



Notice of Cross Submissions

E&U 2019 - 2 –

Cross submissions on the Proposed Renewable Energy Auction Scheme

The Utility Regulation and Competition Office ('OfReg') has received a number of submissions on its consultations for the Proposed Renewable Energy Auction Scheme. Those persons who responded to the consultation are encouraged to review the attached documents and offer cross submissions.

As per OfReg's policy, we will be publishing a full version of cross submissions including names and contact details on our website. However, as a gentle reminder, if your cross submission contains any information that you would like to be kept confidential, you must provide reasons for the request as well as a redacted version of your response for public record in accordance with section 107 of the Utility Regulation and Competition Law (2019 Revision).

Cross submissions must be submitted to OfReg on or before **5 p.m. 10 January 2020** and are to be submitted:

By email to:

consultations@ofreg.ky

or by post to:

Utility Regulation and Competition Office
P.O. Box 10189
Grand Cayman KY1-1002
Cayman Islands

Or by courier to:

Utility Regulation and Competition Office
3rd Floor, Alissta Towers
85 North Sound Rd.
Grand Cayman
Cayman Islands



128 Demanade Blvd. Suite 200, Lafayette, LA 70503
(337) 889-3940 - ironwoodenergy.com

October 21st, 2019

Utility Regulation and Competition Office 3rd Floor
Attn: Alissta Towers
85 North Sound Rd.
Grand Cayman
CAYMAN ISLANDS
Re: Peach Bottom Township Solar

Mrs. Towers:

Below, please find Ironwood Renewables, LLC responses to the Renewable Energy Auction Scheme consultation questions.

Question 1: The REAS proposes that a measure whereby all renewable energy capacity available be allocated through a competitive bidding process via auctions. Do the respondents agree with the competitive auction based approach? If not, what alternative model would you propose and why?

A1: We agreed with the competitive auction based approach.

Question 2: Do you have any comments on the way in which we propose to establish the renewable energy auction scheme?

A2: Price is of course an important factor and a primary factor by which projects should be assessed, however project maturity and risk of execution is similarly important to avoid repeat procurements for the same MW allocations.

Question 3: Do respondents agree with the proposal to hold periodic auctions e.g. every two years, over the course of the lifetime of the scheme, to take advantage to falling costs and reduce the impact on the electricity consumer? What changes if any would you make to this proposal?

A3: Yes, we agree with the proposal for periodic auctions.

Question 4: How much notice should be provided to industry of upcoming auctions?

A4: 6 months notice is preferable to industry to prepare and finalize project execution to ensure that sufficiently mature projects are bid into the auction.

Question 5: Should capacity be auctioned in consistent capacity tranches (e.g. 5MW, 10MW, etc.)?

A5: The size tranches of projects within a given auction year are less important than cost and maturity. Across auction years, a meaningful (multi-project) first year procurement is important followed by clear expectations of what will be auctioned when. Consistent volumes across auctions isn't particularly important from our prospective.

Question 6: What would be appropriate minimum project sizes (both in general and for large-scale solar)?

A6: Minimum project size should be 1 MW to ensure minimum viable pricing to CUC.

Question 7: Should the proportion of solar be different post 2021 to allow technology costs to come down?

A7: An initial auction with multiple sizable projects being contracted is important for the overall long term cost reductions in Cayman solar EPC and O&M services. While there are technological and module cost improvements expected, having clear precedent for EPC and O&M from the 2021 auction will provide greater certainty on cost and reduce the effective rate to CUC consumers.

Question 9: Do you agree that planning approval, grid connection, and bid bonds/penalties criteria should be met before projects can proceed? What other pre-qualification criteria (if any), would you like to see introduced?

A9: We do not believe these should be binary to submit to the procurement and secure, however we do believe that qualitatively giving priority to more mature projects with as much risk (planning and grid) reduced as possible. Bid securities are necessary and the norm in industry procurements.

Question 10: Do you have any comments on the information which must be submitted by potential/existing bidders?

A10: Clear guidelines on scoring metrics and clear timeline with a draft PPA prior to bidding would be optimal.

Question 11: Please express any concerns about the impact of the new reverse auction scheme on electricity service providers?

A11: No concerns.

Question 12: What do stakeholders think of the proposed evaluation criteria set out in the scheme?

A12: As mentioned above, moving to a non-binary threshold on planning approval and instead scoring on a gradient around siting risk would be preferred.

Question 13: Do stakeholders have views on how evaluation criteria might be weighted?

A13: No proposed modification.

Question 14: Are there other evaluation criteria/principles that the Office should consider to ensure the scheme meets its objectives?

A14: No proposed modification.

Question 15: Are the costs associated with developing a proposal to bid into the scheme based on addressing the above criteria effectively likely to be prohibitive?

A15: Project development is expensive, however with non-binary project maturity requirements then the cost should not be prohibitive.

Should you have any questions with our responses, please do not hesitate to contact us directly.

Sincerely,

Tommy Hovis
Ironwood Renewables, LLC

BMR Energy



BMR Energy Ltd.
1359 Broadway, Suite 802
New York, NY 10018

October 9, 2019

Utility Regulation and Competition Office
3rd Floor, Alissta Towers
85 North Sound Road
Grand Cayman
Cayman Islands

To Whom It May Concern,

BMR Energy has carefully reviewed the Consultation for the Proposed Renewable Energy Auction Scheme dated September 23, 2019 and prepared the attached responses to the Consultation Questions. As the owner and operator of the Bodden Town Solar I Limited project, we have a keen interest in the successful development of the renewable power industry in the Cayman Islands. Please feel free to email me at arovito@bmrenergy.com or phone at 212-453-6722 should you wish to meet and further discuss any of our responses.

Kind Regards

A handwritten signature in black ink, appearing to read "Andrew Rovito", written over a horizontal line.

Andrew Rovito
Senior Vice President

Cayman OfReg Proposed Renewable Energy Auction Scheme

Consultation Questions and Response by BMR Energy LLC, owner of Bodden Town Solar 1, Ltd.

Question 1: We agree that all renewable energy capacity should be solicited via competitive bidding auctions and support an open and transparent process managed by OfReg.

