

VANCOUVER ISLAND – CALL FOR TENDERS

ADDENDUM

Addendum Number: 10

Date of Issue: 05 March 2004

Subject: **Mandatory Criteria Amended**
Development Risk Guidelines Amended
Pre-Qualification Form, Mandatory Criteria Guidelines and Information Requirements Amended
Transmission Deferral Credit Deleted
Minimum Portfolio Size
Gas-Fired Tolling Options Amended
Existing Generation Baseline
Privative Clause Amended
Preliminary Form Agreements to be Revised
Appendices 6 and 8 to the CFT to be Revised
Quantitative Evaluation Methodology, Spreadsheets and Manual to be Revised
Gas and Electricity Price Forecasts
CFT Schedule Revised

1. This Addendum is issued pursuant to the BC Hydro Call for Tenders for Capacity and Associated Energy Supply on Vancouver Island, issued 31 October 2003, as amended (“CFT”).
2. Words and phrases defined in the CFT and used herein have the meanings given in the CFT, unless otherwise indicated.
3. **Background:** Pursuant to Addendum 9, BC Hydro advised bidders that they need not submit Pre-Qualification Submissions by 18 February 2004, and that further direction concerning the CFT Schedule and the CFT would be issued in early February 2004. A notice was subsequently sent to registered bidders and posted on www.bchydro.com/vicft indicating that deliberations within BC Hydro were continuing and that bidders would be advised in due course as to the process going forward.
4. **Mandatory Criteria Amended:** The following changes are made to the Project Criteria in section 9.8 of the CFT, Mandatory Criteria:
 - (a) *Project Capacity* is deleted and the following substituted: “*Project Capacity:* Each project must have a Bid Capacity of not less than 25 MW of New, Dependable Capacity, determined as “clean and new” before degradation at average ambient conditions.”. This amendment clarifies the application of this Mandatory Criterion to “split bids” and the basis on which the minimum Bid Capacity is expressed;
 - (b) *Term* is deleted and the following substituted: “*Term:* The required EPA initial term is 25 years, subject to extension as provided in the EPA.”. All references in the CFT and all Addenda to bidders offering a range of EPA terms are deleted. All Mandatory Criteria will be applied on the basis of a 25 year EPA term without extension.

5. **Development Risk Guidelines Amended:** The Development Risk Guidelines, issued 20 November 2003 and posted with Addendum 4 are revised to be in the form posted in clean and black lined form with this Addendum as Development Risk Guidelines, revised 5 March 2004.

6. **Pre-Qualification Form, Mandatory Criteria Guidelines and Information Requirements Amended:** The Pre-Qualification Form, Mandatory Criteria Guidelines and Information Requirements, revised 13 January 2004 and posted with Addendum 8 are further revised to be in the form posted in clean and black lined form with this Addendum as Mandatory Criteria Guidelines and Information Requirements, revised 5 March 2004.

7. **Transmission Deferral Credit Deleted:** The CFT, the Quantitative Evaluation Methodology (issued with Addendum 1 and supplemented and amended by Addenda 6 and 8), and all previously issued Addenda are amended to delete all references to the Transmission Deferral Credit, whether or not the Credit is expressly stated, including the deletion of all such references in (i) the CFT, section 11.3, Step 5, item 2, (ii) the Quantitative Evaluation Methodology, section 3.4.8 and the first sub-part of section 4.3.1. Accordingly, in determining Net Portfolio Cost, no capacity credit whatsoever will be applied in respect of Bid Capacity under a Tender or aggregate Bid Capacity under a portfolio of Tenders, in excess of 150 MW.

8. **Minimum Portfolio Size:** BC Hydro may, on or before the date which is 30 days prior to the Tender Closing Time, amend the minimum portfolio size that it will assemble under section 11.3 of the CFT and which it will evaluate using the Quantitative Evaluation Methodology. Any revised minimum portfolio size will reflect any information BC Hydro considers appropriate in its sole discretion.

