

**DISTRIBUTOR'S REQUEST TO APPROVE A CALL FOR
TENDERS AND CONTRACT AWARD PROCEDURE FOR
ELECTRICITY SUPPLY CONTRACTS
OF ONE YEAR AND LESS**

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1 CONTEXT

1.1 Regulatory context

1 As part of its obligation to ensure a secure supply of electricity for its Québec
2 customers, Hydro-Québec Distribution (the Distributor) must launch calls for
3 tenders to meet its needs that exceed the heritage pool electricity.

4 Section 74.1 of the *Act respecting the Régie de l'énergie* stipulates that:

5 *“To ensure that suppliers responding to a tender solicitation*
6 *are treated with fairness and impartiality, the electric power*
7 *distributor shall establish and submit for approval to the*
8 *Régie, which shall make its decision within 90 days, a*
9 *tender solicitation and contract awarding procedure and a*
10 *tender solicitation code of ethics applicable to the electric*
11 *power supply contracts required to meet the needs of*
12 *Québec markets in excess of the heritage pool, or the*
13 *needs to be supplied out of an energy block determined by*
14 *regulation of the Government...”*

15

16 A call for tenders and contract award procedure (the Procedure) and a code of
17 ethics on call for tenders management (the Code of Ethics) were approved in
18 July 2001 by the Régie de l'énergie (the Régie) to provide a framework for the
19 Distributor's activities. As stipulated in Section 74.2 of the *Act respecting the*
20 *Régie de l'énergie*, the Régie oversees the application of the Procedure and the
21 Code of Ethics.

22 Moreover, in November 2004, the Distributor obtained a dispensation from
23 having to use the call for tenders procedure for purchases that would meet its
24 short-term electricity supply requirements.

1.2 Experience with the call for tenders and contract award procedure

1 Since the Procedure was adopted, the Distributor has conducted four calls for
2 tenders involving long-term products for more than 2600 MW in capacity. A
3 summary description of these calls for tenders is provided in Appendix 1. The
4 results obtained, including the number of suppliers who took part in the calls for
5 tenders, show that the Procedure and its application generated healthy
6 competition.

7 The Distributor also conducted three short-term calls for tenders in the amount of
8 about 3.9 TWh of energy. A description of these calls for tenders is also provided
9 in Appendix 1. It can be noted that the bid submission period for short-term calls
10 for tenders is much shorter than for long-term calls for tender.

11 Even though the Distributor has succeeded in attracting several bidders, it has
12 identified a number of constraints when applying the Procedure to short-term
13 calls for tenders, for which a more streamlined administrative process is required
14 to ensure its success.

15 First, a major constraint that was identified is related to the procedures that must
16 be followed between the time the bids are submitted and the contracts awarded.
17 For short-term calls for tenders, this period is critical since bidders assume the
18 risk of the bid price without having solidified their market position. This practice is
19 a common one, as bidders usually prefer to wait for the contract to be awarded
20 before confirming their commitments with their counterparts. The value of this
21 risk, which increases with the length of the period during which the price is
22 guaranteed, is usually reflected in the price proposed to the Distributor. Some
23 bidders, as was the case for calls for tenders A/O 2004-01, will go so far as to
24 refuse to take part in a call for tenders if this period is too long.

25 The Distributor must therefore keep this period of time as short as possible in
26 order to obtain bids with as competitive a price as possible. To this end, the
27 Distributor is proposing to modify the procedures related to bid opening, the

1 publication of press releases following bid opening, and the method used to
2 communicate with bidders.

3 Second, the time period between the publication of a short-term call for tenders
4 and bid submission should be as short as possible. However, the Procedure as it
5 now stands provides very little flexibility in this respect. The main restrictive
6 procedures are related to bidder registration, the holding of a pre-bid conference,
7 and the method used to communicate with bidders.

8 In general, the Distributor chooses the most appropriate time to launch a short-
9 term call for tenders, namely when the market is most likely to generate low
10 prices. However, during the period between the launching of the call for tenders
11 and bid submission, which ranges from one to three weeks, a stable market that
12 is favorable to buyers can easily become an unstable market with higher prices.
13 Once again, the Distributor must keep this time period as short as possible in
14 order to obtain the best possible prices.

