

## OVERVIEW OF BC HYDRO'S ENERGY PROCUREMENT PRACTICES

The purpose of this document is to outline BC Hydro's general energy procurement practices, namely procurement principles and procedures, for those parties interested in selling electricity to BC Hydro under various power procurement processes. These energy procurement practices are generally applicable for electricity acquired for BC Hydro's integrated system.

***This document, including attachments, is intended to provide a high-level summary of BC Hydro's energy procurement practices and does not itself form a part of any existing or future procurement process, undertaken by or on behalf of BC Hydro. For guidance as to the terms applicable to any given BC Hydro energy procurement process, participants should look to the documentation (e.g., Request for Proposals) issued by BC Hydro specifically in respect of that process.***

### Background

Since the 1980s, BC Hydro has been acquiring electricity from Independent Power Producers (IPPs) and other external suppliers via a number of power procurement processes to help its customers meet their energy needs. As of October 1, 2013, BC Hydro had 127 Electricity Purchase Agreements (EPAs) in its supply portfolio, representing 22,200 gigawatt hours of annual energy and over 5,500 megawatts of capacity.

In September 2010, Merrimack Energy Group, Inc. was retained to conduct an independent review of BC Hydro's energy procurement practices in order to learn from past experience and "best in class" industry trends. Merrimack undertook a thorough review that included input from IPPs, other stakeholders and First Nations plus a comparison with utility practices in other jurisdictions. In its findings, Merrimack identified several areas for potential improvement, which are listed in Appendix 1 along with BC Hydro's response to the various recommendations.

This document constitutes BC Hydro's response to several Merrimack recommendations, particularly Recommendation #2, which calls for the website posting of BC Hydro's Energy Procurement Procedures and Code of Conduct. Additionally, it includes the standards for evaluating and negotiating bilateral contracts as identified in Merrimack's Recommendation #6.

### Power Procurement in B.C.

BC Hydro acquires power through various procurement processes. The amount of power acquired and sources of generation are based on the system need, management decisions, laws and government policy. How much electricity BC Hydro needs to meet customer demand is dependent on BC Hydro's integrated resource planning. Under the *Clean Energy Act*, BC Hydro is required to submit an Integrated Resource Plan (IRP) that includes long-term forecasts of energy and capacity requirements and its plans to achieve electricity self-sufficiency and other B.C. energy objectives.

BC Hydro generally defines IPPs as non-utility producers that generate electricity for sale to others. For the purposes of this document, the term "IPPs" includes privately-owned companies that specialize in power production, municipalities, First Nations and BC Hydro customers. IPPs can provide a cost-effective source of electricity through the development of power projects using clean or renewable resources such as wind, water, geothermal, biomass and waste heat.

The EPAs arising from BC Hydro's procurement processes are generally subject to regulatory review by the British Columbia Utilities Commission (BCUC) under section 71 of the *Utilities Commission Act* (UCA) which requires "energy supply contracts" to be filed with the BCUC. The government or BCUC may exempt sellers and buyers from the section 71 filing requirements.

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### Energy Procurement Processes

In general, BC Hydro employs three different procurement processes or mechanisms for acquiring electricity from IPPs:

- A. Competitive Calls
- B. Standard or Open Offers
- C. Bilateral Arrangements

In earlier years, BC Hydro's competitive calls typically took the form of a Call for Tenders (CFT). More recently, a Request for Proposals (RFP) approach has been used due to its greater flexibility. A Request for Expressions of Interest (RFEOI) or Request for Qualifications (RFQ) is used where BC Hydro is seeking information about potential projects and interested proponents. Standard or open offers are now more prominent where proponents can obtain contracts without going through a competitive process. BC Hydro also uses bilateral arrangements to procure electricity under specified circumstances e.g., renewal of EPAs.

Appendix 2 provides a summary of the power procurement options used by BC Hydro, including some of the pros and cons of each approach and recent acquisition examples.

### Energy Procurement Principles

In carrying out an energy procurement process, BC Hydro will generally adhere to the following procurement principles regardless of the type of process being used:

- Fairness – treat all parties fairly within the parameters of a given procurement process
- Transparency – provide clear information on procurement requirements including eligibility, fees, evaluation criteria and selection of projects
- Openness – be open and flexible with regard to conduct of processes and procedures, subject to procurement process limitations
- Ethical Conduct – strive to ensure ethical behaviour and avoidance of conflict of interest by employees, contactors and proponents
- Cost-Effectiveness – enter into contracts with proponents which provide cost-effective electricity that benefits BC Hydro's ratepayers
- First Nations Consultation – ensure that BC Hydro fulfills its obligations to First Nations that may arise from energy procurement processes and award of EPAs
- Continuous Improvement – continually strive for improvement in areas such as scheduling, transaction costs, seeking stakeholder feedback, etc.