9. **Gas-fired Tolling Options Amended:** In addition to the “No-Tolling” and “Tolling” options for gas-fired projects set out in section 6.2 of the CFT, one further option is available to bidders in respect of gas-fired projects. Accordingly, section 6.2 of the CFT is deleted and replaced with the following:

“6.2 **Gas-fired Generation:** Bidders tendering natural gas-fired generation have the following Tender options as to allocation of fuel risk:

- (a) **Option #1 – No Tolling:** If a bidder elects this option, the bidder assumes cost, schedule and delivery risks of gas (commodity and transportation), including gas transportation to the burner tip as required to meet the project requirements for the entire initial term under the EPA;
- (b) **Option #2 – Full Tolling:** If a bidder elects this option, BC Hydro assumes cost, schedule and delivery risks of gas (commodity and transportation) to the project gate under a tolling arrangement to meet the project requirements associated with the Bid Capacity for the entire Term under the EPA;
- (c) **Option #3 – Partial Tolling/Commodity Only:** If a bidder elects this option, BC Hydro will provide gas commodity at Huntingdon/Sumas to meet the project requirements associated with the Bid Capacity, including an allowance for transportation fuel gas, with the bidder providing required gas transportation, at its cost and risk from Huntingdon/Sumas to the burner tip. Bidders who elect this option must provide gas transportation meeting all the project requirements, for the entire initial term under the EPA. Under this option the bidder assumes cost, schedule and delivery risks associated with gas transportation from Huntingdon/Sumas to the burner tip to the same extent as applicable under Option #1.”

In order to provide BC Hydro with reliable information to plan and arrange gas transportation for which it may become responsible under EPAs that may be awarded under the CFT, bidders intending to Tender gas fired capacity and associated energy will be required to make an irrevocable election of the option selected and to provide BC Hydro certain information required for planning purposes. The election must be made on or before 7 May 2004. Fuel certainty guidelines will be amended to reflect the range of available gas transportation options and an election form and information requirements document will be issued by 12 March 2004. Bidders are reminded that previously posted answers to bidder questions and all other documents and information posted prior to 5 March 2004 may contain references to gas-fired tolling plants. As that information was provided in the context of only Option #1 and Option #2, it may not be accurate or applicable in the context of Option #3.

The CFT and all Addenda are amended as follows to accommodate Option #3 - Partial Tolling/Commodity Only ("Partial Tolling Option"):

- (a) *Fuel Supply Certainty Assessment* – If a bidder elects the Partial Tolling Option, that bidder's Tender will be subject to the fuel supply certainty assessment for purposes of determining of whether the Tender meets the Mandatory Criteria for New, Dependable Capacity.
- (b) *Portfolio Adjustments* – In determining the Net Portfolio Cost, no adjustment for gas transportation costs will be made in respect of any Tender in which the bidder has elected the Partial Tolling Option.
- (c) *Gas Compression Fuel Costs* – Gas compression fuel costs will not be reflected in determining the Tender Variable Costs for any Tender in which the bidder has elected the Partial Tolling Option.
- (d) *Dual Fuel Capability* – BC Hydro will not toll secondary fuel for any project for which the bidder elects the Partial Tolling Option.
- (e) *Liquidated Damages* – The liquidated damages in the EPA for a project subject to the Partial Tolling Option will be the same as the liquidated damages in the EPA for a non-tolling project.
- (f) *Heat Rate and Start-up Fuel Penalties* – The Heat Rate Penalty and the Start-Up Fuel Penalty calculations for projects subject to the Partial Tolling Option will exclude the $Ga_{S_{Toll}}$.