Question 2: The proposed phasing of new capacity discussed in item 4 of Appendix 1 includes 20 MW's of capacity from energy storage to be installed in 2022 and another 40 MW's in 2030. CUC may find the additional storage planned for 2030 may be more valuable if added sooner and will improve the ability to efficiently use renewable energy and best manage grid stability and reliability. In addition, the planned phasing of wind power in incremental amounts over a 22-year period may be uneconomical. The installation and operation costs of wind include several one time/fixed costs making the installation of 2 MW, 3 MW, 5 MW and 6 MW increments prohibitively expensive. It may be more advantageous to have the wind added over that period in fewer, larger steps over that same period.

Question 3: The plan to hold periodic auctions and stage the renewable build-out makes sense given i) the existing configuration and condition of the electrical grid on Grand Cayman, ii) the current system's capability to regulate intermittent renewable energy, iii) the lack of contiguous parcels of affordable land capable of hosting greater than 20 MW's of renewable energy and iv) the current lack of sufficient transmission infrastructure on the eastern end of Grand Cayman. However, it is likely that once the initial 8 -10 years of the plan is implemented it may be appropriate to re-evaluate the plan for the subsequent 10 years. At that time, the underlying assumptions used in the current plan regarding energy usage, population growth and technology development should be updated and the plan revised, if appropriate, to reflect these changes. Successful implementation of the initial stages of the plan will establish the Cayman Islands as a leader in renewable energy, may bring increased economic growth requiring more aggressive plans for the following 10-year period.

Question 4: Typically, there is a one month notice in advance of an upcoming auction and bidders are given two to three months to respond. Therefore, the timeline outlined in the Proposed Renewable Energy Auction Scheme Structure and Requirements is sufficient assuming certain requirements (as outlined below) are adjusted.

Question 5: In order for the Government to reach its stated goals of 70% renewable penetration, we believe the minimum number of MW's auctioned in tranches, should be 20-25 MW's. 20-25 MW's should provide enough interest to attract credible bidders and EPC construction firms to consider the auction. Consistent capacity tranches in subsequent auctions could lead to better planning by developers, however, developers and investors will limit their development investment exposure in the absence of an awarded PPA with real estate being the largest cost component especially on Grand Cayman.

Question 6: While no minimum project size need be set, projects below 5 MWac will find it more difficult to be competitive. Smaller projects often have difficulty attracting contractors with experience, cost efficiency and financial strength to assure the lowest cost supply of equipment, installation and financing. In addition, larger projects also have a lower cost of O&M, insurance and utility-side work to administer on a per kwh basis.

Question 7: We believe the costs of solar equipment will continue to decline and the efficiency will improve on a steady basis over the next ten years but are unlikely to do so at the rates we have seen in

the past. The planned phasing of solar power additions will provide a good balance of access to technology improvements, as they occur, while facilitating near term access to the environmental and economic benefits of the renewable energy. Some costs associated with installation and operation of solar in the Cayman Islands will not be reduced over time including the costs of land, civil construction, local labor for construction and operation and financing costs.

Question 8: N/A

Question 9: The bid requirements for planning approval, grid connection and an estimate of costs (ECL) from the T&D Licensee are not typical, introduce considerable cost and will cause considerable delay in the process. In fact, we have found that Government and local planning agencies will not even review the plans for a proponent prior to their selection in an auction. Consider the possibility of 5 – 15 bidders in a procurement process seeking planning approval for their projects prior to submitting a proposal. In addition, these requirements will impose considerable cost on bidders, possibly reducing the level of interest in the procurement. We have seen procurements from other jurisdictions require environmental and technical feasibility studies be submitted with proposals addressing planning issues to identify risks associated with the implementation of the project.

With respect to grid connection costs, it will be difficult for the T&D Licensee to complete detailed interconnection studies and cost estimates for each proposed project within the 3-month bid window. Instead, the T&D Licensee should be prepared to perform preliminary interconnection studies for each bidder to provide a preliminary interconnection scope for the proposed projects. This issue also raises the potential conflict that may occur if the T&D Licensee is planning to submit a competing proposal into the auction. Procedures would need to be established to assure that a proposed project by the T&D Licensee would receive the same level of information, in the same priority as it is made available to other bidders and that interconnection analyses be done on a non-discriminatory basis.

We suggest that OfReg, as part of the pre-bid process, work with the T&D Licensee and an independent, third party engineering firm with the requisite experience, to determine available transmission capacity at injection points across the transmission and distribution system. This information could then be shared as part of the bid documents to ensure a fair and transparent bidding process for all.

Question 10: We would add the requirement that bidders provide detailed information on their direct experience in developing, constructing and operating renewable projects particularly in the Caribbean region, with its unique exposure to storms, hurricanes and high cost structure such as insurance coverages. The bidders should also provide resumes for the key management staff who will be directly involved in the development, construction and operation of the facility. Further, as part of the submission, bank comfort letters should be required to demonstrate that the bidder has the full funding available to execute the Project.

Question 11: No, the proposed auction is similar to auctions that have been introduced in numerous islands in the Caribbean. On each of these islands, the electric service provider has been able to integrate well with the selected renewable energy generators without any impact on the reliability of service.

Questions 12, 13 & 14: Direct experience and long-term commitment to developing, constructing and operating renewables in the region should be given greater consideration in the evaluation criteria. The



CAYMAN RENEWABLE
ENERGY ASSOCIATION
Natural Energy for a Sustainable Future

100MW Auction Comments

October 14, 2019

Attn: Louis Boucher / Gregg Anderson,
Re: OfReg – Comments on 100MW Auction

Dear Louis and Gregg,

Further to your recent request for comments on the proposed 100MW Auction, please see below a reiteration of CREA's initial comments regarding the auction we proposed in 2018. We would like to reiterate the following as our advised course of action.

- **Firstly focus on developed space and distributed generation (DG) until the EPC and the land use subcommittee headed by Gina Petrie-Ebanks has had time to conclude on a plan on exactly where on island to site renewable energy systems.**

Otherwise there will be a rush to place systems all across the island in various locations, not accounting for the environmental impact and other critical factors. This will prolong any tendering process and likely lead to investor confusion as to what parcels of land to obtain to site projects. Once such areas are clearly defined, the tendering process will be much more effective.

