

F2006 OPEN CALL FOR POWER
PROCUREMENT PROCESS DESCRIPTION

1. PURPOSE:

This document and the schedules listed below describe the proposed process for the acquisition by BC Hydro of new energy supply in the F2006 Open Call for Power. The documents were first published on 10 March 2005, and have been revised following a stakeholder engagement process in which comments from customer groups, First Nations, prospective bidders and other stakeholders were considered.

This document and the schedules have been prepared to inform stakeholders and have no contractual or other legal effect. The final Call for Tenders (“CFT”) and Electricity Purchase Agreement (“EPA”), expected to be issued in fall 2005, will be the governing legal documents between BC Hydro and bidders and sellers.

2. BACKGROUND:

BC Hydro is targeting to procure a minimum of 1,000 GWh/year of electrical energy in F2006 with a competitive CFT as follows:

- (a) a minimum of 800 GWh/year of firm electrical energy supply and up to 800 GWh/year of associated non-firm electrical energy supply from projects 10 MW and larger (“Large Projects”) built and operated by independent power producers (“IPPs”), and
- (b) a minimum of 200 GWh/year (based on a 50 MW portfolio at approximately 50% capacity factor) of electrical energy supply from projects 1 MW and larger, but less than 10 MW (“Small Projects”) built and operated by IPPs.

Energy is to be delivered on a long-term basis with a contract term of 15, 20, 25, 30, 35, or 40 years (as tendered by the bidder) from projects with a commercial operation date (“COD”) guaranteed between 1 October 2008 and 1 October 2009 as tendered by the bidder.

BC Hydro intends to proceed with a CFT process with two separate “streams”, one for Large Projects and one for Small Projects. Each stream will have a different form of EPA and a similar, but not identical, evaluation methodology.

The Call will take account of BC Hydro’s commitment to resourcing a target of 50% of its new electricity supply from BC Clean Electricity.

The following documents are attached to this Procurement Process Description:

- Schedule A – Tender Evaluation Criteria and Methodology,
- Schedule B – EPA Term Sheet - Large Projects, and
- Schedule C – EPA Term Sheet - Small Projects.

3. OVERALL PROCUREMENT OBJECTIVES:

These procurement process proposals have been guided by BC Hydro's commitment to:

- securing a cost-effective, reliable supply of electrical energy that reflects BC Hydro's requirements from financially and technically qualified IPPs,
- facilitating an environment which fosters competitive, realistic and disciplined pricing,
- avoiding unnecessary complexity and protecting fairness to bidders and transparency in process execution and bid evaluation,
- implementing measures in the process and EPA terms and conditions to increase BC Hydro's confidence that projects for which EPAs are awarded will achieve commercial operation as scheduled,
- allocate EPA risks in a manner that takes account of which party is best able to price, manage and mitigate risk, and
- reducing transaction and ongoing contract administration costs.

4. PROCUREMENT METHOD:

The Call is proposed to be a tender process rather than a request for expressions of interest or proposals, or a sole-sourced negotiation process.

A tender process requires that qualified bidders submit legally binding, irrevocable, priced tenders to enter into a stipulated form of EPA. Tenders are evaluated based on price and non-price factors. Evaluation criteria are disclosed and consistently and fairly applied. Pre-tender opportunities are available to bidders to seek project-specific changes to contract terms. Final form EPAs are not negotiable.

BC Hydro proposes a tender process because it is best suited to achieve the key commitments outlined in section 3 above. A tender process:

- allows all bidders in each stream to compete based on the same contract terms and risk profile, which in turn allows BC Hydro to make a reasonable comparison among tenders for evaluation purposes,
- assures BC Hydro of serious, legally binding and achievable offers,
- provides bidders with greater certainty that BC Hydro will proceed to award,
- enhances transparency by applying disclosed evaluation criteria,
- avoids multiple, prolonged, expensive and potentially unsuccessful negotiations for BC Hydro and bidders, and
- reduces contract administration by adopting standard form EPAs.

Tendering can be more inflexible than alternative processes. BC Hydro recognizes that it is also desirable to mitigate unnecessarily prescriptive aspects of tendering, by permitting a reasonable range of product offerings and tender options to ensure that EPA awards reflect optimal outcomes for BC Hydro and its ratepayers.

5. SINGLE STAGE PROCESS:

Unlike BC Hydro's recent acquisition calls for capacity and/or energy, BC Hydro proposes that the Call will consist of only a tender phase. There will be no preliminary or separate pre-qualification phase for bidders or for projects.