For competitive call processes and standard offers, BC Hydro will also employ the following additional procurement principles:

- No Bias – display no bias towards any eligible project or proponent, regardless of ownership, project size or location (once eligibility criteria are met)
- Timeliness – provide appropriate time for proponents to prepare bids and provide necessary documentation and adhere to call schedules
- Engagement – solicit input from IPPs, other stakeholders and First Nations during the design and implementation phases

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### Energy Procurement Procedures

BC Hydro's energy procurement processes can comprise of several procedures, which can generally be categorized into the following stages:

1. Engagement
2. Launch of Procurement Process
3. Proposal Submission, Evaluation and Selection
4. Contract Preparation and Execution
5. Contract Management
6. Regulatory Review

For all of BC Hydro's procurement processes, BC Hydro directors and employees are subject to BC Hydro's Code of Conduct. Similarly, all proponents must adhere to the "Code of Conduct Guidelines Applicable to BC Hydro Contracts". These Code of Conduct requirements are outlined in Appendix 3.

### A. Competitive Calls

The following energy procurement procedures for competitive calls largely apply to CFTs and RFPs. Given that RFEOs and RFQs are typically used by BC Hydro to obtain information about potential projects and proponents, these competitive processes generally do not entail all of the procedural stages which are described below (e.g., minimal engagement; no EPA awards at the completion of the procurement process).

#### 1 Engagement

##### 1.1 Pre-Engagement

Prior to launching a procurement process, BC Hydro will generally ask for input regarding the design of the process from interested parties – namely IPPs, other stakeholders and First Nations. Engagement efforts may include web-based engagement, workshops and information sessions regarding BC Hydro's system needs. During this period, BC Hydro will release the draft requirements (e.g., terms and conditions), guidelines and other key documents for the procurement process and will seek feedback on these materials. The various questions, comments and submissions that are received from proponents and interested parties will be considered by BC Hydro when finalizing the adopted energy procurement process.

##### 1.2 Pre-Registration

BC Hydro may hold optional engagement sessions prior to the registration deadline in order to provide clarity, direction, and to answer questions regarding the procurement process. Attendance at pre-registration engagement sessions is strongly encouraged, but is not mandatory. Depending on the nature of the procurement process, BC Hydro may choose to employ webinars, forums, 1-on-1 discussions or teleconferences for communicating with interested parties. BC Hydro will provide notification of the engagement sessions via web-based notices and/or email. Interested parties will be asked to provide advance notice of their participation and to submit their questions and comments prior to the sessions.

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### 2 Launch of Procurement Process

#### 2.1 Public Announcement

BC Hydro will publicly announce the issuance or launch of the energy procurement process and provide the relevant documentation. The timing, form and means of the announcement will take place at BC Hydro's discretion via BC Hydro's website and/or its general emailing list.

#### 2.2 Documents

BC Hydro will post all relevant documents for the procurement process including objectives, eligibility criteria, terms and conditions, schedule and, if applicable, a specimen or standard Electricity Purchase Agreement (EPA) which contains BC Hydro's preferred terms and conditions. All documents will be provided by e-mail to registered proponents and posted on BC Hydro's website.

For competitive procurement processes, all registered proponents will have access to the same level of information necessary to meet the requirements of the procurement process. BC Hydro will notify interested proponents electronically or in writing and will post any document updates, amendments, addenda and corrections to its website. Proponents will be encouraged to familiarize themselves with the procurement schedule posted on BC Hydro's website.

#### 2.3 Management of Procurement Process and Documents

All procurement processes will be managed by BC Hydro employees and/or contractors responsible for acquiring energy from external suppliers. All documents will be managed by a procurement administrator who will act as a central BC Hydro contact person for all communications from and to proponents. All questions, comments and requests should be forwarded by a proponent's designated contact person to BC Hydro's procurement administrator. All correspondence and communication with proponents will be acknowledged, recorded and responded to in a timely manner.

#### 2.4 Procurement Schedule

BC Hydro will release a document on its website that provides a detailed schedule of important dates in the procurement process. This may include the dates of anticipated information sessions, workshops, document registration, fee payments, proposals and information requests. BC Hydro may amend the procurement schedule at its discretion and proponents should check BC Hydro's website frequently to ensure that they are aware of the latest schedule.

All registered proponents will be given a reasonable period of time to submit the necessary documents to meet the requirements of the procurement process. Proponents will be notified of all firm deadlines (registration, proposal submission and/or request of specific documents). BC Hydro may change the procurement timeframe and will notify registered proponents of any such change by website posting and via written notification (e.g., e-mail).

#### 2.5 Fees

Interested proponents who wish to participate in a procurement process may be required to officially register and pay a non-refundable registration fee. The registration fee is typically per proponent, regardless of the number of projects submitted by that proponent. For some procurement processes, BC Hydro may ask proponents to submit a non-refundable proposal or participation fee to be paid at the time of proposal submission.

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### 2.6 Independent Observer or Fairness Advisor

To ensure objective, unbiased and transparent approaches to dealing with proponents, BC Hydro may retain an independent observer or fairness advisor to monitor the power procurement process. Such monitoring may include discussions with proponents as well as BC Hydro's evaluation process and subsequent award of contracts. Typically, the prime role of the independent observer/advisor is to observe the procurement process to assure that all guidelines and terms/conditions are applied equally and fairly to all proponents. The independent observer or fairness advisor will not act as an ombudsperson and will not be engaged in mediating, advocating or otherwise addressing proponent concerns or complaints.

## 3 Proposal Submission, Evaluation and Selection

### 3.1 Mandatory Deadline for Proposal Submission

Registered proponents must submit their proposals in a sealed package with a return address to the BC Hydro procurement administrator before the closing date and time indicated on the latest procurement schedule. BC Hydro will date and time stamp all proposals received. Proposals submitted after the prescribed deadline will not be considered and will be returned to the registered proponent.