Additionally, focusing on DG will have several benefits which include the ability to deploy several MWs of solar energy much faster than a year's long tendering and execution process. In the time it would take to complete such a process comparable size DG systems will have already been producing power for years prior. There is every opportunity to deploy several MWs of solar energy in under 12 months from start to finish with the right format of the auction. DG also helps to build a local industry (A goal that is outlined in the NEP) and in building those local skill sets it creates an industry capable to doing larger and more complex projects in addition to keeping a majority of the economic benefits locally. At sufficient MW scale DG power CAN BE produced at or below the levelized cost of fuel today.

- **Release the initial tranche of capacity at 30MWs** –This will be a minimum needed in order for us to meet our targets in the NEP for which the first review is only 3 years away. It is not enough to simply ‘assign capacity’ we must actually fill that capacity otherwise we have not met the targets as set out in the NEP.

We recommend breaking up that initial auction capacity of 30MWs into the following;

- 15 MWs Rooftop DG Systems
- 10 MWs Parking Lot Systems
- 5 MWs for Innovation Projects (Floating Solar, etc.)

Once the EPC committee has completed the land use study and determined where utility scale solar should be sited on island then an additional tranche should be issued focused on this utility scale area.

- **Create 10MWs specifically for parking lot systems** (of the 30MW total allocation) – This will have the double effect of creating RE generation in prime developed space as well as facilitate an island wide charging network for electric vehicles capable of being charged by solar energy and not by fossil fuels. Consumers and businesses will also benefit from the shade provided by these systems. Cayman will also reputationally benefit as these solar parking lot systems are “seen” by our millions of visitors as opposed to panels hidden on rooftops.

This must be done as separate tranche because the cost per watt to build a parking lot structure will be fundamentally different than rooftop applications due to the cost of the structural elements. These systems should also be required to have a basic level of energy storage in order to a) provide more valuable dispatchable power to CUC and b) able to control the load on the grid resulting from the charging of electric vehicles.

While CUC sees greater value in charging late at night the reality is both day and night charging should be incentivized. Night time charging will always fundamentally be using carbon emitting fossil fuels to charge clean electric vehicles, less than an ideal solution environmentally or economically. We should be focused on charging EVs with renewables to further drive down our emissions and meet the targets of the NEP. An island wide charging network will also do more to spur the growth of electric vehicles than any other action other than taxation and this will help meet the EV goals as stated in the NEP.

As a practical matter there will likely never be enough charging stations available at hotels to serve all their guests (some of which are 300+ guests) who will charge at night and it also hinders the growth of electric vehicles for them to have to remember to charge at night and having ‘range anxiety’ if they forget to charge while on vacation, as opposed to being able to charge almost

anywhere on island, day or night. Then there are 'vehicles fleets' which could benefit from both day and night time charging options and use of an island wide network.

The electricity generated by these systems once built will see the majority of that power being sold to CUC while the growth of EVs continues. These systems would provide extra value (and PPAs should be priced accordingly) by providing firm dispatchable power from the energy stored during the day when CUC desires it most at night.

- **Allocate at least 5 MWs to Innovation Projects** – Create an opportunity for developers to submit for projects that, in the opinion of OFReg and as outlined in the NEP, sufficiently meet the standard of innovation and provide value for more via its proposed PPA price. Cayman's NEP specifically address the need to focus on innovative projects and make Cayman a destination for innovation and excellence. Projects such as floating solar, firm RE systems, Cat5 wind systems, etc. are just some of the potential opportunities. A specific category for this would likely spur interest from the private sector in this regard.
- **Local providers & International Partners** – OfReg should ensure that the focus of any early tranches of the auction focuses on creating local jobs, building local expertise and making Cayman a destination of renewable energy excellence, not simply a destination of opportunity for multi-nationals. This is a mistake made by many jurisdictions around the region whereby little or no consideration is given to the local providers who pay taxes, hire and train Caymanians and have been the foundation of the industry.

It is always easier to look abroad and have larger more experienced developers come in and do everything than putting in the requirements that make partnering with local providers a priority. Cayman already has companies who now have megawatts of solar experience. This should be built upon and the competitive tendering, particularly as it relates to DG and done through a focus on local and established providers of which there are several to select from and bid competitively on the project. There should be experience, performance and financial requirements but where such backing is required these local providers can partner with international companies to achieve these requirements.

Regards,



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October 31, 2019

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85 North Sound Road
Grand Cayman KY1-1104
CAYMAN ISLANDS

Re: E&U 2019 – 2 Consultation on Proposed Renewable Energy Auction Scheme

We refer to the above captioned consultation. Please find below the consultation response from Caribbean Utilities Company, Ltd. (CUC). This response uses the same headings, acronyms and defined terms as the consultation document (Consultation). This response refers to the numbered paragraphs of the Consultation using the symbol §, so §1 refers to paragraph 1.

B. Legal Framework

CUC notes the legal framework outlined in the Consultation, noting that in addition to the legislative provisions referred to in the Consultation, that framework also stipulates, by Section 6(1)(c) of the URC Law, that one of the principal functions of the Office is to: *“protect the short and long term interests of consumers in relation to utility services and in so doing: ensure that utility services are satisfactory and efficient and that charges imposed in respect of utility services are reasonable and reflect efficient costs of providing the services;”*

CUC notes that the legal framework also comprises the Electricity Transmission and Distribution Licence granted to CUC on 3 April 2008, containing an exclusive licence for the Service Territory for 20 years and the Electricity Generation Licence granted to CUC on 20 November 2014 containing a non-exclusive licence for 25 years.



C. Background to the proposed Renewable Energy Auction Scheme (REAS)

§24 We note that this paragraph describes the PPAs used in conjunction with REAS as containing a guaranteed purchase for all generation. We would point out that is not necessarily the case. Under current arrangements the CUC PPA with Bodden Town Solar Ltd. contains provisions for curtailment and output that would have occurred but for curtailment which is not paid for. There are also renewable PPAs under which the generator is paid fixed periodic payments as opposed to an amount per KWh. In cases like this there are usually performance standards applied (e.g. for availability and minimum outage levels). Given the variety of terms that may be found in the PPAs, we suggest that it would better capture the position if the Consultation described the PPA as containing terms that assure a commercially viable and reasonable return to the generator.

D. Renewable Energy Auction Scheme Objectives

§27 We note the statement that the REAS is designed to integrate renewables in the electricity market. We doubt that it is the case that the auction process itself results in successful or efficient integration of renewables into the electricity market. At an operating level the variability of the RE resource means that successful integration leads to a need for backup, ramping and dispatchability. In terms of cost, typical auctions do not take account of additional costs to the market caused by catering for the technical requirements for successful integration. This in turn means that the auction outcomes do not show the true total cost of the RE generation.

