

Call for Tenders and Contract Award Procedure

INTRODUCTION

In its electric power distribution activities, Hydro-Québec (“Distributor”), must enter into power supply contracts to satisfy Québec market needs beyond those of the heritage pool electricity and to purchase blocks of energy determined by regulation of the Government (“block of energy”). To this end, the Distributor must issue calls for tenders to potential suppliers. This document sets out the procedure to be followed for these calls for tenders and the awarding of resulting contracts.

As prescribed in the *Act respecting the Régie de l'énergie*, the call for tenders procedure must:

1. Allow for the participation of all interested suppliers, by being issued with an adequate time frame;
2. Grant equal treatment to all sources of supply, unless the call for tenders provides for all or part of the needs to be met, for a particular source of supply, with a block of energy determined by regulation of the Government;
3. Favour the awarding of supply contracts on the basis of the lowest price for the conditions and amount of power required, taking into account the applicable cost of transmission and when supplying a block of energy, taking into account the maximum price fixed by regulation of the Government;
4. Allow for more than one contract to meet the need identified by the Distributor, in which case the bidder that allows for the quantity required to be met, can be asked to reduce the quantity of power he offered without changing the price per unit.

The call for tenders and contract award procedure comprises five (5) steps described in the following sections:

1. Issuing the call for tenders
2. Reception and opening of bids
3. Selection of bids
4. Preparation of the contracts
5. Award of contracts.

The actions of the Distributor's employees and persons hired by the Distributor to participate in the call for tenders process are governed by a code of ethics approved by the *Régie*. The Distributor mandates, if it chooses to do so, one or more independent firms (hereafter referred to collectively as "mandated firm") to accompany it in the evaluation of bids and the application of the call for tenders procedure.

1. ISSUING OF CALL FOR TENDERS

1.1 BID DOCUMENT

The bid document contains all the information required for potential suppliers to submit a bid. It includes in particular a statement as to the purpose of the call for tenders, a description of the products sought, including the amount of capacity and energy, the delivery period, instructions to bidders including the process schedule, the bid analysis grid, requirements to be met, bid forms and a copy of the proposed standard contract.

The analysis grid contains a description of the criteria that will be taken into account when analyzing bids, that is to say:

- a) monetary criteria and,
- b) criteria having an effect on the risks taken on by the Distributor without having a direct monetary impact.

The grid also specifies the weighting that will be applied to each set of criteria and, as the case may be, the minimum requirements applicable to certain criteria (for example, the minimum requirements applicable to a bidder's financial capacity).

The Distributor is responsible for selecting the criteria, the weightings of the analysis grid as well as the criteria evaluation methods. The Distributor also ensures that the content of the analysis grid is in keeping with the supply plan, that it takes into account the risks related to the bidder's choice of supply source and, if need be, that it takes into account any block of energy determined by the Government.

1.2 MANAGEMENT OF BID DOCUMENT DISTRIBUTION

The bid document is filed with the *Régie* with reasonable delay prior to issuing the call for tenders. The document is available on the Distributor's Web site. It can also be obtained by sending a request to the Distributor, in which case, a fee may be required to cover production and handling costs.

1.3 LAUNCHING OF CALL FOR TENDERS

The date for issuing the call for tenders is determined by the Distributor based on the needs identified and the time required to complete the call for tenders. The triennial supply plan may provide specific timetables for different calls for tenders. When such timetables are provided for in the plan, the *Régie* may review them if need be, at the time of the supply plan's yearly update.

1.4 ISSUING OF CALL FOR TENDERS

To ensure that the call for tenders reaches as wide an audience as possible, several methods may be used, at the discretion of the Distributor:

- Announcement in major dailies in Québec;
- Press release for wide publication, more particularly in trade publications in the North American energy sector;
- Notice on the Distributor's Web site. This site is accessible to one and all;
- Announcement of the call for tenders on one or more Web sites specializing in the energy sector;
- Targeted distribution of a summary document to potential suppliers active in the field. To that effect, a list of potential suppliers is updated regularly by the Distributor based on publicly available information and expressions of interest from suppliers and previous bidders.