All proposals received by the specified deadline will be checked to ensure that all the required documents have been submitted. Proposals will not be opened publicly and will not be returned, except in the case of late submissions.

Proponents may withdraw their proposals by written notice to the BC Hydro procurement administrator at any time prior to EPA acceptance and execution. Once a proposal is withdrawn, it cannot be resubmitted into the same procurement process.

### 3.2 Preliminary Review and Assessment

Once proposals are received, BC Hydro will conduct some or all of the following reviews and assessments to determine which proposals should proceed further in the procurement process.

- a) Conformity and Conflict Review – to ensure that all required forms and submissions are included in the proposal package; proponent disclosures will also be reviewed to ascertain if there is any real or perceived conflict of interest.
- b) Eligibility Review – proposals will be checked to determine whether they meet the eligibility criteria (e.g., size, location) and particularly those criteria that are described as mandatory in the procurement documents.
- c) Risk Assessment – BC Hydro will address the following risks to assess whether the project is viable and if proponent can be reasonably expected to successfully develop and operate the project:
  - o Finance – financial strength of proponents and their partners and an assessment of their finance plan including the adequacy of internal funding and external debt and equity financing.
  - o Technical/Permitting – technical aspects of the proposed project development, including the feasibility of the construction schedule and operational plans as well as the status and likelihood of obtaining required permits and approvals.

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- Energy Resource – availability of supply and the long-term viability of the proposed fuel or energy source for the operation of the project, including the potential impact of the fuel plan on existing fuel users.

At the conclusion of its risk assessment, BC Hydro will determine if any proposals will be eliminated from the power acquisition process. A risk assessment rating will be assigned to the remaining proposals. An assessment rating which reflects uncertainty regarding a proposed project's development, energy delivery or EPA compliance may adversely impact the evaluation of the project.

### 3.3 Adequacy of First Nations Consultation

As part of its due diligence procedures, BC Hydro will review the proponent's information regarding First Nations consultation to assess if consultations with First Nations have been adequate to the date of contract award. If a First Nation expresses concerns to BC Hydro regarding a particular project, BC Hydro will examine the substance of those concerns and respond to those concerns with the proponent and the First Nation. BC Hydro will not award an EPA if it is not satisfied that consultations with First Nations have been adequate to the date of the EPA award.

### 3.4 Evaluation of Proposals

For those proposals that successfully pass through the conformity and eligibility review and the risk assessment, BC Hydro will conduct a detailed evaluation consisting of the following components:

- a) Quantitative Assessment – a two-step process starting with the levelization of the offered energy prices to account for the pricing attributes proposed by proponents; these levelized prices are then adjusted for differences in product attributes (e.g., hourly firm energy) and location relative to BC Hydro's load centre (e.g., interconnections costs and transmission losses).
- b) Qualitative Assessment – consideration of non-price factors such as regional diversity, environmental impacts, community and First Nations benefits, etc.
- c) Variations Assessment – where proponents submit alternate proposals (along with black-lined specimen EPAs), such proposals will be evaluated to determine if they offer additional value relative to the base proposals.

### 3.5 Multi-Stage Process

For larger procurement processes, BC Hydro may employ a multi-stage evaluation process that provides flexibility and the opportunity for the negotiation of significant terms and conditions.

This multi-stage process may include any or all of the following components:

- a) threshold process for eligible offers;
- b) indicative bid process combined with project viability criteria to select a shortlist;
- c) best and final price offer for final bid selection; and



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- d) simultaneous competitive negotiations that allow consideration of value-added provisions such as buyout options and expiration transfers under standards that assure fairness.

It should be noted that the multi-stage process is not applicable to smaller energy procurement processes.

### 3.6 Proposal Selection

Once proposals are received from registered proponents, BC Hydro may arrange 1-on-1 engagement sessions to review proposal requirements, EPA-related formulae and post-proposal processes. If discussions are required, BC Hydro will issue an invitation to proponents setting out the scope and timing of any post-proposal discussions.

Based on the results of its evaluation process, BC Hydro will assess and select those proponents and projects that best meet the procurement process criteria. BC Hydro's underlying objective is to select viable projects that are cost-effective, taking into account all of the relevant criteria and associated project risks.

Depending on the nature of the competitive procurement process, BC Hydro may choose to short list proposals and move forward to negotiations before awarding EPAs. At its discretion, BC Hydro may choose to meet with short-listed proponents to discuss their proposals in greater depth and/or for clarification. The scope and duration of such discussions will be determined by BC Hydro.

### 3.7 Contract Negotiations

BC Hydro may engage in contract negotiations with selected proponents in order to alter the original terms and conditions of the specimen contract or to modify the pricing terms. If negotiations fail to reach a mutual understanding, proponents will be notified in writing to that effect and contract negotiations will not proceed further. BC Hydro reserves the right to terminate negotiations with any proponent at any time.

### 3.8 Award of EPAs

BC Hydro will notify all short-listed, successful and unsuccessful proponents in writing. For successful proponents, BC Hydro will send a notice of acceptance that details the quantity of products being acquired and the terms and conditions of the contract. BC Hydro may de-brief unsuccessful proponents once the procurement process is completed and advise them of the reasons why their proposals were not selected.