To make the procurement process simpler, to enable lower electricity market prices and to ensure the sustainable development of the Cayman Islands renewable energy resources, CUC recommends that the technical specifications for the RE plant require minimum ramp rates and an element of dispatchability. This would result in an efficient integration of storage plant with the RE resources and a better assessment of the true cost of the electricity.

§35 We note that where MW capacity is referred to in the Consultation it is not made clear whether this is AC or DC capacity. We suggest that it be made clear that AC capacity is being referred to as that is how electricity generated is transmitted and distributed. We note the projection of 100 MW over the life of a scheme running until 2037. We would suggest that a gradualist approach may be most appropriate. It is likely that the Office and the T&D Licensee will learn throughout the process and will wish to make improvements as a result of what they learn and this leads us to suggest that the scheme be limited to a period five years or taken over one year phases with the ability to reassess as matters progress.

§41 We note the observation that an RE competitive tender model is recognised as “best practice” globally. Best practice varies from one Service Territory to another and even Service Territories using REA schemes use models that vary significantly. We would suggest that the Office, in discharging its functions under section 6(1) of the URC Law, will be looking at the question what is best for Grand Cayman and to the extent it looks at what is considered best practice in other



Service Territories should be asking the question whether what is best practice elsewhere is in the best short and long term interests of consumers here, having regard to the particular situation and features of this market.

E. Consultation Questions

Question 1: The REAS proposes that a measure whereby all renewable energy capacity available be allocated through a competitive bidding process via auctions. Do the respondents agree with the competitive auction based approach? If not, what alternative model would you propose and why?

CUC Response: CUC agrees that the REAS is a possible measure to procure all utility scale renewable energy. CUC does not agree that the proposed auction scheme will be the most cost effective or efficient way of bringing renewable energy in large scale to the Cayman Islands.

As highlighted in the response to more specific questions below there are very significant costs in terms of money and time associated with the REAS proposed by the Office. Those costs will ultimately be borne by consumers of electricity. The Consultation does not embark on an analysis of those costs nor does it contain a weighing of costs and benefits or an assessment of the costs and benefits of other ways of going about meeting the IRP or NEP objectives.

As an example of an alternate scheme, CUC could conduct competitive tenders for renewable energy EPC contracts with oversight from OfReg. These projects would involve work being done by external providers to create generating capacity owned and operated by CUC and could be priced to meet a target ROI that is acceptable to OfReg and CUC. Such a scheme preserves competition in the provision of high quality Renewable Energy systems to Grand Cayman, while keeping down costs imposed and will reduce the significant time and cost overhead of running a procurement through OfReg. Question #15 of this Consultation suggests that OfReg is already aware of the significant costs for bidders to participate in the REAS. These costs as well as the costs that OfReg will incur to conduct the RFP and provide appropriate analysis of the bids along with costs to negotiate and develop IPP PPA's will ultimately be borne by the consumer. These additional costs would likely be over \$1MM per project. CUC wishes to emphasize that in the last competitive solicitation that it won and had pricing 22% lower than the second place bidder provided.

Another alternative scheme that could be considered is the scheme that Hawaii has embarked on and is described in great detail on the HECO website and that of their regulator. In short, HECO runs the procurement process for renewable IPP's with third party oversight from the regulator, HECO has a team that will respond to these RFP's however that team is governed by a strict code of conduct which prevents an unfair "in house" advantage.



Further we note that the REAS does not address the issue of or how to provide firm or peaking capacity when using renewable energy sources to generate electricity. The focus on the price for KWh produced needs to be broadened so that when using price to make decisions about awarding PPAs other costs are considered, those include (but, as we explain below, are not confined to) the costs of ensuring firm capacity, operating reserves and peaking power when using renewables.

Question 2: Do you have any comments on the way in which we propose to establish the renewable energy auction scheme?

CUC Response: The T&D Licensee has an obligation to supply customer and ensure continuity by dispatching sufficient generating capacity to meet system requirements. It is also under an obligation to procure *“adequate generation supply, in terms of required energy, capacity and ancillary services to fully meet the needs of its Consumers [see Conditions 3 and 4 of the License]”*. This means that it must be able to call for capacity and operating characteristics of all resources on its grid. Additionally, the T&D Licensee has responsibility for the efficient, safe and reliable operation of the grid and therefore must be able to control high-level specifications and operating criteria of all resources connected to its grid. Accordingly, the responsibility and management of triggering and specifying incremental renewable energy capacity on the grid should be that of the T&D Licensee much in the same way that it does for firm generating capacity. Of course, that is not to say that the T&D Licensee would be performing this task without regard to the Office or to the NEP targets for securing an increasing proportion of electricity from renewables. The Office itself has a near identical interest because one of its principal functions under section 6 of the URC Law is to: *“ensure that utility services are satisfactory and efficient”*.

Allocating the responsibility and management of triggering and specifying incremental renewable energy capacity on the grid to the T&D Licensee will allow for the T&D Licensee to have generating systems come on to the grid in accordance with long range planning guidelines while maintaining safe, stable and reliable service to the electric customers of Grand Cayman.

For much the same reasons the T&D Licensee should be able to specify operating criteria for renewable energy plants such as capacity, ramp rates and storage requirements if any.

Compliance with these criteria should be part of the initial evaluation of solutions proposed and be a precondition for initial acceptance of any proposal. CUC has provided examples of viable and more efficient procurement schemes in its response to Question 1. However, if the REAS is to be used, it is proposed that it is amended such that the T&D Licensee submits a certificate to OfReg describing the renewable energy systems needed prior to each phase of the REAS, based upon a mutually agreed RE capacity for each phase.



CUC would suggest that, utilising the REAS, the following timeline for project development would be realistic.

| Month | Action Completion Date |
|----------|---|
| 0 | OfReg & T&D Licensee agree on capacity for next phase of REAS |
| 0 | Industry is notified of upcoming auction. |
| 2 | T&D Licensee provides technical requirements for the RE system(s) |
| 4 | OfReg issues RFP including draft PPA/IA |
| 6 | Responses Due |
| 7 | Preferred Projects Selected |
| 8 | ISA Negotiations |
| 11 | Interconnection Study complete |
| 12 | PPA/IA Negotiated |
| 13 | PPA/IA approved by OfReg and executed by parties |
| 13 to 31 | Construction Period |
| 31 | Project Detailed Engineering & Construction (duplicate with above item) |
| 32 | Commercial Operation Date |

We agree with the Office that time frames for offshore wind are likely to be longer than for other renewable projects and the timeline above is for projects other than offshore wind.