Mandatory requirements and evaluation criteria will be set out in the CFT. This will enable bidders to determine at an early stage whether or not they wish to participate.

A single-stage will simplify the process, shorten the period from issue of the CFT to EPA award, reduce costs for BC Hydro and for bidders and is consistent with input from bidders in past calls.

6. TRANSPARENT PROCESS:

BC Hydro proposes that the CFT, all addenda and all other documents to be issued to bidders will be posted to an open and publicly available website, consistent with BC Hydro's commitment to transparency. It is important to BC Hydro that, not only bidders, but all BC Hydro stakeholders, have ongoing access to the procurement documents.

Questions with respect to the proposed process may be directed to BC Hydro via the email address power.acquisition@bchydro.com.

Once the CFT is issued, a Q&A process will be available on the website to all registered bidders. In the interest of fairness, all questions and answers will be posted to the website. However, the identity of bidders submitting questions will not be disclosed publicly.

After EPA award(s), BC Hydro will publish a full report, including disclosure of information relative to the application of price and non-price evaluation criteria.

7. BIDDER REGISTRATION:

Bidder registration is a useful tool to BC Hydro in terms of providing an early indication of interest and facilitating planning for bidder workshops and other process elements.

Each person who wishes to participate in the process and submit a tender will be required to register as a bidder. Bidders may register any time after issuance of the Call and before the scheduled bidder workshop. Early registration will be encouraged and unregistered persons will not be eligible to submit questions for response to the Q&A portion of the CFT website, until they have completed registration.

Upon registration, CFT registrants will be required to pay a registration fee of \$5,000. One fee is payable per bidder, regardless of the number of projects tendered by the registrant. The registration fee is non-refundable.

Bidders may have more than one representative attend bidder workshops. BC Hydro may limit the total number of attendees per bidder at the workshop.

Bidders will not be restricted in modifying project data prior to tender submission. This will give bidders full flexibility to continue project planning as the tender phase progresses.

8. **MANDATORY REQUIREMENTS:**

Tenders will be required to meet certain mandatory requirements, which will be set out clearly in the CFT. The purpose of these requirements is to enable potential bidders to determine as early as possible whether their proposed project is suitable for tendering in this process. An early self-assessment will assist bidders who do not qualify to avoid unnecessary effort and expense, and will provide some certainty to bidders who do qualify that further effort and expense may be warranted, provided that a competitive offering can be developed.

Proposed mandatory requirements are:

- **Project Location:** Projects must be located in British Columbia.
- **Technology Type:** All “proven” generation technologies (except nuclear technology) are eligible. For this purpose “proven” technologies are generation technologies, which are readily available in commercial markets and in commercial (not demonstration) use, as evidenced by at least 3 generation plants generating energy for a period of not less than 3 years, to a standard of reliability generally required by good utility practice and the standard required under the proposed EPA for this Call. Prototype and near-commercial technologies are not eligible for this Call.
- **Project Type:** Projects may be new, refurbished, incremental or existing generation, except as noted below. Incremental generation from existing, connected and synchronized facilities will qualify, provided that the incremental portion of facility generation is separately metered at the generator. No generation projects that received funding through a Load Displacement or Demand Side Management contract with BC Hydro are eligible. Existing generation facilities inside the customer’s fence that did not receive funding through a contract with BC Hydro are also not eligible, unless those projects ceased to be synchronized to the British Columbia Transmission Corporation (“BCTC”)/BC Hydro transmission/distribution system (“Integrated System”) before 1 January 2004.
- **Interconnection:** Projects that are located within the Integrated System area must:
 - be metered separately,
 - have a direct interconnection to the Integrated System (and for this purpose a direct interconnection includes a configuration where the generating equipment is connected to a facility such as a pulp mill, provided that electricity from the generating equipment can be injected into the Integrated System when the pulp mill is not operating), and
 - not be located in the Fort Nelson area.

Projects which are not located within the Integrated System area will be eligible, but the point of delivery must be at a specified point on the Integrated System. The project must be metered separately at the generator. Losses between the meter and the point of delivery will be deducted for payment purposes.