The award of EPAs and the subsequent signing of individual EPA s will typically be subject to final review and approval by BC Hydro's management and Board of Directors.

## 4 Contract Preparation and Execution

BC Hydro will prepare the EPA and any other related documents or agreements. The agreements will incorporate any terms, conditions and/or amendments agreed to by the parties during the negotiation phase of the procurement process.

BC Hydro will require the successful proponent to execute and deliver an EPA within a specified timeframe along with any accompanying transaction documents (e.g., required performance security).

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### 5 Contract Management

BC Hydro's announcement of the award of an EPA does not create a legally binding contract between BC Hydro and any proponent. An EPA between BC Hydro and a proponent is only legally binding once it has been fully executed (signed) by both BC Hydro and the proponent.

Once BC Hydro countersigns the EPA, it will provide the successful proponents with a copy of the fully executed agreement, along with the name of the primary BC Hydro contract manager and a list of action item(s) that need to be addressed in order to move forward with the contract.

BC Hydro will monitor the progress of power projects through regular development reports (as prescribed in the EPA) submitted by proponents and will engage with proponents on an individual basis to deal with contract and project development issues as they arise.

### 6 Regulatory Review

Once an EPA is executed, BC Hydro is required to file it, on behalf of BC Hydro and the seller, with the BCUC under section 71 of the UCA, unless the EPA is exempted. The BCUC may either accept the EPA if it determines that it is in the public interest or declare the EPA to be unenforceable, in whole or in part, or may make any other order it considers advisable in the circumstances. The consideration and process guidelines for determining if an energy supply contract is in the public interest are set out in section 71(2.21) of the UCA and the Rules for Energy Supply Contracts established by the BCUC.

Generally, BC Hydro will make a formal public filing, with limited confidential information redacted from the EPA. The entire un-redacted EPA will be filed with the BCUC on a confidential basis. The BCUC may ask written questions (generally referred to as "information requests") about the EPA. The BCUC may approve an EPA without a formal hearing. However, the BCUC must hold a public hearing before it may declare an EPA unenforceable, in whole or in part.



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### B. Standard or Open Offers

BC Hydro's procurement procedures for standard or open offers entail the same stages or categories as competitive calls but there are some important differences as noted below.

#### 1 Engagement

In designing a standard energy procurement offer or program, BC Hydro will often engage with various stakeholders, First Nations and interested parties. The extent and duration of the engagement can vary considerably depending on the nature of the standard/open offer. In some instances, engagement can occur after the standard offer has been launched in order to gather input on the progress of the program e.g., two-year review for BC Hydro's Standing Offer Program.

#### 2 Launch of Procurement Process

The launch of a standard/open offer is similar to that used for a competitive call process in that BC Hydro typically makes a public announcement and posts all procurement-related documents on its website. However, such offers or programs do not have a prescribed schedule with milestone deadlines; rather, BC Hydro may provide a general timeline of the steps involved starting with the receipt of an application and moving towards a signed contract. Other differences compared to competitive calls are that there are typically no registration/proposal fees and an independent observer is not employed given that the pricing is pre-set based on standard terms and conditions. It should be noted that BC Hydro may, from time to time, revise the terms and conditions of a standard/open offer as circumstances change.

#### 3 Proposal Submission and Evaluation

For a standard/open offer, the timing of an application or submission is at the proponent's discretion with no prescribed timelines. BC Hydro will typically conduct the same sort of preliminary proposal review and risk assessment that is employed for competitive calls, including an assessment of the adequacy of First Nations consultation. However, there is no need to evaluate proposals and conduct bilateral negotiations since the energy price is fixed and the EPA terms and conditions are standard. If the proponent meets all of the requirements outlined in the standard/open offer rules, then BC Hydro will offer an EPA and enter into a long-term contractual relationship with the proponent.

#### 4 Contract Preparation and Execution

The contract preparation and execution procedures for standard/open offers are similar to those for competitive calls with less emphasis on negotiated contractual terms and delivery of performance security.

#### 5 Contract Management

For standard/open offers, the contractual management procedures are identical to those used for competitive calls.

#### 6 Regulatory Review

The regulatory review procedures for standard/open offers are the same as for competitive calls given that the UCA and BCUC requirements apply to the execution of EPAs rather than type of procurement process.

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### C. Bilateral Arrangements

BC Hydro's preferred and primary method of acquiring power from IPPs and other external supplier has been through structured, open energy procurement processes. However, bilateral negotiations have been employed and will be continue to be used in the future. Some examples of the circumstances where bilateral negotiations outside of a competitive or standard offer procurement process may be used include:

- An otherwise cost-effective or strategic project that is not eligible in any of BC Hydro's other available power acquisition processes;
- The structure of the transaction is sufficiently complex that flexibility outside a structured, competitive process is desired and necessary;
- Opportunities associated with power projects that are already contracted to BC Hydro;
- Renewal of existing EPAs which are soon to expire;
- The acquired product is unique enough that customized agreements and negotiations are necessary; or
- A power acquisition initiative that arises from a government policy or directive.

