

2005 OPEN CALL FOR POWER

PROCUREMENT PROCESS DESCRIPTION

1. PURPOSE:

This document and the documents referred to herein describe the proposed process for the acquisition by BC Hydro of new energy supply in the 2005 Open Call for Power. The documents are intended to elicit comments from First Nations, stakeholders and prospective bidders prior to commencement of the Call for Tenders process. For a description of the First Nations and stakeholder engagement process please refer to the “First Nations and Stakeholder Engagement Plan” posted at www.bchydro.com/info/ipp/ipp20991.html.

2. BACKGROUND:

BC Hydro intends to proceed in 2005 with a competitive call (the “**Call**”) for:

- (a) up to 200 GWh of electrical energy supply from small distribution-connected independent power producers (“**IPP**”), and
- (b) up to 800 GWh of firm electrical energy supply and up to 800 GWh of associated non-firm electrical energy supply from transmission-connected and large distribution-connected IPPs.

Energy is to be delivered on a long-term basis with an initial contract term of 25 years from new projects with a commercial operation date (“**COD**”) targeted for 1 October 2009.

BC Hydro intends to proceed with a Call for Tenders (“**CFT**”) process with two separate “streams”. One stream will be comprised of small distribution-connected (“**D-Connected**”) projects having a rated power output of less than 10 MVA (“**SDC projects**”) and the other stream will be comprised of projects interconnected with the transmission system (“**T-Connected**”) and D-Connected projects having a rated power output of 10 MVA or greater (“**TLDC projects**”). Each stream will have a different form of electricity purchase agreement (“**EPA**”) and evaluation methodology.

The Call will respect BC Hydro’s commitment to resourcing a minimum of 50% of its requirements from BC Clean Electricity.

The following documents are attached to this Procurement Process Description:

- Schedule A – Key Principles of Quantitative Evaluation Methodology – TLDC Projects,
- Schedule B – Key Principles of Quantitative Evaluation Methodology – SDC Projects,
- Schedule C – EPA Term Sheet - TLDC Projects, and
- Schedule D – EPA Term Sheet - SDC 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, 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 certain 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,
- 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 and well-defined evaluation criteria,
- avoids prolonged, expensive and potentially unsuccessful negotiations for BC Hydro and IPPs, 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 in process design to mitigate unnecessarily prescriptive aspects of tendering, by permitting a reasonable range of product offerings and tender options.

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. It is BC Hydro's present intention that there will be no preliminary or separate pre-qualification phase for bidders or for projects. However, BC Hydro is still considering the benefits of a two stage process and is seeking input from potential bidders during the First Nations and stakeholder engagement process.

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 web site, 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, with only commercially sensitive information being protected where necessary to preserve a truly competitive environment.

Prior to the CFT being issued, 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.

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 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.

Once the CFT is issued, CFT registrants will be required to pay a registration fee of \$7,500, with a discount of \$2,500 for early registration. One fee is payable per bidder, regardless of the number of projects tendered by the registrant. The registration fee is non-refundable.

Bidders will be entitled to have more than one representative attend bidder workshops. BC Hydro reserves the right to limit the 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 proven, 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.
- **New Generation:** Projects must be new generation. Load displacement and/or demand side management proposals are not eligible for this Call. New generation may include refurbished or other used equipment, provided the facility has not been connected to, and synchronized with the transmission or distribution system at any time during the prior 5 years. Incremental generation from existing, connected and synchronized facilities will qualify as “new”, provided that the incremental portion of facility generation is separately metered at the generator. BC Hydro will retain a discretion to treat generation as “new” in particular circumstances not contemplated by the foregoing.
- **Interconnection:** Projects must be capable of being interconnected at a specified interconnection point on the integrated BCTC or BC Hydro transmission/distribution system. Projects that are not located on the integrated BCTC or BC Hydro transmission/distribution system will be eligible, but the point of delivery under any awarded EPA must be at a specified interconnection point on the integrated BCTC transmission system.
- **Project Size:** Projects must have a maximum power output of not less than 1 MVA (D-Connected projects) or a rated MVA of not less than 1 (T-Connected projects) as specified in the preliminary interconnection study application.
- **Exclusivity/No “Split Bids”:** All project electrical output (net of station service) must be tendered to BC Hydro under the CFT.
- **Interconnection Study:** A bidder must have, at the time of tender submission, a completed preliminary interconnection study for each tendered project (see section 13 for further details on interconnection issues). A completed preliminary interconnection study will enable BC Hydro to apply adjustments to bid prices under the proposed evaluation methodology, which is designed to render all bids from projects, wherever located in the province, comparable for evaluation purposes. See Schedules A and B for further detail on the impact of study results on tender evaluation.