For comparative purposes, we would estimate that were the alternative scheme outlined in the answer to Question #1 to be adopted, so that CUC would be soliciting power generation capacity from EPC vendors, the first 9-13 months of the project cycle would be avoided and significant fast tracking of renewable energy onto Grand Cayman could be achieved. Additionally the substantial costs to the bidders, permitting agencies, OfReg and CUC of preparing and reviewing bids for a number of projects as laid out in our response to Questions #9, 11 & 15 could be avoided.

Attached to this response is APPENDIX 1 which contains proposed wording changes to the draft REAS should it be determined to use this procurement methodology.

Question 3: Do respondents agree with the proposal to hold periodic auctions e.g. every two years, over the course of the lifetime of the scheme, to take advantage to falling costs and reduce the impact on the electricity consumer? What changes if any would you make to this proposal?



CUC Response: CUC is comfortable with every 2 years; however, there may be a need for projects annually in the initial years in order to meet the timelines prescribed in the 2017 IRP and the NEP.

Question 4: How much notice should be provided to industry of upcoming auctions?

CUC Response: CUC thinks that 2 months' notice should be sufficient. See further the proposed timeline in response to Question #2.

Question 5: Should capacity be auctioned in consistent capacity tranches (e.g. 5MW, 10MW, etc.)?

CUC Response: Capacity should be auctioned in accordance to agreement between OfReg and the T&D Licensee as described in the response to question 2. Capacity phases should aim to fulfil the goals of the NEP and be guided by the roadmap provided by the T&D Licensee's IRP. One way of doing this may be to use consistent capacity tranches, however, there is little benefit that is apparent for restricting the future auction sizes in this manner.

Question 6: What would be appropriate minimum project sizes (both in general and for large-scale solar)?

CUC Response: 4MW would be an appropriate minimum size.

Question 7: Should the proportion of solar be different post 2021 to allow technology costs to come down?

CUC Response: CUC is not clear on what this question is asking. Subject to that CUC would favour adopting whatever technology appears at the time to offer the best prospect of electricity from renewables at the lowest cost rather than determining proportions in advance.

Question 8:
There is no question 8.

Question 9: Do you agree that planning approval, grid connection, and bid bonds/penalties criteria should be met before projects can proceed? What other pre-qualification criteria (if any), would you like to see introduced?

CUC Response: We agree that all of these criteria should be met prior to the execution of a PPA. There is a serious issue to consider over the time at which various approvals should be obtained. If this is a requirement for becoming an eligible bidder it removes any uncertainty about the bid, but it would lead to the possibility that multiple bidders will burden the CPA & DoE & CUC for



early approvals, only to have many of the projects be unsuccessful in the auction. That would impose a cost on the agencies to whom requests for approvals were submitted and would probably delay the point at which a bid could be submitted for consideration. On the bid side, it would likely deter prospective bidders by increasing the cost of unsuccessful bids.

If the requirement to obtain full approvals is deferred until projects are Preferred Projects then time and cost can be saved. We would suggest that the best way to deal with the need for such approvals is to take them in two stages. With grid interconnection, we would recommend that Interconnection Studies should only be done for Preferred Projects and basic assumptions for costs of interconnection be published in the RFP. With CPA and DoE approvals we would suggest the Office Liaise with these agencies to reach a position where they can give guidelines for projects that are not Preferred Projects leaving resources free to concentrate the full approvals process on Preferred Projects.

We would also suggest that control over the proposed site's property should be demonstrated at the project proposal stage.

Question 10: Do you have any comments on the information which must be submitted by potential/existing bidders?

CUC Response: Technical information that enables CUC to verify that the proposal meets the T&D Code and power quality standards should be provided. CUC will provide the power system integration performance requirements and bidders should show how they intend to meet those requirements. Bidders should provide annual generation forecasts for the life of the project so that the project can be analysed from a total cost basis by integrating it into the portfolio of resources and then analyzing the total cost of energy.

Question 11: Please express any concerns about the impact of the new reverse auction scheme on electricity service providers?

CUC Response: It will be necessary for each bidder to evaluate their interconnection requirement. That will take time (it may take months for each bidder) and will incur significant expense. If multiple bidders emerge each of which requires an interconnection evaluation the cost involved in the evaluations will be significant as will the time taken to conduct them. CUC would probably have to contract out that work, but even with outsourcing there will still be delay and the cost would remain.

We refer to what we said in connection with §27. Each tranche of RE will require backup, dispatchability and ramping. If cost is a consideration in evaluating proposals (as it must be) then those needs will have to be identified when proposals are assessed and means will have to be found to fund them.



Question 12: What do stakeholders think of the proposed evaluation criteria set out in the scheme?

CUC Response: We note that Qualification Criteria form minimum thresholds for a bid to be considered compliant. The Qualification Criteria include Technical Criteria (§40). These need to include a detailed set of criteria for evaluation of whether the technical requirements meet the T&D Licensee's design and operating requirements and it should be made clear that a bid that fails to meet the technical criteria will be disqualified. The Evaluation Criteria are described in two sentences at §44 and we suggest that they would benefit from further elaboration. It would be a mistake to simply take the price per MWh. Cost of energy should not only be evaluated on the proposed pricing, the proposed projects should be analysed for total effect on the complete portfolio of existing generation and planned future generation.

Question 13: Do stakeholders have views on how evaluation criteria might be weighted?

CUC Response:
Cost 70%
Financial strength and experience of the proposer 20%
Other Criteria 10%

Question 14: Are there other evaluation criteria/principles that the Office should consider to ensure the scheme meets its objectives?

CUC Response: The Qualification Criteria should contain requirements for mechanisms or frameworks to ensure grid stability, reliability, resiliency and safety. The current focus on simply providing MWh of RE on to the grid does not go far enough. The structure of having the T&D Licensee develop high-level technical specifications and operating criteria for the projects in order to fulfil the scheme's objectives as described in paragraph 36 and as described in our response to Question #2 addresses this concern.