Bilateral arrangements do not constitute a procurement process that is generally available or open to IPP proponents or other suppliers. At its sole discretion, BC Hydro will consider and propose bilateral arrangements in accordance with certain circumstances as noted above.

Compared to competitive calls and standard offers, the first two procedural stages dealing with engagement and process launch do not apply to bilateral arrangements. However the latter four stages dealing with proposal evaluation, contract preparation/execution, contract management and regulatory review are largely applicable, with the following variations:

#### *Price Benchmarks*

In the absence of a competitive procurement process, BC Hydro will consider a number of price benchmarks such as prices paid in recent calls and Mid-C market electricity prices in order to determine cost-effectiveness. Product differences (firmness, location, etc.) will require adjustments to allow for a fair and appropriate comparison. For EPA renewals, the seller's initial capital investment to construct the facility would have been fully or largely recovered over the term of the original EPA. BC Hydro's pricing considerations for renewals will include the seller's opportunity cost, the estimated cost of service for the seller's plant (including industry comparisons for similar generating plants), and additional factors such as the attributes of the energy produced and other non-energy benefits.

#### *Project Financial Metrics*

To ensure that the bilateral agreement represents a fair and balanced transaction for both the proponent and BC Hydro's ratepayers, negotiations will be generally conducted on an "open book" basis. The proponent will be required to provide BC Hydro with a sufficiently detailed financial model, along with supporting information and documentation requested by BC Hydro, to support the validity and reasonableness of key price and cost assumptions. BC Hydro will perform necessary due diligence to satisfy itself that the financing and investment return assumptions reflect the risk/reward of the transaction and general industry requirements for comparable transactions.

**OVERVIEW OF BC HYDRO'S ENERGY PROCUREMENT PRACTICES**

**APPENDIX 1**

**BC Hydro Energy Procurement Review  
Merrimack Recommendations and BC Hydro's Response**

	RECOMMENDATION	BC HYDRO'S RESPONSE
<b>Demand/Supply Planning</b>	<p>1. Link the Integrated Resource Planning (IRP) process and procurement activities, (i.e. the timing and level of need for new resources should be determined through the IRP process), and assure that the IRP:</p> <ul style="list-style-type: none"> <li>a) is consistent with government policy;</li> <li>b) identifies opportunities for procurement;</li> <li>c) is the vehicle to conduct analyses regarding inputs and assumptions underlying the procurement process; and</li> <li>d) is updated as frequently as necessary to prevent over or under supply.</li> </ul>	<ul style="list-style-type: none"> <li>• Concur that the need for new power supply must be addressed in IRP.</li> <li>• Adopt recommendation and implement where possible as part of the ongoing IRP process.</li> <li>• BC Hydro will be seeking public, stakeholder and First Nations feedback on draft IRP.</li> </ul>
<b>Sourcing and Procurement</b>	<p>2. Make the energy procurement process more transparent for all stakeholders and First Nations:</p> <ul style="list-style-type: none"> <li>a) Prepare Energy Procurement Procedures, as well as a Code of Conduct, for undertaking procurement processes and post both on the website;</li> <li>b) Develop project viability criteria and transparent weightings for price and non-price factors to evaluate bids in select procurements.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt recommendation by completing and posting the appropriate Energy Procurement Procedures, along with a Code of Conduct.</li> <li>• Review options for providing increased transparency of evaluation criteria.</li> </ul>
	<p>3. Implement smaller but more frequent energy procurements in the future which are linked to the IRP, as updated, and accomplish the following objectives:</p> <ul style="list-style-type: none"> <li>a) Provide more certainty to the market regarding procurement activity;</li> <li>b) Allow for quicker adjustment to market and governmental policy changes;</li> <li>c) Encourage suppliers to maintain project development activity to create a more competitive market.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt this recommendation as part of the IRP, and address it in the final IRP submitted to government.</li> </ul>
	<p>4. Continue to follow the recent trend in BC Hydro's procurements, combining or mixing procurement vehicles to match the type of overall solicitation being implemented:</p> <ul style="list-style-type: none"> <li>a) Utilize a more flexible Request for Proposals (RFP) process for larger and broader (province-wide) solicitations;</li> <li>b) Continue to implement other procurement vehicles such as CFTs, Request for Offers, or Feed-in Tariffs for smaller or targeted resources as required.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt recommendation by continuing to design and implement tailored procurement processes.</li> </ul>