15 Failing a procedure suited to short-term calls for tenders, the Distributor should
16 either apply the approved Procedure imperfectly, or use the dispensation in order
17 to shorten the time periods described below.

18 **1.3 2005-2014 Supply Plan**

19 In its *2005-2014 Supply Plan* filed with the Régie in November 2004, the
20 Distributor concluded that based on the needs identified in the average-growth
21 scenario, it does not anticipate being as active on long-term markets over the
22 coming years. The Distributor also concluded that its efforts would be especially
23 geared toward short-term markets since it is still anticipating relatively sizeable
24 supply needs over the next three years (R-3550-2004, HQD-3, Document 3
25 pages 11 and 12).

26 In this context, the Distributor states (R-3550-2004, HQD-3, Document 3
27 pages 17 and 18) that in 2005 it will file a specific procedure for short-term calls

1 for tenders. The short-term procedure shall be required starting with the next
2 calls for tenders in the spring of 2005.

2 DISTRIBUTOR'S APPLICATION

2.1 Purpose of the application

3 The Distributor is proposing a new call for tenders procedure to take into account
4 the realities of the short-term market and the experience accrued over the past
5 few years. The new procedure will allow the Distributor to streamline the process
6 while keeping the elements responsible for the success of past calls for tenders.
7 It in fact formalizes the periodic adjustments that the Distributor had to make
8 during the short-term calls for tenders which were previously conducted.

9 Regarding long-term calls for tenders, i.e. of more than one year, the Distributor
10 is proposing that the Procedure that was already approved remain in use.

11 The proposed call for tenders and contract award procedure for electricity supply
12 contracts of one year and less (Short-Term Procedure) would allow the
13 Distributor to substantially decrease the time periods between the launching of a
14 call for tenders and bid submission as well as between bid submission and
15 contract award.

16 A streamlined procedure would allow the Distributor to reduce its requirements
17 regarding the validity period for the submitted bids. Thus, the risk premium which
18 bidders add to maintain a guaranteed price during this period would also be
19 decreased. In addition, the changes proposed by the Distributor would allow it to
20 respond more quickly to a constantly evolving market and, in the long run, would
21 attract more bidders, thus increasing the competitiveness of short-term calls for
22 tenders.

2.2 Call for tenders and contract award procedure for electricity supply contracts of one year and less

1 The Short-Term Procedure consists of the four (4) following stages:

- 2 1. Issuing the call for tenders
- 3 2. Bid submission and opening
- 4 3. Bid selection
- 5 4. Signing of a Transaction Confirmation

6 The proposed Short-Term Procedure deals with electricity supply contracts of
7 one year and less in an effort to reflect the realities of this type of market where
8 the duration of standard-product transactions does not exceed one year. A
9 description of these products was presented as supporting evidence for docket
10 R-3550-2004 (HQD-3, Document 2, Appendix 2B); it is reproduced in Appendix 2
11 of this application.

12 A description of the main differences between the existing Procedure and the
13 Short-Term Procedure as well as the reasons for the proposed changes are
14 presented below.

2.2.1 Dissemination of call for tenders

15 In the Short-Term Procedure, the registration rules for taking part in the call for
16 tenders are modified as follows:

- 17 • Bidders who have already concluded a Master Agreement with the
18 Distributor prior to the launching of the call for tenders are in fact registered
19 for the call for tenders. In such a case, no prior registration is required, as
20 the Distributor already has relevant information to determine compliance
21 with the minimum requirements contained in the call for tenders document,
22 in particular with respect to the bidder's credit rating and his legal capacity
23 to conduct transactions on wholesale markets.

- 1 • Potential bidders who have not yet concluded a Master Agreement with the
2 Distributor must register in advance as per the procedure stated in the call
3 for tenders document. Typically, the Distributor shall require that certain
4 financial information be provided that allows the bidder's credit to be verified
5 and his legal capacity to conduct transactions on wholesale markets.