- **Project Size:** The minimum size of projects is 1 MW of project capacity.
- **Energy Profile:**
 - *Large Projects:* All bidders of Large Projects will be required to tender a firm energy profile, which will determine the amount of energy the bidder is contractually obligated to deliver, either on a monthly basis, or on an hourly basis (for bidders who elect the hourly firm option). The tendered energy profile will be contractually binding throughout the term of the EPA. Note that the total amount of monthly or hourly firm energy that a Large Project may tender during April, May, June and July is limited to a maximum of 1/3 of the annual firm energy tendered. BC Hydro will accept energy in excess of this limit during this period, but such energy will be subject to a discounted price.
 - *Small Projects:* Bidders of Small Projects are not required to tender an energy profile, and will not be contractually committed to deliver a minimum volume of energy on a monthly, hourly or other periodic basis.
- **Exclusivity/"Split Bids":**
 - *Small Projects:* All project output (net of station service) must be tendered to BC Hydro under the CFT, and no "split bids" will be permitted.
 - *Large Projects:* "Split bids" are permitted.
- **Interconnection Study:** BC Hydro requires all bidders to have, at the time of tender submission, a completed preliminary interconnection study. However, further consideration of all aspects of interconnection and transmission issues will be undertaken as part of BC Hydro's review of the recently released decision of the BCUC relative to BCTC's new Open Access Transmission Tariff ("OATT").
- **No Current Contracts:** A project, whether or not developed, in respect of which the tendered output is already under contract to BC Hydro or others (including any right of first refusal or similar requirement) from the tendered COD is not eligible for this Call.
- **Other Mandatory Requirements:** BC Hydro will also assess tenders in respect of bidder experience and financial strength and project risk as follows:
 - **Bidder Experience:** BC Hydro will assess bidders to ensure that they have, or have access to, sufficient prior experience in developing, financing and operating power projects comparable to their tendered projects,
 - **Financial Strength:** BC Hydro will assess bidders to ensure that they have, or have access to, appropriate financial strength to finance, develop and operate successfully their tendered projects, and
 - **Project Risk Assessment:** BC Hydro will assess tendered projects to determine whether the projects pose unacceptable risk with respect to project completion by the target/guaranteed COD or operation in accordance with the terms of the EPA. The assessment will take into account factors such as site control and tenure, financing, permitting status, GHG mitigation plans, progress towards other project milestones,

fuel supply arrangements and availability, and assessment of the expected useful life of the project relative to the tendered EPA term.

9. EPAs:

The CFT will allow for two EPA forms – the Large Project EPA and the Small Project EPA, each with different risk profiles, pricing and terms and conditions.

Proposed key terms of the Large Project EPA are set out in Schedule B. Proposed key terms of the Small Project EPA are set out in Schedule C. The EPA term sheets reflect commercial pricing principles and terms and conditions suitable to the project size. In particular, the Small Project EPA is simplified and streamlined.

The EPA form will be prescribed in the CFT, and will be non-negotiable. All bidders must tender to that form. However, the process will include a pre-tender opportunity for bidders to propose modifications to the EPA that are necessary to accommodate project-specific issues, but which in BC Hydro's opinion will not materially alter the allocation of risks and benefits under the EPA. All such project-specific modifications will be subject to BC Hydro's approval before tender submission.

10. TENDERING OPTIONS:

BC Hydro proposes to give bidders a range of tendering options that will enable them to build on the strengths of their projects, while preserving sufficient comparability of tenders for evaluation purposes. This will enable BC Hydro to follow a more simple and streamlined procurement process, and to apply a fair and transparent tender evaluation methodology, consistent with overall program objectives.

Bidders will have a number of options available in constructing their tenders. These include:

- ***Special Purpose or Other Legal Entities:*** A bidder may consist of an individual, corporation (including a special purpose entity), general or limited partnership, joint venture or other legal entity.
- ***Multiple Tenders:*** A bidder may submit tenders in respect of multiple projects, but only one tender may be submitted for each project, except that for a Large Project, tenders may be submitted reflecting a “split bid” and a “non-split bid”, scenario.
- ***Mutually Exclusive Tenders:*** If a bidder submits tenders for different projects, it may designate two or more such tenders as mutually exclusive, so that if one tender is accepted, the other tender(s) so designated are deemed withdrawn and may not be accepted.
- ***Energy Profile:*** A Large Project bidder may bid a monthly firm energy profile which will determine the amount of energy the bidder is required to deliver from the project in each month during the EPA term. The total monthly or hourly firm energy tendered for the period from April to July inclusive may not exceed 1/3 of the total annual firm energy tendered.
- ***Hourly Firm Credit:*** A Large Project bidder may select the “Hourly Firm” option applicable to firm energy tendered, for which credit is given in tender evaluation, as outlined in Schedule A. A bidder that elects the hourly firm option will tender a contracted firm energy delivery rate for the heavy load hours (“HLH”) and another contracted firm energy delivery rate for the light load hours (“LLH”) in each month. See the Large Project EPA term sheet attached as Schedule B for further information on the hourly firm option.

