

**BC HYDRO ENERGY PROCUREMENT REVIEW**  
**Summary of Merrimack’s Recommendations and BC Hydro’s Response**

	<b>RECOMMENDATION</b>	<b>BC HYDRO’S RESPONSE</b>
<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> <ol 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> </ol>	<ul style="list-style-type: none"> <li>• Concur that the need for new power supply must be addressed in the 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> <ol 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> </ol>	<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> <ol 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> </ol>	<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> <ol 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 Call For Tenders, Request for Offers, or Feed-in Tariffs for smaller or targeted resources as required.</li> </ol>	<ul style="list-style-type: none"> <li>• Adopt recommendation by continuing to design and implement tailored procurement processes.</li> </ul>
	<p>5. For larger procurement processes, utilize a multi-stage evaluation process which includes the following stages:</p> <ol 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> </ol>	<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>

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	<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> <ol style="list-style-type: none"> <li>The five-year ratchet provision adjusting “full-price” delivery levels down to levels exceeded in 80% of the performance periods;</li> <li>Financial penalties for over or under delivery from the first MWh of energy;</li> <li>Pricing intermittent resources on the basis of strict seasonal delivery requirements.</li> </ol>	<ul style="list-style-type: none"> <li>• Adopt recommendation by retaining an independent consultant to assess 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> <ol style="list-style-type: none"> <li>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>Consideration of cluster studies by region (e.g. Southern California Edison);</li> <li>Development of final portfolios from procurements based on bid price, interconnection and transmission upgrades (e.g. Hydro-Quebec).</li> </ol>	<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 to include interconnection and transmission upgrade costs in the development of final portfolio selections.</li> </ul>