6 In general, and considering the period of several weeks between the publication
7 of a call for tenders and bid submission as well as the period of a few hours
8 between bid submission and contract award, the Distributor shall favor
9 communication by telephone or electronic means (e-mail or fax) with potential
10 bidders when such communication is necessary (such as to clarify the content of
11 a bidder's question). Answers to bidders' questions will continue to be posted on
12 the Distributor's Web site so as to be available to all potential bidders.

13 The need to hold a pre-bid conference for short-term calls for tenders is left to the
14 Distributor's discretion given that in most cases such a conference is not required
15 as most of the products being requested are usually standard products.

16 When the Distributor determines that a pre-bid conference should be held, it shall
17 assure that all bidders are informed within a reasonable period of time prior to the
18 conference. The conference could then be held in person or through electronic
19 means such as teleconferencing or videoconferencing.

2.2.2 Bid submission and opening

20 In short-term calls for tenders, bids will be submitted electronically and kept at the
21 bid submission office.

22 The Distributor intends to reduce the period of time between bid submission and
23 contract award to three hours or less. A longer time period could increase the risk
24 premium which bidders include in their bid price. In some cases, certain bidders
25 may even refuse to take part in the call for tenders if the time period is deemed to
26 be too long. For instance, in call for tenders A/O 2004-03, a two-hour time period
27 was used but it was difficult to evaluate the bids within the announced time

1 period. The time period was thus extended to three hours for call for tenders A/O
2 2004-04, and it was difficult to comply with it. In this context, the proposed Short-
3 Term Procedure does not include a public bid opening session so as to not delay
4 the start of the evaluation. For short-term calls for tenders, the Distributor noted
5 that the public bid opening session did not attract any observers. In addition,
6 since bids are transmitted electronically, there is not any actual opening of the
7 bids.

8 Even if there is no public bid opening, the Short-Term Procedure stipulates that
9 no information on the submitted bids may be communicated prior to the bid
10 submission deadline.

11 The Distributor therefore proposes to retain the services of a firm mandated to
12 assist it in short-term calls for tenders. The firm would also be present during any
13 communication with bidders and its report would be filed with the Régie.

2.2.3 Bid selection

14 In its *2002-2011 Supply Plan* (R-3470-2001), the Distributor concluded that only
15 monetary criteria (price for capacity, price for energy, transmission costs) would
16 be used for short-term calls for tenders. The Distributor is therefore proposing to
17 reduce the number of steps in the bid selection process from three to two. In fact,
18 the absence of non-monetary criteria makes the second step of the bid selection
19 process provided for in the current Procedure superfluous, a step during which
20 the monetary and non-monetary criteria in each bid considered individually were
21 evaluated.

22 Given the short period of time between the submission of bids and the selection
23 of the bidder(s) retained, the Distributor does not make any information public
24 during bid opening. However, the results of the call for tenders are made public
25 as soon as the bidders have been advised of the results, namely in the hours that
26 follow bid submission. The information made public consists of the average

1 purchase cost, the quantity of energy awarded, the number of bidders, and the
2 total quantity of energy submitted.

3 Publication of the above information will ensure, as is the case with the existing
4 Procedure, transparency and independence in the process while allowing
5 suppliers to complete their transactions on the energy markets in the best
6 possible conditions. In the case of a short-term call for tenders, given the limited
7 number of potential suppliers, identifying the bidders retained could affect their
8 capacity to set up the supplies required to honor their obligations related to the
9 call for tenders.

10 Lastly, the standard nature of the products requested does not require that the
11 Distributor meet with the bidders to clarify their bids during the evaluation
12 process.

2.2.4 Signing of a Transaction Confirmation

13 As the products being sought for short-term calls for tenders are standard and
14 well-known in the industry, no contract preparation meeting is needed. This stage
15 merely involves signing a Transaction Confirmation and, for those who do not
16 have one, a Master Agreement.

17 With respect to approval procedures, these are determined by regulation under
18 Section 74.2 of the *Act respecting the Régie de l'énergie*.

2.3 CODE OF ETHICS

19 The Distributor is proposing that the Code of Ethics be applied in the same
20 manner as for long-term calls for tenders.