- ***No Current Contracts:*** A project, whether or not developed, in respect of which the tendered output is under contract to BC Hydro or others (including any right of first refusal or similar requirement) is not eligible for this program.

9. EPAs:

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

All bidders tendering T-Connected projects having a rated MVA of 10 or more and D-Connected projects having a maximum power output of 10 MVA or more (as specified in the preliminary interconnection application), must tender to the TLDC EPA.

All bidders tendering D-Connected projects having a maximum power output of less than 10 MVA (as specified in the preliminary interconnection application) must tender to the SDC EPA.

Proposed key terms of the TLDC EPA are set out in Schedule C. Proposed key terms of the SDC EPA are set out in Schedule D. The EPA term sheets reflect commercial pricing principles and terms and conditions suitable to the expected size of project that will be contracted under each form of EPA. In particular, the SDC EPA is simplified and streamlined reflecting the smaller size of project to be contracted under that EPA.

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 their projects, 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.

The process will also include a pre-tender opportunity for BC Hydro to require modifications to the EPA for specific bidders to address project-specific issues, such as projects that are not located in the BCTC or BC Hydro transmission or distribution service area.

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 several 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. Bidders will be expected to optimize their offering for each project in that tender.

- **Multiple/Mutually Exclusive Projects:** 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 TLDC bidder will be able to 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 firm energy for the period from April to July inclusive may not exceed 1/3 of the total annual firm energy.
- **Hourly Firm Credit:** A bidder tendering a project eligible for the TLDC EPA may select the “Hourly Firm” option applicable to firm energy tendered, for which credit is given in the evaluation, as outlined in Schedule A. A bidder that elects the Hourly Firm option will bid a contracted energy amount for the heavy load hours and another contracted energy amount for the light load hours in each month. See the TLDC EPA term sheet attached as Schedule C for further information on the Hourly Firm option.
- **Curtailability Credit:** A bidder tendering a project eligible for the TLDC EPA, that has a contracted firm energy amount in excess of 25MW (equivalent), and that has elected the Hourly Firm option may stipulate that its project will be curtailable by BC Hydro for which credit will be given in the evaluation, as outlined in Schedule A. Bidders that elect the curtailability option will be required to tender an energy charge, in units of \$/MWh. See the TLDC EPA term sheet attached as Schedule C for further information on the curtailability option.
- **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 or B, as applicable, for details on the impact of this preference on tender evaluation). Bidders that elect to be treated as a clean project in the evaluation process must tender the clean attributes of the project to BC Hydro and are prohibited from using or selling any green attributes that arise from the project in future. 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 certification may select one of the following options:
 - (i) tender “green” attributes to BC Hydro. Bidders selecting this option will receive the green credit and will be treated as a clean project in the evaluation, or
 - (ii) retain the “green” attributes for sale to third parties or other uses. Bidders selecting this option will not receive the green credit and will not be considered clean in the evaluation process.

The nature and amount of the green credit is under consideration in light of the recent federal budget.