1.5 RECEPTION OF REGISTRATION FORMS

The bid document contains a registration form that all interested bidders must fill out and return to the Distributor within the prescribed deadlines to indicate their intention of submitting a bid.

The form may call for some brief information, such as amount of capacity and energy offered, type of generation considered, and contact person. A non-refundable registration fee determined by the Distributor must be sent in along with the registration form. Upon receiving the registration form and payment for such registration, the Distributor sends the interested bidder an acknowledgement of receipt, along with a confidential code allowing the bidder to submit questions online to the Distributor concerning the call for tenders.

Only bidders who have forwarded to the Distributor a duly completed registration form and payment for the registration fee mentioned above within the time frame specified in the bid document will be eligible to bid.

1.6 PRE-BID CONFERENCE

A pre-bid conference is held a few weeks after the call for tenders is issued, on a date communicated in the notice of call for tenders. Persons interested in attending the conference should register in advance. However, it is not mandatory to attend this conference in order to submit a bid. The conference is held in Montréal.

The Distributor keeps a register of participants to the pre-bid conference and makes it available on its Web site. He prepares the minutes, including the questions asked and the answers given during the question period. These minutes are posted on the Distributor's Web site. If the Distributor cannot answer a question during the conference, it will provide an answer later on and then post it on the Distributor's Web site.

Conference participants can obtain the bid document at the conference site upon payment of any fee that may be required.

1.7 COMMUNICATION WITH BIDDERS

Any amendment, correction or addition to the bid document or to any supporting document provided to bidders as part of the call for tenders is communicated electronically or in writing to all bidders who have submitted a registration form. Any amendment, correction or addition is also posted on the Distributor's Web site.

Any question or request about the call for tenders should be forwarded to the Distributor's designated representative. The Distributor agrees to answer all questions it receives from suppliers who have submitted a duly completed registration form. The answers are provided by telephone, electronically or in writing (according to the means of communication of the original request). In all cases, answers are posted on the Distributor's Web site without the identity of the supplier being revealed.

2. RECEPTION AND OPENING OF BIDS

2.1 RECEPTION OF BIDS

Bids must reach the bid office designated by the Distributor before the closing date and time indicated in the bid document.

The bid date and time of receipt are indicated on each bid and an inventory of bids received is maintained. Sealed bids are kept at the bid office until the date of opening of bids.

Bids received after the bid closing date and time are returned to sender unopened.

2.2 OPENING OF BIDS

Bids are opened in public, at the location and on the date and time set forth in the bid document.

Incomplete bids are identified during the opening of bids and an inventory of the missing information is prepared.

When according to the Distributor, the missing information is such that it compromises bidder equality or the evaluation of the bid, the bid is rejected and the bidder is advised thereof in writing.

For any other incomplete bid, a written request is sent to each bidder specifying the additional information required and the time allowed to provide it. Once this time has expired, the bid is rejected if the bidder has not communicated the required information to the Distributor and a written notice to this effect is transmitted to the bidder.

An inventory of bidders and the main parameters of each bid is prepared. This inventory is made available on the Distributor's Web site and contains the following information:

1. Bidder's name;
2. Power plant source of supply (power plant with storage capacity, run-of-river, cogeneration, combined cycle, natural gas, oil #2, #6, biomass,...);
3. Location of the power plant;
4. Annual quantities of capacity or energy offered and the commencement date of operation of the power plant.

Finally, the list of bids rejected during the opening is made public.

3. SELECTION OF BIDS

3.1 SELECTION PROCESS

In accordance with the provisions of Section 74.1 of the *Act respecting the Régie de l'énergie*, the selection of bids is aimed at finding the combination of bids that will allow the Distributor to satisfy, at the lowest total cost for the conditions required, the needs identified, including as the case may be, any block of energy determined by the Government.

The selection process involves three (3) stages based on the bid analysis grid.

In the first stage, bids that do not meet the minimum requirements for criteria that have been pre-identified in the bid document are not kept for future consideration. Particularly, when a call for tenders is aimed in part or in total at a specific block of energy, bids for that block of energy that exceed the maximum price determined by the Government are eliminated.