Question 15: Are the costs associated with developing a proposal to bid into the scheme based on addressing the above criteria effectively likely to be prohibitive?

CUC Response: The cost is significant; however, insofar as the bid bonds are refundable to non-successful bidders, this cost will serve to limit bidders to only serious participants with appropriate levels of financial capability. However, many of these costs can be avoided under CUC's proposed procurement scheme as laid out in our response to Question #1 & 2.



APPENDIX 1 Proposed Renewable Energy Auction Scheme Structure and Requirements

CUC's observations follow the numbered paragraphs of Appendix 1.

- §1 The list of important considerations should be expanded to add “and grid operating specifications”.
- §2 We note that the bid submission is to include environmental consents and refer to our observations above about the impact of this where there are multiple bidders, not all of whom will progress to Preferred Bidder status. The requirements do not appear to include a CPA permit, which would appear to be necessary at Preferred Bidder stage.
- §3 We note that there is no provision for the Sister Islands. The position with renewables there ought, we suggest, to be clarified. The IRP was a roadmap only and it is likely that the projections it contains will require adjustment as matters evolve. We would suggest modifying the final sentence so that it reads: The Office, in issuing new generation licences is guided by this IRP and future revisions of the IRP and future revisions of it as well as other technical and operating requirements as specified by the T&D Licensee.
- §4 It would be worth reflecting in this paragraph that the IRP figures are indicative only and will change as the RE developments progress, otherwise the scheme structure and requirements may become set by reference to projections that become outdated. It is also worth retaining flexibility over the size of additional tranches of energy that are added because it may become apparent (for example) that the economies of scale from adding large blocks of additional capacity mean that sticking rigidly to the figures in this paragraph does not yield the most cost benefit. We would suggest including in this paragraph wording to the following effect: *“The T&D Licensee and OfReg will agree upon capacity for individual tranches of the REAS in advance of auctions being issued. The NEP, IRP and requirements for grid stability, reliability, resiliency and safety shall guide these capacity needs.”*
- §6 We note that this paragraph proposes individual additional RE generation projects of 25MW. 25MW causes operational problems in case of instantaneous loss of generation (i.e. the particular project suddenly ceases to produce electricity) because the existing capacity of the grid to make up for sudden loss of generation does not exceed 20MW. It should be noted that individual projects that are larger than 20 MW will require multiple grid connections to avoid this 20 MW limitation. We note the proposal to hold the first auction in 2021. We suggest that consideration should be given to making this date 2022 in the light of the need to meeting projected immediate lack of capacity because of the



recent sudden burst of growth leading to the recent Certificate of Need issued by CUC and the additional capacity that is likely to result. This will account for the 2021 tranche of RE.

- §13, 14 Each application that is being considered will require an interconnection study by CUC. These studies will cost between US\$70,000 and US\$100,000. They may take up to three months to complete (depending on what is actually being proposed). §16 does not make clear at what stage it is proposed that CUC provide a budget quotation. We refer to our response to Question #9 in which we suggest that the RFP provide budget assumptions for interconnection costs and suggest, consistently with what we propose above that The T&D Licensee should develop general technical specifications and operating criteria for each tranche of the REAS in advance of the Auctions being issued. These criteria must be met for projects to be considered. Consistently with this the detailed studies should be undertaken and costings provided by CUC only for Preferred Bidders.
- §17 The Office could usefully clarify whether the total Guarantee amount will be \$10,000 or \$15,000.
- §23 It would be helpful if this aspect of the guidance were to provide more clarification on what the “blueprint” would address and what it would look like.
- §26 To obtain environmental consents bidders will have to provide Environmental Statements (sometimes referred to as Environmental Impact Statements) (ES). These take significant time and resources to develop. It does not seem appropriate to have this done for all bids at the initial bid submission phase. Perhaps the ES could be done once bids have passed through all other criteria and indicate competitive costs. If this is introduced as an early mandatory criteria it is likely to delay bids and deter bidders by increasing the cost of an unsuccessful bid.
- §27 Our understanding is that the DoE will advise when a project requires an EIA. We refer to our comments on §26. One thing the Office may wish to consider is including a requirement to show lifecycle planning – i.e. what plans do bidders have for equipment when its lifespan has ended (especially batteries). Otherwise, while we solve the energy problem, we contribute to the solid waste problem.
- §39 We found this a little unclear. We infer that the payments referred to are payments that will be made by successful bidders to others only if their bid is successful and we assume that it is not envisaged that these payments will be made by the T&D licensee, whether under the PPA or otherwise. We infer that these, like other costs of bidding, will be factored into the proposed pricing for the PPA and that the Office will require declarations in respect of them in the interest of financial transparency. If we have correctly inferred the above, then it might be helpful were the Structure and Requirements document to be more explicit on these points.
- §40 We note the proposal that the Qualifying Criteria will include a requirement to provide written signed confirmation that the project complies with the applicable T&D codes, but that confirmation needs to go further and to confirm that the project complies with other requirements as laid out by the T&D Licensee in conjunction with the Office when triggering a tranche of RE under the REAS.



- §41 We note the proposal that the Qualifying Criteria will include a requirement to provide an estimate of costs letter. As outlined above at this stage (i.e. before the bid becomes a Preferred Bid) CUC, CUC is not able to provide detailed or firm costs for interconnection works because of the time involved and cost to the bidder outlined above. The risk associated with Actual Cost differing from the Estimated Costs will therefore lie with the bidder and we suggest that the Office may want to make this clear in the Structure and Requirements document. We note that this paragraph refers to interconnection works on a self-build basis. While self-build subject to inspection by CUC will work for green field work, it is not an available option for work on existing infrastructure. That is because the work needs to be done in a safe manner taking account of the operational requirements of the existing infrastructure involving live systems. To ensure this CUC needs to retain control in much the same way as has been done all along with make ready work. Ultimately it is the T&D Licensee that provides the interconnection under an Interconnection Agreement which provides that the T&D Licensee performs this work on behalf of the Generation Licensee.
- §45 This paragraph deals with the Price Scoring aspect of the Evaluation Criteria. As explained above it is not sufficient to look simply at the price per MWh of electricity generated. The impact on the cost of energy in the whole portfolio of resources should also be considered. A low priced resource integrated into the mix could create additional costs for other resources that must be factored into the evaluation so both Price and Cost need to be evaluated.
- §48 We note the proposal for a penalty to be paid, we assume to the Office, in the event of failure to realise the project within the required period. There should also, we suggest be provision for penalty payments in the PPA to cater for the costs to the T&D Licensee and ultimately the consumer of providing replacement energy in order to deal with a bidder's failure to deliver on time. This should take the form of some periodic ongoing payment for each week of delay.