APPENDIX 1 – SUMMARY OF CALLS FOR TENDERS LAUNCHED BY THE DISTRIBUTOR

Number	Product requested	Quantity requested	Number of bidders	Date launched	Bid preparation period	Bid evaluation period
A/O 2002-01	Baseload – Long term Open to all sources of supply	1200 MW	11	February 21, 2002	15 weeks	15 weeks
A/O 2003-01	Baseload – Long term Biomass	100 MW	6	April 15, 2003	26 weeks	8 weeks
A/O 2003-02	Energy – Long term Wind energy	1000 MW	9	May 12, 2003	56 weeks	15 weeks
A/O 2004-02	Baseload – Long term Cogeneration	350 MW	Not available	October 6, 2004	25 weeks	12 weeks (forecast)
A/O 2004-01	Firm energy – Short term	2,190 GWh [*]	4	April 27, 2004	20 days	48 hours
A/O 2004-03	Firm energy – Short term	800 GWh [*]	7	October 6, 2004	19 days	2 hours
A/O 2004-04	Firm energy – Short term	900 GWh [*]	6	November 5, 2004	7 days	3 hours

1 ^{*} At 100% load factor

APPENDIX 2

(REPRODUCTION OF APPENDIX 2B, HQD-3, DOCUMENT 2, R-3550-2004)

STANDARD ENERGY PRODUCTS TRADED

ON SHORT-TERM MARKETS

1 **APPENDIX 2B – STANDARD ENERGY PRODUCTS TRADED ON SHORT-**
2 **TERM MARKETS**

3 The short-term market products most often traded in the northeastern United
4 States which the Distributor may require can be broken down into two categories:
5 energy and capacity.

6 **Energy**

7 Energy transactions usually take the form of \$/MWh on an energy exchange
8 administered by an ISO (“Independent System Operator”) or as bilateral
9 transactions, either directly between two (2) parties or through an energy broker.
10 The ISO is responsible for receiving the “bids” and “asks.”

11 Energy transactions can be in the following form:

- 12 • **Real-time hourly transactions** (“spot market”): hour-by-hour transactions
13 where the schedule can be implemented up to 90 minutes prior to
14 **dispatching**.
- 15 • **Hourly transactions for the next day** (“day-ahead market” or “DAM”): hour-
16 by-hour transactions where the schedule can be implemented up to 12 hours
17 prior to **dispatching**.
- 18 • **On-peak transactions**: transactions for the busiest 16-hour period (7 a.m. to
19 11 p.m.), Monday to Friday, except for holidays. This product is commonly
20 referred to as “5x16” when the transaction includes the five business days of
21 the week.
- 22 • **Off-peak transactions**: transactions for the least busiest period of the day
23 (11 p.m. to 7 a.m.), including Saturdays, Sundays, and holidays.
- 24 • **24-hour transactions**: transactions for the 24-hour period in a day. The
25 product is commonly referred to as “7x24” when the transaction includes
26 seven consecutive days.

1 These by-products can be traded for extended periods of time. The periods most
2 often used in transactions are:

- 3 • Remainder of the day
- 4 • Following day
- 5 • Remainder of the week
- 6 • Following week
- 7 • End of following week
- 8 • Monthly
- 9 • January-February
- 10 • March-April
- 11 • July-August
- 12 • Quarterly (Q4)
- 13 • Annually

14 **Capacity**

15 The installed capacity (ICAP) of an electrical network is made up of the
16 aggregate of all the capacities of the generating units found in its service area,
17 plus the bilateral purchases of capacity from producers in neighboring systems.

18 The capacity of a generating unit (usually expressed in MW) represents the
19 maximum energy that it can theoretically produce in an instant. Unforced capacity
20 (UCAP) is used by neighboring systems to measure the actual capacity of each
21 generating unit while taking their historical availability into account and thus pay
22 for their actual contribution.

23 Capacity transactions take the form of \$/kW-month, over periods ranging from
24 one month to twelve months, and are administered by an ISO through auctions or
25 through bilateral transactions. Transactions for the summer (from May to
26 October) and winter (from November to April) take place thirty (30) days prior to

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- 1 the start of each period. Transactions for monthly periods usually take place
- 2 fifteen (15) days prior to the start of the month.