- **“Split Bids”:** A Large Project bidder has the option to tender all or part of the output of their project to BC Hydro. Note that hourly firm bidders that elect the “split bid” option will be required to tender a “Split Bid Threshold Level” (HLH and LLH MWh/h delivery rate for each month) at or above their hourly firm delivery rate. Energy produced in excess of the Split Bid Threshold Level would not be sold to, or purchased by, BC Hydro under the EPA. Monthly firm bidders that elect the “split bid” option would tender a Split Bid Threshold Level (MWh/h delivery rate for each month) at or above their average firm energy delivery rate. Energy produced in excess of the Split Bid Threshold Level would not be sold to, or purchased by, BC Hydro under the EPA. For all bidders, to the extent that the Split Bid Threshold Level exceeds the firm energy delivery rate, there is no liability for failure to deliver above the firm energy delivery rate. Bidders may not sell energy below the Split Bid Threshold Level to third parties.
- **EPA Term:** Bidders may tender an EPA term of 15, 20, 25, 30, 35 or 40 years.
- **COD Timing:** Bidders may tender a COD between 1 October 2008 and 1 October 2009. Bidders may also advance COD up to 12 months, but not earlier than 1 January 2008.
- **Split Pricing:** Bidders that tender a term in excess of 15 years will have the option to tender two prices – one applicable to an initial portion of the term (being at least 15 years), and a lower price applicable to the balance of the term. However, the real levelized price for the first part of the term may not exceed 110% of the real levelized price for the entire term.
- **Clean Projects:** A bidder tendering a project that meets the “BC Clean Electricity” definition (available at www.em.gov.bc.ca/AlternativeEnergy/bc_clean_electricity_guidelines.htm) will be given a preference in the evaluation (see Schedule A for details on the impact of this preference on tender evaluation). The CFT process will include a pre-tender process pursuant to which bidders will be advised whether or not their project meets the “BC Clean Electricity” definition.
- **Green Credit:** A bidder tendering a project eligible for Ecologo^M certification may select one of the following options:
 - (i) tender “green attributes” to BC Hydro. Bidders selecting this option will receive the green credit of \$3.00/MWh for purposes of tender evaluation only, or
 - (ii) retain the “green attributes” for sale to third parties or other uses. Bidders selecting this option will not receive the green credit, but will be considered clean in the evaluation process if the project meets the BC Clean Electricity definition.

Bidders that elect to tender “green attributes” to BC Hydro will retain the ability to apply for government programs such as the federal Renewable Power Production Incentive (“RPPI”) or Wind Power Production Incentive (“WPPI”). If the government program requires government ownership of the “green attributes” and the Bidder gives BC Hydro due notice thereof, BC Hydro will forfeit its rights to those attributes and reduce the contracted power price by \$3.00/MWh (escalating at the Consumer Price Index (“CPI”) from January 2006) to recoup the evaluation credit previously applied in the tender evaluation.

- **GHG Emission Offset Obligations:** Bidders will have the option of either:
 - (i) retaining responsibility for any and all future GHG regulatory and legal requirements, or

- (ii) transferring to BC Hydro responsibility for any regulatory obligation to purchase GHG emission offsets attributable to the bidder's tendered GHG intensity, with the bidder retaining all other GHG regulatory and legal requirements relative to GHG, in which case, BC Hydro will apply an adjustment to the bid price for evaluation purposes only, by a specified amount to be determined from a table published in the CFT. A preliminary indicative table of bid price adjustments is attached to Schedule A.

11. ISLANDING:

The CFT will not include an "islanding" option. BC Hydro may include a provision in the EPA under which BC Hydro may require bidders, after EPA award and prior to final engineering design, to undertake an islanding study at BC Hydro's expense. If the study indicates that the bidder's plant is capable of islanding and that there is value from BC Hydro's perspective in having the bidder's plant provide islanding capability, BC Hydro may elect to have the bidder provide such islanding capability. BC Hydro will pay the incremental capital costs associated with modifying the bidder's plant to provide the islanding capability, together with a modest additional amount to reflect the value to BC Hydro provided by the islanding capability.