Note also, that if a Project is constructed and commissioned and it does not meet the T&D code or the technical requirements then its output may need to be limited (its output curtailed until it meets the technical requirements) without compensation. This is typical in most jurisdictions and is a form of penalty for non-compliance with technical requirements that may reduce power system security, power quality, or increase power supply costs.



Submission Deadline

We note that the Consultation Document notifies on its cover page a Closing Date for comments of 1 November 2019, which is the same deadline as that provided on the consultations page of the Office's website (<https://www.ofreg.ky/consultations>). CUC has therefore been working towards the deadline of 1 November 2019. In the course of dealing with the detail of the submission we noted an apparent error at paragraph 48 of the Consultation which states that submissions should be received by the Office "*by 5 p.m. on [21] October 2019 at the latest.*" The date of 21 October is in square brackets and we assume results from an inadvertent failure to update an earlier draft in which the date was tentatively set for 21 October.

Yours faithfully,

Letitia T. Lawrence
VP Finance & CFO

From: Roger Southam roger@rogersoutham.co.uk
Subject: E&U 2019 - 2 - Consultation Proposed Renewable Energy Auction Scheme
Date: October 21, 2019 at 5:12 AM
To: consultations@ofreg.ky



Dear Sir/Madam

Further to the above consultation and the requirements of section F I submit the below in response.

We have answered with our comments and points on the questions in section E below.

1. We agree with the competitive auction based approach;
2. Yes this is agreed;
3. It is not known how long the authorization process will take after the auction which makes this difficult to comment on;
4. 4 months;
5. Tranches by 10MW is fine;
6. For AD (anaerobic digestion): 1.5MW project size; we have no experience in other renewable energy sources;
7. We deliver AD energy and are not operating in solar power, therefore no comment on this question
8. There is no question 8;
9. We agree that Planning approval and grid connection criteria should be met before proceeding with projects;
10. We agree with the list and also suggest a list of references be included;
11. We have no concerns on this;
12. It feels too weighted on price and we suggest a 50/50 evaluation like 50% CAPEX, 50% Experience (know-how);
13. We suggest a 50/50 evaluation like 50% CAPEX, 50% Experience (know-how);
14. We would suggest consideration of the costs of the OPEX;
15. We do not feel it should be prohibitive, but the handling of the first tranche will directly impact and effect subsequent tenders.

I should be grateful if you would please keep us informed as matters progress and will disclose full details of our operation and partners when the time is right.

Kind regards

Roger Southam

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Proposed Renewable Energy Auction Scheme (REAS)

E&U 2019-2

Reply to Consultation October, 2019

Question 1:

GEC Group does understand the merits of competitive auctions **only** when the process benefits both policy and price. It is clear the objectives set out with **REAS** is to lower costs through competitive bidding, attract many competitive bids, and implement the best available technology, in a purely free market situation, with no collusion. Indeed, one of the principal drawbacks with **REAS-type** auctions is costs may not necessarily be cheaper because the bidding costs are onerous. Such costs are then communicated into the project costs indirectly. Auctions draw on companies to commit competitively to a realized rate, and potentially low bidding the auction. It also invites the high potential of collusion between big providers because small operators cannot sustain the qualification process competitively, thereby making competition not equal.

There are many reasons why not to use the **REAS-type** auctions, particularly in a small island environment, and limited generation requirements. **GEC GROUP** feels the Feed-In Tariff (FIT) process to be more effective for Cayman than the **REAS** process for the following points;

1. Simple Policy model that can be designed to target specific technologies
2. Limits the risk for Investors
3. Allows for new companies to enter into the market
4. Provides incentive to maximize production
5. When privately funded, FIT has no burden on public budgets

The FIT is set for each technology and is paid for over a fixed number of years. This makes for a stable market and allows for long term planning. This encourages investment in renewable energy, as IRR rates are attractive and secure. There are different models of FIT that would suit different policy mandates, such as Gross FIT, or Net FIT.

Where FIT has advantages over **REAS** largely benefits smaller markets and smaller companies. Although it can be costly, this can be overcome with private funding. It has a lower risk and costs for project developers. FIT also offers support for new technologies. The more attractive aspect of FIT is long term stability, largely due to not forcing competition into too low-cost assumptions as is prevalent in **REAS** type competition.

Appendix A: UNEP publication titled Feed-in Tariffs as a Policy Instrument for Promoting Renewable Energies and Green Economies in Developing Countries.



Question 2:

Should OFReg consider implementing REAS, GEC Group would suggest the following criteria to be considered in the implementation of the auction;

1. Give enough consultation and bid preparation time
2. Reduce financial or material prequalification burdens or penalty for small actors
3. Different pricing rules for small actors
4. Set ceiling prices and have them fully disclosed at time of tender
5. Pre-establish a site where the RE will be installed

Appendix 1 - Scheme structure and Requirements: Item 2, speaks of Specific Technology Auction categories. These different technologies have diverse characteristics and are therefore impacted differently by the same prequalification criteria and realization periods, thereby disadvantaging some RE technologies through expensive planning costs, bidding costs, and some non-cost barriers like timing and permits. Employing the same standards across different technologies can produce an undesired result.

Auctions do not always operate efficiently, particularly in smaller markets. If the competition base is not sizeable; the available allocation not big enough; or the evaluation criteria too stringent (all factors that may deem the auction inefficient) unfair advantages amongst bidders can be created.

Appendix B: Renewal Energy Support Mechanisms: Feed-in Tariffs and Auctions

Question 3:

GEC Group feels that a long-term window, with a lengthy forward-looking auction plan should be considered. At least 3-4 years ahead, along with a well detailed auction schedule. The optimal number of time (depending on technology), auction volumes and market situations, should be a minimum of once every two years, to a maximum of once every year. This way the supply chain can plan and develop projects accordingly. Auctions depend on significant competitive participation, and when a bidder loses a bid, a long wait would likely lose their interest in further participation. This helps with Investors' confidence of potential market opportunities, and willingness to extent credit to viable projects.