In the second stage, the remaining bids are divided into categories according to the features of the products offered (capacity only, baseload, winter only baseload, etc.) Each bid is studied individually without taking into account any possible interactions with other bids or with the Distributor's existing contracts. An evaluation of non-monetary criteria is then conducted (bidder's financial capacity, experience, technological risk, etc.), along with an evaluation of monetary criteria. The results are weighted using the bid analysis grid. The bids are then classified based on the results obtained during this evaluation. This stage allows for a first classification of bids which limits the number of bid combinations that will be analyzed in more detail in the third stage.

In the third stage, monetary criteria are evaluated in more detail, taking into account interactions with the Distributor's various supply sources. The best bids from each category are selected to establish combinations that meet the electricity needs identified in the call for tenders, taking into account the conditions required. Each combination is evaluated to determine its impact on the Distributor's supply costs, considering the value of the options offered and the impact on the applicable transmission cost. The choice and number of bids selected for each stage can vary based on the needs to be met, the size of the bids and the possibility for the Distributor to combine bids. When two bid combinations offer the same price, the non-monetary criteria are taken into consideration.

The bid combination that has the lowest total cost for the conditions required is selected.

The Distributor keeps minutes of every meeting held for the evaluation and selection of bids. When a mandated firm has been retained, its representative attends each of these meetings.

3.2 MEETING WITH BIDDERS

When the Distributor deems it appropriate, individual meetings are held with certain bidders to obtain details on certain aspects of their bids. The notice of meeting is given in writing and a list of the aspects to be discussed is communicated to the bidders prior to the meeting. All these meetings are held in the presence of the representative of the mandated firm, when such firm has been retained.

A list of the meetings is kept and minutes are taken at each of these meetings.

3.3 LIST OF SELECTED BIDS

The Distributor prepares a list of selected bids and, when required, identifies the additional requirements that the bidder would have to meet before a contract is signed.

The Distributor prepares a back-up list in case the closing of a contract with certain selected bidders turns out to be impossible.

3.4 ANNOUNCEMENT OF SELECTED BIDS

An acceptance notification is forwarded to each of the selected bidders, including the list of pre-identified requirements that will have to be met, as the case may be. The deadline for the closing of a contract is also indicated in the letter. The bidder must countersign this notification within a specified period.

Each bidder on the back-up list is informed by written notice that its bid is being kept in abeyance. It must confirm in writing within a specified period, the extension of the validity of its bid for a fixed duration.

Bidders whose bids are not selected are notified in writing.

4. PREPARING A CONTRACT

Each meeting with a selected bidder is held in the presence of representatives of the Distributor and as the case may be, in the presence of a representative of the mandated firm. A summary of each meeting is prepared.

The goal at this stage, is to complete the standard provisions of the contract and to define in contractual terms the different components of the product offered in the bid, more particularly, the terms of delivery, penalty clause, technical appendices, and so on.

The Distributor may agree to defer the contract closing deadline. In such case, all selected bidders are granted the same deadline deferral. Any such deferral is confirmed in writing to the bidders.

If the Distributor believes the closing of a contract has become impossible based on the elements of the selected bid, the Distributor terminates the discussions by sending a written notice to that effect to the bidder. A bidder from the back-up list is then chosen and a deadline is fixed by the Distributor for the closing of a contract. Such deadline can be different from the one fixed for the other bidders. The choice of the bidder from the back-up list relies on obtaining the lowest total cost taking into account the bids already selected.

5. AWARD OF CONTRACTS

When a contract is final, the parties proceed with the execution. Its enforcement is subject to the *Régie*'s approval under the conditions and in the cases determined by regulation of the *Régie*, in accordance with Section 74.2 of the *Act respecting the Régie de l'énergie*. If the latter does not approve the contract, it is annulled.

Along with its request for the approval of the contract, the Distributor submits the *Régie* a report giving the results of the evaluation of bids; when a mandated firm has been retained, its report regarding the application of the bid evaluation methods as well as the call for tenders procedure is sent along with the Distributor's report.