

## Chapter 45

# SaskPower—Buying Power from Independent Power Producers

### 1.0 MAIN POINTS

SaskPower improved its processes to buy power from independent power producers by implementing all four recommendations from our 2015 audit, and a related recommendation in the *Crown Investments Corporation SaskPower Smart Meter Procurement and Contract Management Review*.

Since 2015, SaskPower updated its procurement procedures related to buying power from independent power producers. The updated procedures more clearly guide the use of fairness advisors to help ensure SaskPower follows a fair and transparent procurement process. The procedures also require written evaluations of the technical merit of proposals, and the abilities of independent power producers submitting proposals. These evaluations give SaskPower insight as to whether a producer can successfully develop, own, operate, and maintain a proposed project. SaskPower also documented and assessed key risks when determining what information it requires in proposals from power producers and how to verify it.

For unsolicited power proposals, SaskPower communicated its evaluation process and criteria to power producers submitting them. Also, it consistently evaluated unsolicited proposals received using processes similar to those for solicited proposals.

### 2.0 INTRODUCTION

SaskPower is responsible for the generation, transmission, distribution, purchase, sale, and supply of electrical energy (power) in Saskatchewan.<sup>1</sup> As part of its responsibilities, SaskPower operates with \$11.5 billion in generation, transmission, distribution, and other assets to provide power to over 533,000 customer accounts within Saskatchewan's geographic area of approximately 650,000 square kilometres.<sup>2</sup>

SaskPower uses, as a source of power, a mix of self-generated and purchased power (e.g., purchased from independent power producers). In 2017, SaskPower spent about \$385.8 million to buy power from 30 independent power producers.<sup>3</sup> An independent power producer refers to individuals or corporations that SaskPower enters into an agreement with to supply power typically for at least a 20-year period.

In our *2015 Report – Volume 1*, Chapter 17, we concluded that, as of February 28, 2015, SaskPower had, other than for areas reflected in our four recommendations and a related recommendation in the *Crown Investments Corporation SaskPower Smart Meter*

<sup>1</sup> *The Power Corporation Act*, s.8.

<sup>2</sup> Saskatchewan Power Corporation, *2017-18 Annual Report*, p. 2.

<sup>3</sup> Information provided by SaskPower management.



*Procurement and Contract Management Review*, effective processes to procure power from independent power producers.<sup>4,5</sup>

This chapter describes our first follow-up of management's actions on those recommendations.

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (CSAE 3001). To evaluate SaskPower's progress towards meeting our recommendations, we used the relevant criteria from the original audit. SaskPower management agreed with the criteria in the original audit.

To carry out this follow-up audit, we reviewed SaskPower's related approved policies and procedures, and minutes from meetings of its Board and senior management. In addition, we interviewed relevant SaskPower staff, examined key procurement documents (e.g., risk assessments, requests for proposals) and tested a sample of proposals.

## 3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation, the status of the recommendation at August 15, 2018, and SaskPower's actions up to that date. For our recommendations, it includes the date on which the Standing Committee of Crown and Central Agencies agreed to the recommendation.

We found that SaskPower implemented all five recommendations.

### 3.1 Procedures for Independent Power Procurement Updated

***We recommended 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***

(2015 Report – Volume 1; Crown and Central Agencies Committee agreement December 13, 2016)

**Status** – Implemented

<sup>4</sup> We reported the original audit work in *2015 Report – Volume 1* (Chapter 17, pp. 205-225). [auditor.sk.ca/publications/public-reports/item?id=138](http://auditor.sk.ca/publications/public-reports/item?id=138) (18 July 2018).

<sup>5</sup> Because, at February 2015, SaskPower had committed to implementing all of the recommendations set out in in the Crown Investments Corporation SaskPower Smart Meter Procurement and Contract Management Review (Appendix C), our Office did not make a separate recommendation about strengthening its procurement policies to require documented risk assessments. The review was dated October 27, 2014 and is available at [www.cicorp.sk.ca/+pub/Documents/SMART%20METERS/CIC%20Smart%20Meter%20Review%202014%20complete.pdf](http://www.cicorp.sk.ca/+pub/Documents/SMART%20METERS/CIC%20Smart%20Meter%20Review%202014%20complete.pdf) (08 Aug 2018).