11. **ISLANDING:**

The documents do not currently include an “islanding” option. BC Hydro’s current information indicates that there are very few situations in which islanding is both technically and economically feasible. However, BC Hydro is still reviewing this issue. BC Hydro is considering including a provision in the EPAs under which BC Hydro could 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 could elect to have the bidder provide such islanding capability. BC Hydro would 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. TENDER EVALUATION AND EPA AWARD:

Tenders which are submitted by the specified time will be evaluated in accordance with the methodology described in Schedule A for TLDC projects or in Schedule B for SDC projects.

BC Hydro intends to reserve the right 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 or Schedule B, as applicable.

13. INTERCONNECTION ISSUES:

BCTC recently filed a new Open Access Transmission Tariff ("OATT"), which is currently the subject of a regulatory proceeding before the British Columbia Utilities Commission ("BCUC").

To provide bidder certainty, BC Hydro provided evidence in the OATT proceeding requesting the BCUC to approve the use by BCTC and BC Hydro of existing business practices with respect to interconnection and transmission issues for the purposes of the Call.

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

- completed preliminary interconnection studies will be available for use in tender evaluation, and
- if and to the extent that interconnection and/or network upgrade costs associated with a project are not borne by the bidder, 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.

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 T-Connected projects, bidders should make a study application to BCTC. All enquiries relative to connection to the transmission system should be directed to BCTC. For D-Connected projects, 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 T-Connected Project 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 both T-Connected and D-Connected projects in the same Call and to enable BC Hydro and BCTC to use such information in special studies that may be requested by BC Hydro or BCTC from time to time.

Preliminary interconnection studies will provide each bidder with a cost estimate for:

- The cost of direct assignment facilities required to interconnect the project,
- The cost of facilities to upgrade the transmission and/or distribution system required as a result of the interconnection of the project and transmission of energy from the project, to the extent not reflected in the bulk adjustments referenced in the evaluation methodology in Schedule A or B, as applicable, and
- Energy losses relative to transmission of energy from the project to load centres, to the extent not reflected in the bulk adjustments referenced in the evaluation methodology in Schedule A or B, as applicable.

All of the foregoing estimates will reflect consideration of the project on a “stand alone” basis, without regard to impacts, if any, associated with other projects that may be tendered under the CFT (the “Cluster Effect”). The Cluster Effect is relevant only with respect to TLDC projects. For a description of the impact of Cluster Effects, see the evaluation methodology attached at Schedule A.

Successful bidders will be required to pay to BCTC or BC Hydro, as the case may be, direct assignment facilities costs. The estimate of those costs referenced above is preliminary and is not guaranteed.

14. TENDER EVALUATION:

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 a 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.

Next, bidders will be assessed to confirm (i) that they are reputable and have, or have access to, the appropriate experience in power project development and operation, and (ii) that they have, or have access to, appropriate financial strength to carry out their project successfully. BC Hydro intends to provide further guidance to bidders with respect to these criteria.

Finally, qualified tenders will be evaluated in accordance with a quantitative evaluation methodology. The proposed methodology for TLDC projects is set out in Schedule A and the proposed methodology for SDC projects is set out in Schedule B.

15. BIDDER INPUT:

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.

16. TENDER SECURITY:

In order to recognize that tenders must constitute irrevocable and legally binding offers, it is proposed that 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 form as BC Hydro may approve before the tender submission,
- for TLDC projects, the tender security must be equal to \$20,000/MW (based on annual firm tendered energy in MWh divided by 8760),
- for SDC projects, the tender security must be equal to \$10,000/MVA of maximum power output as specified in the preliminary interconnection study application, 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 any performance security required thereunder.

17. TIME SCHEDULE:

Subject to the impact of regulatory issues discussed in section 18 below, BC Hydro currently expects the CFT to proceed on the following schedule:

- CFT Issue – Fall 2005
- Tender Submission – Winter 2005/2006
- EPA Award – Winter 2006

18. 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 the 2005 Call. The preliminary schedule described in Section 17 is subject to change depending on the timing and outcome of those proceedings.

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.

19. GENERAL TERMS AND CONDITIONS:

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