

Final Report
Bid Evaluation and Selection Process
For
Wind-Generated Electricity
Hydro-Quebec Distribution
Call For Tenders Process

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Bid Evaluation and Selection Process For Wind-Generated Electricity For 1000 MW of Capacity Call For Tenders Process

A. Introduction

This report addresses the activities associated primarily with the bid evaluation and selection stages of Hydro-Quebec Distribution's Call for Tenders (A/O 2003-02) for Wind-Generated Electricity. The objective of this assessment is to comment on the fairness and consistency of the bid evaluation and selection process. The assessment will focus on the Call for Tenders procedures and evaluation processes and their consistency with previous Hydro-Quebec Distribution Calls For Tenders and with general industry standards for similar competitive solicitation processes. The report primarily addresses the three steps of the evaluation and selection process, including (1) minimum requirements, (2) ranking of bids, and (3) simulation of bid combinations.

Through this Call for Tenders (A/O 2003/02), Hydro-Quebec Distribution seeks to purchase electricity generated from wind farms, totaling 1,000 MW of installed capacity. Contract terms would be for a duration of 15 to 20 years from the start of deliveries, at the bidders option. Deliveries shall begin between December 1, 2006 and December 1, 2012, with the amount of electricity requested each year listed in the Call for Tenders document. A bid may be for all or a portion of the specified requirements. Also, bidders could submit bids with multiple in-service dates with different pricing mechanisms for each date between December 1, 2006 and December 1, 2012 or different size variants. If the bidder offers more than one allowable in-service date, Hydro-Quebec Distribution may choose any of the dates offered.

The eligibility requirements of this Call for Tenders are unique in a number of ways relative to other Hydro-Quebec Distribution Calls for Tenders. The Wind-Generated Electricity Call for Tenders was open to any interested bidder, including Hydro-Quebec's divisions, and to all types of wind turbines that are recognized and commercially available. According to the Call for Tenders document, a bid may only pertain to one wind farm involving a single delivery point. The contract capacity shall be equal to the installed capacity of the wind farm referred to in the bid. The bidder agrees to deliver each year an amount of energy that is at least equal to the contract energy.

In addition, the location of eligible wind farms had to be in the "eligible region" defined in the Call for Tenders document. For this Call for Tenders, the eligible region was Regional County Municipality of Matane or in the administrative region of Gaspésie – Îles-de-la-Madeleine. At least 75% of the wind farms capacity had to be located in the eligible region. In addition, the wind turbines (nacelles) shall originate from assembly facilities located in the eligible region. Furthermore, the Call for Tenders specified a certain amount of expenditures and investments that must be made in the eligible region as part of the bidder's wind farm project. This amount ranged from 40% of the project's

total cost when the guaranteed commencement date of delivery is December 1, 2006 to 60% when the guaranteed commencement date of delivery is December 1, 2008 or after. Finally, a wind turbine manufacturer had to specify a minimum number of wind turbine orders as a condition for building a nacelle assembly facility as required in the Call for Tenders.

It is important to note that this Call for Tenders process is effectively a targeted solicitation process, open only to a specific type of resource (i.e. wind-generated electricity). Thus, issues associated with fairness and equity in the process will be limited to treatment of individual bidders, not to different types of resources, technologies, project sizes, etc. As a result, these issues will be addressed in this report from the perspective of the unique nature of this solicitation.

This report will focus on the application of the bid evaluation methods and Call for Tenders procedures during each of the three steps of the evaluation and selection process. It will also focus largely on the role and activities performed by Hydro-Quebec Distribution during the bid evaluation and selection process, leading to the selection of the preferred projects. This report primarily focuses on the technical aspects of the tasks associated with the evaluation of the bids received and secondarily on the process and procedures underlying the evaluation and selection of bids.

For purposes of undertaking this assessment of the Wind-Generated Electricity Call for Tenders process and procedures associated with the evaluation and selection of bids, the following issues will be addressed in this report:

1. A brief discussion of the various steps or activities in the bid evaluation process as defined in the Call for Tenders documents and related documents, including a discussion of the unique aspects and requirements of the Wind-Generated Electricity Call for Tenders.
2. A general description of how the bid evaluation process and procedures were carried out by Hydro-Quebec Distribution. Included in this assessment will be a description of the key tasks, the roles of Hydro-Quebec Distribution's Evaluation Team and the role of Merrimack Energy in the process, procedures undertaken to complete the evaluation, documentation prepared by Hydro-Quebec Distribution to support the bid evaluation process, and issues raised during the evaluation process. In particular, issues associated with the Step 3 process, simulation of bids, will be highlighted.
3. An overall evaluation of the performance of Hydro-Quebec Distribution in completing these stages of the process.