Appendix C: DTU Library; Auctions for Renewable Energy Support – Taming the Beast of Competitive Bidding; DENA; The Economies of Support Policies for Renewables; Money well spent.



Question 4:

A minimum 12 months, but preferably 18 months. Auction bids are very costly, as the documentation to submit is extremely onerous. As indicated in Question 2, **GEC Group** suggests lowering the qualification demands to allow smaller actors to participate. Indeed, each technology whether solar, wind, or biofuels each have unique application specifications imposing their own demands for required time. **GEC Group** suggests making the period correspond more specifically for each technology.

In this case, **GEC Group** suggests the 12 to 18-month interval for solar PV. It is not so much to take advantage of falling costs, but to maintain competitive interest. Solar material costs have dropped dramatically in the past 5 years. It is unlikely to see any further significant reductions as the development of components has matured. On a going-forward basis, competition will be the primary contributor to reducing prices. Indeed, the caveat for policy makers is that there should be more focus on qualitative review in an industry where reliability is a key component to a successful installation at the utility-scale level. In short saying; low cost is not always the right direction.

Question 5:

For RE specific auctions tranches in solar PV suit the 5MW and 10MW allocations. However, they should be permitted to expand to as large as 20MW, should the demand be necessary and the allocation available.

Question 6:

GEC Group will only comment on Solar PV, where the minimum sized utility-scaled installation would be 5MW.

Where **GEC Group** is not in agreement is that the environmental consent criteria in the evaluation. This process penalizes small scale solar projects with unreasonable environmental restrictions. Obviously solar PV requires ample space. Solar power does not produce any EMI or RFI emissions, therefore should not be subject to stringent environmental reviews, provided such lands are not designated as environmentally sensitive.



Question 7:

GEC Group is of the opinion that post 2021 technology costs for utility-scale solar will not advance significantly enough to suggest initiating a policy change. The component cost of solar PV lays largely in the panel. Though expected to cost less in coming years, the likelihood of a sizeable reduction in costs by 2032 will not overshadow the cost savings during that same period through successful auctioning. Reliability is a key aspect to all solar PV installations, where cost savings with lower-cost products do not always translate into like-for-like technology. **See comments in Question 4.**

Question 9:

GEC Group has significant concerns in the areas of planning approval, grid connection, and how it can affect bid bonds/penalties and the auction itself. The location of installations has factors that determine the viability of the project, and the possible reality of its implementation. There are no tangible specifics that potential competitors can ascertain prior to bid submission that can lower the risk in meeting the criteria set out in the REAS. Land costs versus connection-location costs; land costs versus environmental assessments; non-cost barriers such as planning issues and permits; duty concessions; and labour permit concessions, are all factors which gravely affects competition costs. This uncertainty poses considerable risk to bidders that may unfairly compromise their bid and activate the penalty conditions set out in the auction. This could result in fewer bidders, possible collusion, and certainly eliminate the smaller actors to participate. **GEC Group** recommends fewer qualification criteria.

Question 10:

GEC Group is comfortable with Structure of the Project, and Legal Criteria. On the matter of Land Acquisition and Land Use Criteria, it should be allowed that within the qualifications criteria, representation of a legal undertaking to secure lands. Land prices can escalate once they are subject to RE installation. Acquisitions need to be held extremely confidential to prevent artificial inflation of land values.

Environmental Consent Criteria is too broad in its scope, putting the onus on the bidder to secure Environmental Consent. There should be exemptions already negotiated prior to the auction in keeping with the allocations being auctions. For example, project capacity and limit on installation coverage (land coverage) should be relaxed for solar installations. Or if the lands are already designated by Caymanian Government prior to bid submission, then environmental consent should be pre-approved.



Question 11:

GEC Group has no comment on this question.

Question 12:

The proposed evaluation criterias clearly have a bias towards large project developers. As an example, **GEC Group** wishes to draw on the auction in Cayman in August 13,2014: Evaluation of Bids for 36 Megawatts of Firm Power Generating Capacity for Grand Cayman, Final Report. The allocation of points as evidenced by this report clearly benefitted CUC. Although the various criteria need to be considered, there is nothing transparent in the allocation of points (as set out by the **REAS**).

The way this auction is structured in the **Proposed REAS** very much resembles the same conditions set out in August 2014 Final Report. It eliminates small actors from competition. The process to satisfy the Evaluation criteria is burdensome both from a legal cost and commitment of funds in hopes of qualifying. Land acquisition costs, Grid connections, and environmental consent criteria are examples of why the costs can be considerable.

Question 13:

GEC GROUP believes the weighting needs to be 90% on price and technology, and 10% on Financial Robustness, Environmental Consent and Economic Development. Implementation of RE technology poses immediate economic and environmental benefit that really should not be an essential part any Evaluation Criteria. With reliability being the most important component to the success of any RE installation (on a long-term basis) the project costs far outweighs the short-term impacts of financial or environmental implications. Price dictates at what level competitive bidding reaches the correct trade-off of risk-versus-reward.

In addition, financial weighting is not significant to public budgets when the costs are 100% funded by private equity. Aside from properly reviewing and evaluating financial sources, to ascertain legitimate equity, the focus should always be towards the caliber of the equipment and operation that the consumers of Cayman Island must rely on.

Question 14:

GEC Group, through exhaustive research of other existing **REAS-type** schemes feel the proposal speaks well to almost all the necessary criteria. Although, in the financial and environmental criteria, **GEC Group** feels there is a general risk-adverse approach that is beyond achievable in a practical sense, and business sense. The objectives can still be met with a "water-down" version of the same criteria. Indeed, all criteria is correct in that they need to be addressed, but the risk-adverse approach is too burdensome to all bidders and does not necessarily achieve the objectives of the auction.



Question 15:

GEC Group is of the opinion that the development of a bid as outlined in **Appendix 1, Scheme structure and Requirements**, is prohibitive ONLY to small actors. Where competition is the key to all auctions, by placing cost burdens as barriers to fair and competitive bidding is self-defeating. Thought needs to be extended in these principal areas as they relate to the bids;

1. Land acquisition timing and securing and legal implications
2. Grid connection negotiations and legal implications
3. Environmental evaluation costs and legal implications
4. Planning and permit costs and legal implications
5. Duty costs
6. Labour permitting costs