In 2016, SaskPower updated its procurement procedures to include the use of fairness monitors (also called fairness advisors), and require formal evaluation of the abilities of independent power producers submitting proposals, and the technical merit of their proposals.

The updated procurement procedures include clear guidance for using fairness advisors for complex procurements. They require the use of a fairness advisor for any procurement over \$50 million. This requirement is consistent with the *Crown Sector Procurement – Multi Stage Procurement Policy* established by the Crown Investments Corporation of Saskatchewan.<sup>6</sup> Also, we found that SaskPower uses a fairness advisor for smaller projects if the competition is considered to be complex or sensitive.

Fairness advisors are to provide an independent review and assessment of whether SaskPower follows its tendering policies during competitive procurements. Fairness advisors are not SaskPower staff. They are third party independent advisors who focus on procedural fairness (that is, how things are proceeding from the perspective of fairness and transparency); they are not actively involved in evaluating proposals or selecting the successful proponent. Their involvement helps SaskPower to consistently use a fair and equitable procurement process.

Concurrently, SaskPower updated its procedures to require staff to document evaluations of the ability of the independent power producer submitting the proposal to successfully develop, own, operate, and maintain the proposed project, and the technical merit of the proposal. It evaluates technical competence and experience, financial viability, relevant skills, expertise, and availability of key personnel. We tested the use of the process in the 2016-17 project to buy wind-generated power and found that SaskPower was following its updated procedures.

SaskPower's senior management reviews these procedures annually.

Having procurement procedures that incorporate all key expectations increases the likelihood of staff consistently using a fair and equitable procurement process.

### 3.2 Risk Assessments Determined Requirements for Proposals from Independent Power Producers

***We recommended 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.*** (2015 Report – Volume 1; Crown and Central Agencies Committee agreement December 13, 2016)

**Status** – Implemented

***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***

<sup>6</sup> Crown Investments Corporation of Saskatchewan, Subsidiary Crown Policy Manual. [www.cicorp.sk.ca/+pub/Documents/crownpolicy/Crown%20Sector%20Procurement%20Multi%20stage%20procurement.pdf](http://www.cicorp.sk.ca/+pub/Documents/crownpolicy/Crown%20Sector%20Procurement%20Multi%20stage%20procurement.pdf) (18 September 2018).



***project planning, and monitored for new or changing risks during the period of the contract.*** (Crown Investments Corporation SaskPower Smart Meter Procurement and Contract Management Review: Appendix A)<sup>7</sup>

**Status** – Implemented

SaskPower documented and assessed key risks when determining what information it requires from independent power producers and the work to be verified for due diligence by staff in power procurement proposals.

The updated procedures require a thorough, documented risk assessment each time SaskPower decides to tender for power generated by independent power producers. The procedures provide an extensive list of risks (e.g., financial risks, operational risks, technical risks) for staff to consider during these assessments.

SaskPower also uses its risk assessment to determine the key information requirements for its requests for proposal and qualification procurement documents. It uses those documents to specify information required in power proposals prepared by independent power producers.

In 2016-17, SaskPower completed a detailed risk assessment for its project to buy wind-generated power from independent power producers. It used this assessment to document the due diligence work performed by staff.

We found that, for this project, SaskPower prepared its risk assessment, and request for proposal as its updated procurement procedures expected. It considered key financial risks (e.g., ability to complete the project due to financial difficulties), technical risks (e.g., issues with interconnectivity with SaskPower grid), and operational risks (e.g., construction and labour availability) related to this project. The documented risk assessment outlined root causes of identified risks, and SaskPower's mitigating actions. It identified gaps in mitigating actions, and initiatives to lower risk.

In addition, we found that SaskPower based its requests for proposal and qualifications for this project on its documented risk assessment. For example, SaskPower required independent power producers responding to the requests to submit audited financial statements and credit checks. SaskPower used this information to assess the financial stability of producers such as whether the producer could afford to meet its obligations for the power proposal under consideration.