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	RECOMMENDATION	BC HYDRO'S RESPONSE
<b>Sourcing and Procurement</b>	<p>5. For larger procurement processes, utilize a multi-stage evaluation process which includes the following stages:</p> <ul style="list-style-type: none"> <li>a) Threshold process for eligible offers;</li> <li>b) Indicative bid process combined with project viability criteria to select a shortlist;</li> <li>c) Best and final price offer for final bid selection;</li> <li>d) Simultaneous competitive negotiations that allow consideration of value-added provisions such as buyout options and expiration transfers under standards that assure fairness.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt recommendation for the next competitive procurement process.</li> <li>• Communicate the multi-stage process in the Energy Procurement Procedures being prepared in response to recommendation #2.</li> </ul>
	<p>6. Develop standards for evaluating and negotiating bilateral contracts and make the standards transparent to stakeholders.</p>	<ul style="list-style-type: none"> <li>• Include standards in the Energy Procurement Procedures document being prepared in response to recommendation #2.</li> </ul>
	<p>7. Consider creating an Advisory Group comprised of non-supplier stakeholders and First Nations to advise BC Hydro on procurement activities. The Advisory Group would likely be comprised of stakeholders and First Nations from the IRP working group. This is similar to the Procurement Review Group utilized in California as an advisory group only for energy procurement activities.</p>	<ul style="list-style-type: none"> <li>• Do not accept this recommendation at this time given that dialogue on energy procurement activities is already taking place via the IRP process, regulatory proceedings and call-related forums.</li> </ul>
<b>Evaluation</b>	<p>8. Complete financial analysis, in collaboration with stakeholders and First Nations, to assess if more flexible contract provisions, which shift less risk to the supplier than the following EPA provisions, achieve a better balance of costs and benefits to ratepayers. If the analysis does suggest a better balance will occur, modify the contract provisions for better alignment with prevailing industry:</p> <ul style="list-style-type: none"> <li>a) The five-year ratchet provision adjusting “full-price” delivery levels down to levels exceeded in 80% of the performance periods;</li> <li>b) Financial penalties for over or under delivery from the first MWh of energy;</li> <li>c) Pricing intermittent resources on the basis of strict seasonal delivery requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt recommendation by retaining an independent consultant to access actual bidder data and complete the financial analysis.</li> <li>• Methodology and findings to be shared with interested parties for their comments and feedback.</li> <li>• BC Hydro will determine if contractual changes are warranted and will incorporate such modifications in future calls and electricity purchase agreements.</li> </ul>
<b>Interconnection</b>	<p>9. In the process of integrating BC Hydro and BCTC, assess how other utilities are addressing the following issues:</p> <ul style="list-style-type: none"> <li>a) Providing information about the availability of transmission capacity and estimated cost to expand capacity in different regions/delivery points (e.g. PacifiCorp and California utilities);</li> <li>b) Consideration of cluster studies by region (e.g., Southern California Edison);</li> <li>c) Development of final portfolios from procurements based on bid price, interconnection and transmission upgrades (e.g., Hydro-Quebec).</li> </ul>	<ul style="list-style-type: none"> <li>• BC Hydro will continually review the interconnection practices of other utilities to determine if there are opportunities for enhanced availability and cost information.</li> <li>• Review how well cluster studies have worked in developing IRP to identify possible improvements.</li> <li>• Continue including interconnection and transmission upgrade costs in the development of final portfolio selections.</li> </ul>

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## APPENDIX 2

### BC Hydro's Power Procurement Options

CALL PROCESS	COMPETITIVE			NON-COMPETITIVE	
	Call for Tenders (CFT)	Request for Proposals (RFP)	Request for Expressions of Interest (RFEOI) or Request for Qualifications (RFQ)	Standard or Open Offer	Bilateral Arrangements
<b>KEY FEATURES</b>	<p>CFTs are very formal processes with limited ability to negotiate the price that is bid or contractual terms and conditions.</p> <p>Bidders submit legally binding bids in response to a process, requirements and standard contract as prescribed in the CFT documents.</p> <p>BC Hydro must evaluate bids in strict accordance with the process and criteria set out in the CFT documents.</p> <p>If BC Hydro accepts a bid, a contract is formed, subject to the signing of the EPA and completion of any documentation, due diligence and related activities.</p>	<p>RFPs provide a less formal process where price and contractual terms are negotiable.</p> <p>Proponent makes proposal based on requirements and specimen contract.</p> <p>BC Hydro identifies proposals for negotiation based on evaluation criteria.</p> <p>Both parties can suggest changes to specimen contract. There also may be discussion around price.</p> <p>Flexibility in adapting proposals and negotiation between parties is key element of call success.</p>	<p>RFEOIs and RFQs are used to obtain information and do not result in a contractual relationship between BC Hydro and respondents.</p> <p>Proponents submit their proposals in response to specific requirements (e.g., location, fuel type, size, etc.). The requirements are usually not overly detailed and are described at a high level. Proponents may submit indicative pricing.</p> <p>If BC Hydro determines that certain proposals need to be further explored, discussions may occur with selected parties.</p> <p>Post- RFEOI/RFQ, BC Hydro may pursue a formal CFT or RFP process or enter into bilateral negotiations with the intent of awarding EPAs.</p>	<p>Proponent submits application based on prescribed eligibility requirements, standard contract terms, and pre-set energy price.</p> <p>BC Hydro offers EPA to applicant if all requirements are met.</p>	<p>BC Hydro and IPP agree to discussions.</p> <p>Standard contracts and energy prices from other procurement processes may be used to guide discussions.</p> <p>Discussion and negotiation may lead to an executed EPA.</p>

