

2005 Open Call for Power

This document provides a general overview of the rationale and process for how BC Hydro acquires power, and specifically focuses on the upcoming acquisition activities, the 2005 Open Call for Power (the "Call"). If you are interested in further details, please review the more detailed documents on BC Hydro's website at <http://www.bchydro.com/info/ipp/ipp21390.html>.

PART ONE - ACQUIRING POWER

Who Acquires Energy?

BC Hydro is responsible for having a sufficient supply of electricity to meet domestic demand. BC Hydro supplies power by generating it from its own resources (called Heritage supply) and by acquiring it from third parties. The new British Columbia Transmission Corporation (BCTC) then delivers this power through the transmission grid to the distribution system owned and operated by BC Hydro.

In acquiring power supplies, BC Hydro must:

1. plan for energy and capacity needs of customers by forecasting load and determining key values for energy procurement;
2. understand and manage the current power supply; and
3. acquire any energy and capacity needed to meet the identified shortfalls.

How is Energy Acquired?

BC Hydro acquires power from the most cost effective sources, including reducing customer use through demand side management, improving efficiency at existing BC Hydro facilities, and then to meet any shortfall in supply, buying from independent power producers (IPPs) or wholesale markets. The provincial Energy Plan, introduced in November 2002, set out policies directing BC Hydro to encourage more private sector involvement in developing new generation for domestic customers.

In meeting the responsibility to deliver power to our customers within the direction of the Energy Plan, BC Hydro has called on private sector IPPs to build new, competitive power generation in the province. The Energy Plan also sets a voluntary target for all distributors of energy to supply 50% of all new electricity through "clean" resources such as wind, small hydro and co-generation projects. BC Hydro has adopted this voluntary target and will seek to achieve it over a 10-year time period.

How Does BC Hydro Know How Much Energy to Acquire?

BC Hydro prepares to meet future B.C. electricity demand through long-term integrated planning as documented in a 20-year Integrated Electricity Plan (IEP). The IEP is completed every two years and prepared with input from customers, communities, the public and First Nations and outlines a portfolio of resource options to pursue. If new energy acquisition is identified, then BC Hydro acquires these resources through competitive processes like the Call. BC Hydro's acquisition and investment decisions identified in the IEP are further described in the Resource Expenditure and Acquisition Plan (REAP). These plans are submitted to the British Columbia Utilities Commission for approval. These plans also guide business planning decisions, which are further defined in subsequent Revenue Requirement Applications for recovery of investments and expenditures through rates.

For example, in the 2000 IEP BC Hydro specified an energy portfolio in which “green” resources would eventually be used to supply 10% of new load growth. As well, the 2000 IEP also indicated a need for capacity on Vancouver Island. In response to those needs, BC Hydro set out to acquire that energy and capacity.

What Has BC Hydro Acquired Recently?

A. Previous Energy Calls

2000 Request for Expressions of Interest for Green Energy and the 2001 Green Energy Call

In April 2000 BC Hydro issued a Request for Expressions of Interest (RFEI) to the private sector that focused on acquiring green energy. Over 80 project proposals were received. One contract was negotiated for Miller Creek Small Hydro. The rest of the projects were invited to participate in the August 2001 Request for Proposals for green energy projects. Projects were divided into two categories: small projects expected to deliver less than 40 GWh per year, and large projects expected to deliver more than 40 GWh per year. BC Hydro received 32 small project proposals and 24 large project proposals. Of these, BC Hydro entered into contracts with 18 small projects and three large projects to supply a total of 855 GWh/year of energy.

2002 Customer-Based Generation Call (CBG)

In May 2002 BC Hydro issued a call for tenders that targeted firm energy from commercial and industrial customers with on-site generation potential. The target volume was set at 800 GWh/year, roughly one year’s annual load growth. BC Hydro entered into contracts with five bidders to supply 500 GWh/year of energy capability. Scheduled to be in operation by September 2006, these CBG projects utilise wood waste, hydro and municipal solid waste.

2003 Green Power Generation Call

In October 2002 BC Hydro issued a Green Power Generation Call to continue to fulfil BC Hydro’s commitment of 10% of new load growth from green sources as outlined in the 2000 IEP. Sixteen bids totalling 1,760 GWh/year of energy capability were submitted. BC Hydro entered into contracts with all bidders. These projects, ranging from wind, landfill gas, and hydro are to be operational by September 30, 2006.

B. Previous Capacity Calls

Vancouver Island Call for Tenders (VI CFT)

BC Hydro forecasts electricity capacity constraints for Vancouver Island as of the winter of 2007/2008. To meet this need, BC Hydro issued a call to acquire cost-effective capacity for Vancouver Island. As a result of the process, Duke Point Power Plant was selected to provide 252 MW of dependable capacity. The natural gas-fired plant will be constructed near Nanaimo and is scheduled to be operational by 2007.