Completing a detailed risk assessment and incorporating this into its procurement requirements helps SaskPower demonstrate it has appropriately considered the level of risk to assign to the independent power producer and the level of risk to retain. It also shows how SaskPower plans to mitigate risks it retains, and helps ensure it has sufficient and timely information to monitor risks over the term of the arrangement.

<sup>7</sup> [www.cicorp.sk.ca/+pub/Documents/SMART%20METERS/CIC%20Smart%20Meter%20Review%202014%20complete.pdf](http://www.cicorp.sk.ca/+pub/Documents/SMART%20METERS/CIC%20Smart%20Meter%20Review%202014%20complete.pdf) (8 August 2018).

### 3.3 Consistent Processes Used to Evaluate Unsolicited Power Proposals

***We recommended that SaskPower use consistent processes to evaluate unsolicited proposals provided to SaskPower from potential independent power producers interested in selling it power.*** (2015 Report – Volume 1; Crown and Central Agencies Committee agreement December 13, 2016)

**Status** – Implemented

SaskPower consistently used its documented process to evaluate unsolicited power proposals received from independent power producers interested in selling power to SaskPower. SaskPower had documented, and senior management approved, this process in 2016. The process aligns with SaskPower's procurement policy and procedures.

Unsolicited power proposals are proposals submitted to SaskPower that are not in response to a request for proposal or request for qualifications. Since 2015 (the time of our initial audit), SaskPower received about 31 unsolicited power proposals from independent power producers.

SaskPower evaluates unsolicited power proposals similar to solicited proposals. It considers both the financial viability of the power producer and technical merit of the proposals when evaluating unsolicited power proposals received. For proposals that advance to the final stages of the process, SaskPower assesses other related risks (e.g., carbon footprint, stakeholder expectations).

For five unsolicited power proposals we tested that SaskPower received since January 2017, SaskPower followed its documented evaluation process for each.

Having an approved process that outlines all expectations for assessing unsolicited proposals helps ensure that SaskPower consistently uses a fair and equitable procurement process, and chooses power producers that are able to deliver the power required.

### 3.4 Unsolicited Power Proposal Process Communicated

***We recommended 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.*** (2015 Report – Volume 1; Crown and Central Agencies Committee agreement December 13, 2016)

**Status** – Implemented

SaskPower communicated its unsolicited power proposal evaluation process and evaluation criteria to independent power producers who submit unsolicited proposals to sell power to SaskPower.



In November 2015, SaskPower approved an unsolicited power proposal summary that it shares with potential power producers upon request. This document outlines the steps involved in submitting an unsolicited proposal, required information, and key criteria used to evaluate proposals to supply power.

In addition, SaskPower's senior management approved guidance for staff on handling and considering unsolicited proposals. Guidance sets out standard messages to communicate for each type of power producer technology (e.g., natural gas, cogeneration). For technologies where SaskPower accepts unsolicited proposals, it outlines accepted power purchase prices by power-generation type (e.g., \$/MWh for wind generated power).<sup>8</sup> Management indicated SaskPower recognizes power purchased through unsolicited power proposals must be competitive with power purchased or generated from other SaskPower programs for the project to be considered financially viable. For example, SaskPower has set the accepted price (\$/MWh) for consideration of flare gas projects on its website.<sup>9</sup>

For SaskPower's communications for each of five unsolicited power proposals we tested, SaskPower communicated the evaluation process, progress updates, and results with the power producer in accordance with SaskPower's established process.

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<sup>8</sup> Megawatt hour (MWh) is a unit of bulk energy. It is a common unit to describe energy consumption.

<sup>9</sup> [Saskpower.com/efficiency-programs-and-tips/generate-your-own-power/self-generation-programs/flare-gas-power-program](http://Saskpower.com/efficiency-programs-and-tips/generate-your-own-power/self-generation-programs/flare-gas-power-program) (10 September 2018)