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CALL PROCESS	COMPETITIVE			NON-COMPETITIVE	
	Call for Tenders (CFT)	Request for Proposals (RFP)	Request for Expressions of Interest (RFEOI) or Request for Qualifications (RFQ)	Standard or Open Offer	Bilateral Arrangements
<b>PROS</b>	Maximum certainty for both parties  Relatively limited discretion for BC Hydro and the proponent once the process is initiated	Provides more flexibility for bidders and BC Hydro  Offers good value to BC Hydro by combining competitive bids with negotiated prices and contractual terms	Less rigid with significant flexibility for both parties  Provides BC Hydro with valuable information about potential projects, interested proponents and price disclosure	Streamlined process with standard contract  Greater certainty for both parties	Significant flexibility for both parties
<b>CONS</b>	Relatively rigid and prescriptive with limited flexibility	Less certainty for both parties  Negotiations can be time-consuming and may elongate the call process	Less certainty for both parties  Adds additional time and cost if another procurement process is subsequently pursued	Minimal flexibility regarding price or contract terms	Less certainty that an EPA will result  Lack of competitive tension  Less public transparency
<b>RECENT EXAMPLES</b>	<ul style="list-style-type: none"> <li>• 2003 GPG Call</li> <li>• F2006 Open Call</li> </ul>	<ul style="list-style-type: none"> <li>• 2008/10 Bioenergy Call (Phases 1 and 2)</li> <li>• 2008 Clean Power Call</li> </ul>	<ul style="list-style-type: none"> <li>• 2007 Fort Nelson RFEOI</li> <li>• 2010 Community-Based Biomass Call RFQ</li> </ul>	<ul style="list-style-type: none"> <li>• Standing Offer Program</li> </ul>	<ul style="list-style-type: none"> <li>• 2007 Alcan EPA</li> </ul>



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### APPENDIX 3

#### BC Hydro Code of Conduct

To promote awareness and understanding of the standards of conduct that BC Hydro expects, the Board of Directors has approved a Director and Employee Code of Conduct. The Code provides general guidance on standards of conduct, including guidelines on conflict of interest, as well as requirements associated with outside business interests, confidential information, entertainment and gifts, and environment and safety. Additionally, Attachment 1 of BC Hydro's Code of Conduct includes guidelines applicable to BC Hydro contractors, consultants and suppliers, and procedures for exemptions.

Shown below are key elements of the BC Hydro Code of Conduct applicable to (a) BC Hydro Directors and Employees, and (b) BC Hydro contracts. Please note that these are excerpts from the Code of Conduct and that entire document can be found on BC Hydro's website at:

[http://www.bchydro.com/about/who\\_we\\_are/corporate\\_citizenship/code\\_of\\_conduct.html](http://www.bchydro.com/about/who_we_are/corporate_citizenship/code_of_conduct.html)

#### A. Code of Conduct for BC Hydro Directors and Employees

The Code of Conduct provides general guidance on the standards of conducts expected of Directors and Employees of BC Hydro in several areas:

- **Compliance with Law**  
BC Hydro's Directors and Employees shall comply with all applicable provisions of laws and regulations of the countries in which BC Hydro operates. Directors and Employees shall contact BC Hydro's legal counsel if they have any questions regarding applicable laws.
- **Conflicts of Interest**  
Directors and Employees will perform their duties conscientiously and will not put themselves in a position in which their private interests and those of BC Hydro might be or perceived to be in conflict. A Director or Employee has an actual conflict of interest when the Director or Employee is performing a duty or function of the position and in the performance of that duty or function has the opportunity to further his or her private interests. Every Director and Employee must avoid any situation in which there is an actual or apparent conflict of interest that could interfere or could be perceived to interfere with the Employee's or Director's judgment in making decisions in BC Hydro's best interests.
- **Outside Business Interests**  
Employees should declare their outside business activities at the time of engagement and are required to limit outside business activities to avoid any conflicts of interest or other breaches of the provisions of the Code. No Employee or Director should hold a substantial private interest, directly or indirectly, through a relative, friend or associate, or hold or accept a position as an officer or director, in an entity where by virtue of his or her position in BC Hydro the Director or Employee could in any way benefit the entity by influencing the decisions of BC Hydro.
- **Confidential Information**  
A Director or Employee should at all times maintain the confidentiality of all confidential information and all records of BC Hydro and must not make use of or reveal such information or records except in the course of performance of their duties or unless the

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documents or information become a matter of general public knowledge. Similarly, Directors or Employees may not use confidential information obtained through their association or employment with BC Hydro to further their private interests or the private interests of their friends or relatives.

- **Investment Activity**

Directors or Employees may not, directly or indirectly, through friends, relatives or associates, acquire or dispose of any interest, including publicly traded shares, in any entity when in possession of confidential information obtained in the performance of their duties with BC Hydro which could affect the value of such interest.

- **Outside Employment**

BC Hydro Employees may hold outside jobs or engage in modest self-employment activities on their own time, using their own resources, and in a manner not adversely affecting their performance or objectivity for BC Hydro. However, no BC Hydro Employee, may accept work with a competitor, or with any entity that could lead to a conflict of interest or situation prejudicial to BC Hydro's interests.

- **Entertainment, Gifts and Benefits**

Directors and Employees and their associates should not accept entertainment, gifts or benefits which grant or appear to grant preferential treatment to a potential or actual contractor of BC Hydro. Any entity offering such inducement must cease this practice; a business relationship with BC Hydro will be conditional on compliance with this Code.

- **Business Relations with Contractors**

BC Hydro will deal fairly and openly with all its Contractors and will facilitate access to its business by all entities, provided conditions of quality, reliability and competitiveness are met. No Director or Employee may benefit directly or indirectly from BC Hydro's business relationships unless the benefit is an ancillary benefit that BC Hydro intends its Directors or Employees to enjoy.