The overall bid evaluation process and procedures required are identified in the "Call for Tenders and Contract Award Procedure". The Call for Tenders document and associated addendum further explains the process and procedures as implemented, as well as the evaluation criteria. In general, the process and procedures followed by Hydro-Quebec

Distribution are generally similar to the process followed in other Calls for Tenders. The adjustments made to the Wind-Generated Electricity Call for Tenders will be highlighted in this report.

B. Description of the Wind-Generated Electricity Call for Tenders Bid Evaluation Process

The bid evaluation and selection process followed in this Call for Tenders was similar to the process followed in other Calls for Tenders, including the three steps of (1) minimum requirements; (2) ranking of bids; and (3) simulation of bid combinations. As will be discussed, the first two steps were virtually identical to other Hydro-Quebec Distribution Calls for Tenders, however, due to the complexities associated with the combination of bids in the simulation stage and the number of bids received relative to the total capacity solicited, the step three evaluation varied from the other Calls for Tenders processes.

As a brief background, the Wind-Generated Electricity Call for Tenders was a very competitive process, with approximately four times the amount of Megawatts bid than the amount requested. There were 32 submissions provided by nine bidders and involving three manufacturers with over 250 options (i.e. “offer years”) proposed.

Hydro-Quebec Distribution responded to a large number of questions from bidders during the bid preparation stage (lasting approximately one year from issuance of the Call for Tenders to the date the bids were due), and issued five major addendum to the Call for Tenders in an attempt to ensure that bidders would possess all the information they needed to effectively structure a bid.

Step 1 of Evaluation Process: Minimum Requirements

As noted, thirty-two submissions were received prior to the deadline of June 15, 2004 established in the Call for Tenders. Consistent with other Calls for Tenders, upon receipt of the bids, all proposals were subject to a completeness check. The evaluation team reviewed the bids to determine if there was missing information, or if any information presented by the bidders needed further clarification or raised additional questions for follow-up.

The first of the three steps in the evaluation process was the evaluation of bids to ensure they conformed to the minimum requirements listed in the Call for Tenders. At this stage, all bidders received clarification and follow-up questions from Hydro-Quebec Distribution on a range of issues, including questions about pricing formulae and siting issues.

The minimum requirements were expanded in this Call for Tenders to account for the unique requirements of this Call for Tenders. These included:

- (1) Identification of the site for the proposed project and demonstration of control over the site;
- (2) Compliance with the type and level of security required;
- (3) Demonstrated experience in the development and operation of at least one commercial electricity generation project;
- (4) Demonstration of technological maturity of the generation technology proposed. Wind turbines are considered technologically mature if they are in use in at least three wind farms that have been delivering electricity, on a commercial basis, to public utilities for at least one year with an adequate level of performance;
- (5) The project can be connected to the TransEnergie system in time to meet the latest guaranteed commencement date of delivery proposed by the bidder;
- (6) All the wind farm nacelles must originate from assembly facilities located in the eligible region. The bidder must also include a statement from the designated wind turbine manufacturer confirming its intention to set up and operate the nacelle manufacturing facility in the eligible region;
- (7) The expenditures and investments in the eligible region for each project shall correspond to the requirements listed in the Call for Tenders. For example, for projects with a commencement date of delivery of December 1, 2008 or after, at least 60% of the project's total cost has to be from the eligible region; and
- (8) The bidder must have installed wind measuring instruments at the site identified in its bid for at least eight months, including the period from December 1 in a given year to the period ending on March 31 the following year. The bidder must also submit a brief description of the wind study.

All the information necessary to evaluate the bids from the perspective of meeting minimum requirements was requested in the Bid Form included as Appendix 11 in the Call for Tenders document. TransEnergie was responsible for making the determination whether the proposal could meet the latest required commercial in-service date. TransEnergie, therefore, reviewed and evaluated sections of the bids pertaining to this information.

Prior to completing this stage of the evaluation, Hydro-Quebec Distribution issued over 100 follow-up questions to bidders seeking clarification regarding the information provided to ensure all proposals were evaluated on an equal basis. The bidders were given five business days to respond to requests for information, with additional time being granted for complex requests. All bidders complied with the requirements.

using its own real levelized cost model. The internal Hydro-Quebec analysts and Merrimack Energy used the same assumptions and indices as allowed by Hydro-Quebec Distribution.