12. INTERCONNECTION ISSUES:

It is currently proposed that the CFT will include provisions designed to ensure that:

- completed preliminary interconnection studies will be available for use by BC Hydro in tender evaluation, and
- if and to the extent that interconnection and/or transmission-related costs associated with a project are borne, directly or indirectly, by BC Hydro, appropriate adjustments are made in tender evaluation to recognize the impact of these costs on the value of the tender to BC Hydro to preserve fairness to all bidders.

Further details on interconnection and transmission issues will be available before the CFT is issued to take account of BC Hydro's review of the recently released decision of the BCUC regarding the OATT.

Bidders must obtain, before the time of tender submission, a completed preliminary interconnection study for each tendered project. All study costs will be for the account of the bidder. For projects to be connected to the BCTC transmission system, bidders should make a study application to BCTC and enquiries relative to connection to the transmission system should be directed to BCTC. For projects to be connected to the BC Hydro distribution system, bidders should make a study application to BC Hydro (Distribution Generator Interconnections).

Bidders who are seriously considering participating in this Call should consider making an early study application to minimize the risk that a completed study will not be available to them at the time of tender submission.

BC Hydro requires that all bidders intending to tender a project to be connected to the BCTC transmission system authorize BCTC to provide BC Hydro with access to study applications, related filed data and study results, to assist BC Hydro in administering the Call, to ensure fairness in that BC Hydro will have equal access to such information for projects connected to the transmission system and the distribution system, and to enable BC Hydro and BCTC to use such information in any special studies that may be requested by BC Hydro or BCTC from time to time.

13. TENDER EVALUATION AND EPA AWARD:

All tenders will be first assessed for conformity with CFT requirements. Materially non-conforming tenders will be rejected, consistent with best tendering practices and applicable law. BC Hydro will retain discretion to waive non-material non-conformity and to determine thresholds of materiality.

Next, tenders will be assessed to confirm compliance with the Mandatory Requirements.

Finally, qualified tenders will be evaluated in accordance with the evaluation criteria and methodology outlined in Schedule A.

BC Hydro will reserve the right exercisable in its discretion to cancel the Call before award of any EPA, and to award no EPAs. Further discretion exercisable by BC Hydro is described in Schedule A.

14. BIDDER WORKSHOP AND Q&A:

The CFT process will include a bidder workshop to assist registered bidders in understanding CFT requirements.

The process will also include a web-based Q&A process, available to registered bidders at all times up to the tender submission date.

15. TENDER SECURITY:

In order to recognize that tenders must constitute irrevocable and legally binding offers, tenders must be accompanied by tender security in a prescribed amount and an acceptable form. The CFT will include a preferred tender security form, but bidders may seek pre-approval for non-material alterations to the form.

Proposed tender security requirements:

- a clean, irrevocable and unconditional letter of credit issued by a creditworthy bank or financial institution in a prescribed form or such other clean, irrevocable and unconditional form as BC Hydro may approve before the tender submission,
- for Large Projects, the tender security must be equal to \$10,000/MW (based on annual firm tendered energy in MWh divided by 8760),
- for Small Projects, the tender security must be equal to \$5,000/MW of project capacity, and
- the tender security must be valid to the expiry of 15 days after the expiry of the corresponding tender.

Tender security submitted by unsuccessful bidders will be released when their tenders expire.

Tender security submitted by successful bidders will be released when they execute the EPA and deliver the performance security required thereunder.

16. FURTHER CONSULTATION:

BC Hydro intends to issue a draft of the CFT document, including the draft EPA for both Large Projects and Small Projects so that potential bidders and other stakeholders may have a final opportunity to offer comments on those documents before the final form CFT is issued.

Subject to the impact of regulatory issues discussed in Section 17 below, BC Hydro expects to issue the CFT in fall 2005.

17. REGULATORY ISSUES:

Several regulatory proceedings currently pending before the BCUC may impact the timing and perhaps other terms and conditions of the CFT issued for this Call.

Also, all EPAs awarded under the CFT are “energy supply contracts” for purposes of the *Utilities Commission Act (British Columbia)*. They must be filed with the BCUC, and may become the subject of a public interest review, which would include a public hearing. In that event, the BCUC has jurisdiction to approve an EPA, with or without conditions, or to order that the EPA is of no effect.

18. GENERAL TERMS AND CONDITIONS:

The CFT will include general terms and conditions supporting overall program objectives and reflecting best tendering practices.