10. ***Existing Generation Baseline:*** For projects involving modifications to existing generating equipment, New, Dependable Capacity is limited to the incremental Dependable Capacity resulting from the modifications. (See Addendum 8, section 12.) In order to determine the amount of New Dependable Capacity in those cases, it is necessary to determine the generator's historic generation baseline ("GBL") prior to the modifications. BC Hydro will determine the GBL for bidders proposing this type of project based on information contained in the bidders' Pre-Qualification Submissions. Generally, the GBL will be the total of the nameplate capacities of all existing generators that share the meter used for calculating Eligible Electricity under the Preliminary Form EPA ("Existing Generators"), unless the bidder submits information acceptable to BC Hydro as to why the GBL should be less than the nameplate capacities. BC Hydro will advise bidders of their GBL following notification of the pre-qualification decision.

Bidders who intend to submit a Tender for a project involving modifications to Existing Generators must include in their Pre-Qualification Submissions, in response to section 3.3 of the Mandatory Criteria

Guidelines and Information Requirements, revised 5 March 2004 and posted with this Addendum, certain additional information as therein set out.

11. **Privative Clause Amended:** In order to optimise the benefit of the CFT process to BC Hydro's ratepayers and to optimise the opportunities available to bidders under the CFT process, section 17 of the CFT is deleted and replaced by the following:

“17 **TERMINATION AND REJECTION OR ACCEPTANCE OF TENDERS:**

17.1 **Termination:** BC Hydro, in its sole and unfettered discretion, may terminate the CFT process at any time for any reason whatsoever. BC Hydro will have no liability of any kind whatsoever to any bidder as a result of such termination.

17.2 **Rejection of Tenders:** The Tender, or portfolio of Tenders, with the lowest price or with the lowest cost to BC Hydro, or any Tender, will not necessarily be accepted. BC Hydro, in its sole and unfettered discretion, may reject any and all Tenders.

17.3 **Acceptance of Tenders Aggregating Less than 150 MW:** The CFT invites Tenders to satisfy all or part of a requirement of a minimum of 150 MW and a maximum of 300 MW in the aggregate. If Tenders received pursuant to the CFT, which meet the Mandatory Criteria and are assessed not to have a high development risk (i) aggregate less than 150 MW of Bid Capacity, or (ii) aggregate 150 MW or more of Bid Capacity, but BC Hydro determines, in its sole and unfettered discretion, that acceptance of any such portfolio is not the most cost effective solution having regard to BC Hydro's ratepayers, then BC Hydro reserves the right to accept one or more Tenders comprising in the aggregate less than 150 MW of Bid Capacity. This right is exercisable in BC Hydro's sole discretion with a view to procuring the most cost-effective Dependable Capacity meeting its requirements on Vancouver Island. If BC Hydro exercises its right to accept one or more Tenders under this section, Tenders will be accepted in the order of lowest to highest cost to BC Hydro determined as an amount per MW derived from the average of the Net Tender Cost for each electricity price forecast, after giving effect to the impact of (i) gas transportation costs to be borne by BC Hydro for a gas-fired tolling plant, if applicable and (ii) Network Upgrade Costs to be borne by BC Hydro.”

12. **Preliminary Form Agreements to be Revised:** The Preliminary Form Agreements will be revised as follows:

(a) **Preliminary Form EPA** – The Preliminary Form EPA will be revised:

- (i) to extend the 60 day period under Section 3.1 of the Preliminary Form EPA to 90 days and to extend the period of 75 days to 105 days under Section 3.4 of that agreement, with each such period to commence on filing of the EPA with the BCUC pursuant to section 71 of the *Utilities Commission Act (British Columbia)*, all relative to regulatory approval;
- (ii) to provide that if the Seller fails to obtain all Material Permits on terms satisfactory to the Seller, after having used its best efforts to do so, on or before the earlier of (i) the Milestone Date applicable to that activity, plus Extension

Days, and (ii) 120 days after filing of the executed EPA with the BCUC under section 71 of the *Utilities Commission Act (British Columbia)*, then within 15 days after that time, either the Buyer or the Seller may terminate the EPA. If the EPA is terminated under this provision, then the Seller's Termination Payment obligation will be limited to an amount equal to \$20,000/MW (or \$30,000/MW in the case of a gas-fired tolling plant electing Option #2) of Bid Capacity (rather than the full amount of the Development Security as provided in the current Preliminary Form EPA);