C. In Summary

Including contracts noted above and contracts signed prior to 2000, 34 IPPs provide almost 7,000 GWh of energy to the integrated BC Hydro system. An additional 27 IPPs are contracted

to bring on over 4,100 GWh of supply in the future. Of the total of 61 contracts, 37 are for green energy, providing over 2,900 GWh.

What Is the Current Need for Energy?

More recently, the 2004 IEP addressed the uncertainties and risk associated with meeting expected demand and identified a need for energy of 400 GWh beginning in 2010. This need has grown to 1000 GWh by 2011 since the 2004 IEP was filed in March 2004. To meet the projected need, BC Hydro is planning to issue a Call that will seek to acquire:

- up to 800 GWh of firm energy and up to 800 GWh of non-firm energy from large IPPs connected directly to the transmission system or large projects connected to the distribution system (referred to as TLDC projects); and
- approximately 200 GWh of energy from smaller projects connected to our distribution system (referred to as SDC projects).

BC Hydro plans to issue the Call after the BCUC has reviewed and approved the need for the Call as described in the REAP filed on March 7, 2005. The decision is anticipated by fall 2005. The Call is timed to allow successful bidders to construct their projects by the winter of 2009/2010.

PART TWO - THE CALL

What is the product being bought?

Primarily, the Call will focus on acquiring firm energy but allows for a capped amount of associated non-firm energy. Firm energy has been defined for the purpose of the Call to represent a volume of energy that a supplier must commit to providing over a specified period of time. The non-firm energy supplied places no commitments on the supplier with respect to timing and minimum volume requirements.

The main product characteristics that are being considered in this Call are:

- *Firm energy:* TLDC projects must provide a contracted amount of energy or face penalties for non-delivery; as well, they can only provide an equal annual amount of non-firm energy.
- *Clean or green energy:* BC Hydro intends to purchase a minimum of 50% from BC Clean electricity and will favour those projects that meet the national Ecologo low impact renewable energy guidelines for green energy in our evaluation.
- *Location:* Projects must be located in British Columbia.
- *Technology type:* All "proven" generation technologies are eligible, other than nuclear (excluded in the provincial Energy Plan).
- *New generation:* Projects must be new generation.

What Process Will be Used for the Call?

The Call is proposed to be a Call for Tender (CFT) process. Unlike other recent calls, BC Hydro proposes that the CFT consist of only a single phase which will last approximately 6-7 months once initiated. There will be no preliminary or separate pre-qualification phase for bidders or for

projects. A single stage CFT will simplify the process, shorten the period from the CFT to contract award, and reduce costs for both parties. Please note however, that BC Hydro is still considering the benefits of a two stage CFT process.

A CFT process is being proposed because it:

- allows all eligible bidders to compete based on known contractual terms and conditions
- assures serious, achievable offers
- assures bidders of greater certainty that contracts will be awarded
- enhances the predictability of regulatory outcomes
- minimizes contract administration costs by adopting a standard form contract.

The Call will be divided into two streams; one stream for the TLDC projects and one for SDC projects. Mandatory requirements and evaluation criteria for each stream will be set out in the CFT documents and will enable bidders to determine at an early stage whether or not they wish to participate. For further CFT details please review the draft document entitled "Procurement Process Description" posted on the BC Hydro website at <http://www.bchydro.com/info/ipp/ipp21390.html>.

BC Hydro will evaluate each stream individually for the best result for its' ratepayers by assessing the bid prices from the suppliers using a variety of methods. For further details on how each stream will be evaluated, please review the evaluation documents posted on the BC Hydro website at <http://www.bchydro.com/info/ipp/ipp21390.html>.

Each stream of the Call has a different contract called an Electricity Purchase Agreement (EPA). The two EPAs will have different pricing, terms and conditions. SDC projects can expect lower interconnection study fees, lower tender security costs and a simplified form of contract. For further EPA details can be obtained by reviewing the documents posted on BC Hydro's website at <http://www.bchydro.com/info/ipp/ipp21390.html>.

All bidders tendering projects to the TLDC stream must tender to the TLDC EPA.

All bidders tendering projects to SDC stream must tender to the SDC EPA.

How to Get Involved?

BC Hydro is committed to seeking input from potential suppliers, First Nations, regulators and stakeholders early in the development of this Call process. We have developed a [First Nations and Stakeholder Engagement Plan](#) that outlines how interested parties can become involved and provide input into the Call process.