- **Environment and Safety**

Environmental protection is a fundamental BC Hydro value; every Director and Employee has a role in ensuring BC Hydro's operations comply with environmental legislation and standards. BC Hydro is committed to providing all Employees a safe, healthful and harassment-free workplace and to ensuring safe and respectful work practices and conditions. Every Employee has a personal responsibility to take all prudent precautions in every activity, not just to ensure personal safety, but also to avoid creating any danger to others or demonstrating behaviour which can be reasonably construed as discrimination or harassment.

- **Responsibility**

BC Hydro is determined to behave, and to be perceived, as an ethical corporation. Each Director and Employee must adhere to the standards described in this Code of Conduct, and to the standards set out in applicable policies, guidelines or legislation. An Employee's failure to adhere to these standards could lead to disciplinary action and the policies and procedures currently in place at BC Hydro respecting disciplinary action will apply. Integrity, honesty, and trust are essential elements of our business success. Any Director or Employee who knows or suspects that this Code of Conduct has been or is likely to be breached has a responsibility to report it.

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### B. Code of Conduct Guidelines Applicable to BC Hydro Contracts

In its ongoing efforts to ensure that BC Hydro and its subsidiaries behave and are perceived to behave as ethical corporations, BC Hydro has adopted a Code of Conduct that provides guidelines for the behaviour of its Directors and Employees. The Code of Conduct also outlines BC Hydro's expectations of the behaviour of its suppliers, consultants, contractors and business associates (Attachment 1 to the Code of Conduct).

Unless it is inappropriate to do so, the guidelines set out below are to be included in every tender call, request for proposals and contract with BC Hydro and its subsidiaries. A supplier, consultant, contractor or business associate may be required to give assurances that it conducts itself in accordance with the standards set in these guidelines before it will be considered qualified to enter into a business relationship with BC Hydro.

For the purposes of the guidelines a "Contractor" means a supplier, consultant, contractor or business associate with which BC Hydro has a contract will be expected to comply with the standards set in these guidelines. Failure to do so may be treated by BC Hydro as a reason for terminating the contract. In some cases, other terms of a specific contract may impose a higher standard. In these cases, the contract terms with the higher standards apply.

#### Guidelines

1. The Contractor shall act at all times with integrity and honesty
  - a) in its dealings with BC Hydro, and
  - b) in its dealings with a third person if, in those circumstances, the Contractor is acting as a representative of or on behalf of BC Hydro.
2. If the conduct of business with a competitor of BC Hydro during the term of the contract would require the Contractor to act contrary to the best interests of BC Hydro, the Contractor shall not conduct such business unless the Contractor has the prior written permission of BC Hydro.
3. Before the contract is entered into and from time to time as circumstances require, the Contractor shall disclose in writing to BC Hydro to the best of the Contractor's knowledge:
  - a) any business relationship that the Contractor or any of its owners or officers has with a Director or Employee of BC Hydro,
  - b) the name of any Director or Employee of BC Hydro who is a relative of the Contractor or any of its owners or officers, and
  - c) the name of any Director or Employee of BC Hydro with whom the Contractor or any of its owners or officers is connected by frequent or close association.
4. The Contractor shall read BC Hydro's Code of Conduct that is available from Hydro's contract representative or available at BC Hydro's web site at **www.bchydro.com** and shall take all reasonable steps to avoid placing a Director or Employee of BC Hydro in a conflict of interest as contemplated by the Code.
5. The Contractor shall keep confidential all information provided to it by BC Hydro or developed during performance of the contract and shall not use that information for any purpose unrelated to performance of its obligations under the contract.

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6. If the Contractor is given access to any BC Hydro property in order to perform the contract, the Contractor shall use that property solely for purposes of performance of the contract.
7. The Contractor shall not attempt to secure preferential treatment with BC Hydro by offering entertainment, gifts or benefits to BC Hydro Directors or Employees. Reasonable exchanges common to business relationships are acceptable.
8. Unless the Contractor has the express permission of BC Hydro, the Contractor shall not offer employment to a BC Hydro Employee during the term of the contract.
9. The Contractor shall provide its employees, including any Employees of BC Hydro with whom the Contractor has a close working relationship, with a safe and healthy workplace that is harassment and discrimination free.
10. The Contractor shall ensure that when it is participating in any public discussions or taking a position of leadership in other organizations that it does not represent itself as a spokesperson of BC Hydro unless the Contractor has been retained specifically to act in that capacity.

Contractors who wish further information or advice on the application of these guidelines to particular circumstances are encouraged to speak to BC Hydro's contract representative.

### **Code of Conduct Enforcement**

BC Hydro recognizes the need to provide its Employees and Contractors with ready access to expert advice on Code related matters, including consistent and clear interpretation of its standards of business conduct and guidelines for conflict of interest. BC Hydro has created a senior managerial position, the Ethics Officer, reporting directly to the Chief Human Resources Officer, who is dedicated to serving this need and also to receiving any confidential concerns or reports of possible Code violations from Employees and Contractors. The Ethics Officer will also review, update or establish appropriate policy, guidelines, procedures and processes for BC Hydro's Code, inclusive of its conflict of interest guidelines.