- (iii) to reduce the rate of COD Delay LDs by 50% from \$444/MW/day (\$666/MW/day for gas-fired tolling plants electing Option #2) to \$222/MW/day (\$333/MW/day for gas-fired tolling plants electing Option #2) for the first 180 days of the delay;
 - (iv) to provide some relief from an adverse effect on the Seller's revenue for a failure to achieve 97% availability (i.e. a forced outage rate in excess of 3%);
 - (v) to provide the Buyer with the option to renew the EPA for two further five year terms. Prior to expiry of the initial term of the EPA, the Buyer may give notice of renewal and the parties will negotiate in good faith revisions for the renewal term based on principles that will be set out in the revised Preliminary Form EPA. Those principles will be designed to provide the Seller with a reasonable stream of payments including a competitive return on incremental sustaining capital that may be required during the renewal terms. If the parties are unable to reach agreement on the foregoing, the matter will be determined by arbitration. The Buyer will have the right to withdraw the notice of renewal up to 30 days after issuance of the arbitration award. The Buyer will assume the delivery and price risk of Fuel (commodity and transportation) to the plant gate during the renewal terms.
 - (vi) to reflect any other impacts of this Addendum, Appendix C to the letter dated 13 January 2004 from BC Hydro to the BCUC and such other matters considered necessary by BC Hydro.
- (b) Preliminary Form VIGP Transfer Agreement - The Preliminary Form VIGP Transfer Agreement applicable to bidders which made the VIGP Election, will be revised:
- (i) to provide that if the Seller terminates the EPA as provided in section 12(a)(ii) above, the VIGP Development Asset transfer price paid by the Seller will be refunded, net of the estimated salvage value of those assets as applied in the Quantitative Evaluation Methodology. Accordingly, based on the current values for the VIGP Development Asset transfer price and estimated salvage value, such bidders will retain the VIGP Assets and receive a refund of \$30 million against the original purchase price of \$50 million; and
 - (ii) to reflect any other impacts of this Addendum, Appendix C to the letter dated 13 January 2004 from BC Hydro to the BCUC and such other matters considered necessary by BC Hydro.

13. **Appendices 6 and 8 to the CFT to be Revised:** Appendix 6 of the CFT, Summary of Seller EPA Performance and Delay LDs, Liabilities and Securities and Appendix 8, EPA Pricing Structure will be

revised on or before the date indicated on the CFT Schedule for issuance of the revised Preliminary Form Agreements.

14. ***Quantitative Evaluation Methodology, Portfolio and Tender Spreadsheets and Manual to be Revised:*** The Quantitative Evaluation Methodology, the Tender Spreadsheet and Portfolio Spreadsheet and associated User's Manual will be revised to reflect the foregoing and any other impacts of (i) this Addendum, (ii) Appendix C to the letter dated 13 January 2004 from BC Hydro to the BCUC and (iii) such other matters considered necessary by BC Hydro. These revised documents will be issued at the time indicated on the revised CFT.

15. ***Gas and Electricity Price Forecasts:*** Without limiting the general nature of the changes identified in section 14 above, the changes to the Quantitative Evaluation Methodology and Tender and Portfolio Spreadsheets will include revisions to reflect the use of a single natural gas price forecast which will be the Energy Information Administration ("EIA") – Reference Case. This forecast is discussed in further detail in the Quantitative Evaluation Methodology issued with Addendum 1, though EIA's actual forecast values have been updated since the release of the Tender and Portfolio Spreadsheets on 23 December 2003. Updated values for this forecast will be released with the revised Quantitative Evaluation Methodology. Two corresponding market electricity price forecasts will be developed: one reflecting 100% of generation capital recovery and the other reflecting 25% of generation capital recovery.

16. ***CFT Schedule Revised:*** The schedule suspension made under Addendum 9 is revoked and the CFT Schedule is revised to be in the form issued with this Addendum.