected that SaskPower would report to senior management and/or the board on corrective actions related to IPP performance.

SaskPower prepares monthly, quarterly, and annual reports that include information on the performance of independent power producers (e.g., amount of power delivered as compared to amount contracted). These reports are distributed to various departments (e.g., finance) and the Vice-President of Resource Planning. The Board is informed of any significant issues through the President's Report given at each meeting and through SaskPower's annual report.

We found these reports were regularly prepared for the past year and contained adequate information outlining energy supplied from IPPs and financial penalties charged due to non-performance from IPPs.

[21] SCADA is a system used to monitor and control the transportation of electricity throughout Saskatchewan.

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