

**69.0 Reference: Report on CFT Process, Exhibit B-1, Background**

2.69.8 Page 24 section 9: BC Hydro states that “a competitive process should produce a cost effective outcome,” and that the BCUC should focus on competitiveness, not the outcome.

2.69.8.1 If a CFT process, including the EPA, imposed on bidders unduly harsh terms and conditions not typical of industry practice, or not commercially reasonable, and not required to attain the reliability and other requirements of Buyer, would that not directionally induce bidders to quit the process, or increase bid prices, compared to “normal” terms and conditions? If not, why not?

2.69.8.2 If such a scenario were to occur, would this not indicate that the process, although competitive, would not produce the lowest practical price or most “cost effective outcome” compared to a case where terms and conditions, while still appropriate, were less stringent?

**RESPONSE:**

**2.69.8.1**

**The competitiveness of the CFT process is evidenced by the number of bidders who participated in the call. There were initially 23 registered bidders, of which 14 submitted pre-qualification submissions in late March 2004. Of the 11 who pre-qualified, six submitted tenders in August 2004. As stated in the final report of the Independent Reviewer (see Appendix K-4 of the CFT Report): “With respect to the conduct by BC Hydro of the entire CFT process, it is our finding that it was a competitive process and conducted in a fair and transparent manner.”**

**As to the commercial reasonableness of the CFT, the call was driven by the timing and reliability imperatives arising from the pending retirement of the HVDC system for planning purposes. In June 2004, BC Hydro retained an external expert on energy project financing to ensure that the CFT and EPA terms facilitated project financing. The external advisor advised that the EPA terms and conditions were reasonable and would not hamper financibility of CFT projects.**

**There is no evidence to suggest that CFT bid prices were unduly high. As evidenced in BC Hydro’s CFT Report, the winning CFT portfolio (the Duke Point Power project) showed a significant NPV saving relative to the VIGP benchmark.**

#### **2.69.8.2**

**As noted in the response to BCUC IR 2.69.8.1, the CFT was designed with the objective of having standard commercial terms whilst recognizing the critical nature and timing of the need for new Vancouver Island supply. Thus, the CFT contained Mandatory Criteria and other key EPA terms and conditions which reflected these key timing and reliability imperatives.**

**During the process of finalizing the CFT and EPA, BC Hydro made several changes in response to bidder comments which had the effect of decreasing the stringency of the CFT terms and conditions. However, it was always necessary to retain significant financial penalties to ensure that bidders honoured their construction and operating obligations in keeping with the overriding timing and reliability imperatives.**