The cost evaluation at this stage in the process was designed to compare each bid based on the proposed pricing formulas offered by the bidder. For each year, each component in the pricing formula is modeled and projected based on the indices proposed in the bid. Hydro-Quebec Distribution used a real levelized cost methodology approach for evaluating each bid. This approach therefore took into account the pricing formulas and components submitted by the bidders as well as the quantity of contract energy offered by the bidder in estimating the total annual unit cost of electricity and yearly discounted cash flows. For each bid, the unit costs of electricity are first discounted to the year of the guaranteed commencement date of deliveries and the real levelized cost is calculated for the same cost stream. The real levelized cost is then converted into 2007 dollars based on the inflation forecast. This results in a cost in 2007 dollars per MWh for all bids which allows for a consistent evaluation. Hydro-Quebec Distribution used its forecasts of inflation indices, discount rate, and other inputs to estimate the long-term cost of power for each proposal. Forecasts of these input assumptions were developed before bids were submitted. In addition, applicable transmission costs were included in arriving at the real levelized cost of power for each proposal in 2007 dollars.

Thus, each proposal was evaluated using the same set of assumptions for each of the indices included in the pricing formula. Furthermore, since bidders did not have access to the input assumptions, bidders had to present their preferred pricing proposals rather than attempt to “game” their bids relative to the inputs.

The result of this analysis would therefore be a single unit price of power (i.e. the real levelized cost, which is the price in year one, which, if escalated by inflation, provides the same net present value cost stream as the pricing formula proposed by the bidder). The 35 monetary points were awarded based on the relative cost of each bid to the lowest cost bid, with the lowest cost bid receiving 35 points.

All eligible bids were also evaluated on a non-monetary basis as well using the established evaluation criteria and weights as the basis for the evaluation.

The bids were therefore evaluated and scored relative to the monetary and non-monetary weights given in the Call for Tenders. The rankings of each bid at this stage of the evaluation were to be determined based on the total monetary and non-monetary scores.

Step 3: Simulation of Bid Combinations

The next step in the evaluation process was the simulation of bid combinations. In this stage of the evaluation, various combinations of bids are formed using the best bids identified and ranked in Step 2. The basic principle that is applied involves selecting the combination of bids that is closest to the requested amount of 1,000 MW without exceeding it, based on the lowest unit cost for the conditions requested, while taking

applicable transmission costs into account. The number of bids selected for a given combination as well as the number of times a given bid is included in various combinations could depend on a number of factors.

In this stage of the evaluation, all applicable transmission costs are included in the analysis for each portfolio. The analysis regarding transmission costs was to be completed by TransEnergie based on the bid combinations/portfolios provided by Hydro-Quebec Distribution.

In Addendum #3, Hydro-Quebec Distribution revised this section of the Call for Tenders document (i.e. Section 3.4) to attempt to identify the underlying principles for forming the combination of bids prior to receipt of bids and to guide bidders in developing their proposals. For example, the addendum stated that in the selection process, Hydro-Quebec Distribution would be looking for the combination with the lowest total unit cost while being as near to the requested amount of 1,000 MW as possible without exceeding it. In addition, the combinations formed should always comply with each manufacturer's minimum order requirement.

As will be discussed in the next section of the report, the methodology for establishing the combinations in Step 3 needed some adjustment after receipt of bids to account for the numerous constraints and complexities associated with the variables that could influence the development of the portfolios consistent with the overall objectives identified by Hydro-Quebec Distribution.

C. Implementation of the Bid Evaluation Process

This section of the report describes the actual implementation of the bid evaluation and selection process. This includes identifying and describing the organization and procedures established, the roles and activities of the Hydro-Quebec Distribution Evaluation Team as well as the role and activities of Merrimack Energy, and an evaluation of the three steps of the evaluation and selection process.

As was the case with other Calls for Tenders, one of the most important aspects of the solicitation process was that the methodologies and criteria underlying the bid evaluation process (Steps 1 and 2) were developed by Hydro-Quebec Distribution prior to receipt of bids and identified to bidders either in the Call for Tenders documents or Addendum to the Call for Tenders. Project Team members responsible for bid evaluation were also involved in designing criteria for their specific categories. The criteria underlying the evaluation process were developed to be consistent with the type of resource requested and the unique locational considerations underlying the wind-generated electricity Call for Tenders.

A representative of Hydro-Quebec Distribution's Project Team was assigned to each specific criterion. The representative was required to evaluate each bid relative to the same criteria to ensure consistency of the evaluation. Evaluation sheets were developed prior to receipt of bids and served as documentation during the evaluation process.

The team responsible for evaluating the bids was managed by the Director, Electricity Supply, who was in charge of implementing the bid evaluation process and of assigning personnel for this purpose. He was responsible for ensuring compliance with the process and of supervising communications with consultants, bidders, and other divisions of Hydro-Quebec involved in the process.

The Manager of Energy Supply assisted the Director of Electricity Supply. He was responsible for maintaining the bid evaluation documentation and was the coordinator for the bid evaluation project team. For example, requests for information from bidders had to be sent and approved by the Manager. The Manager was responsible for coordinating with Samson Belair/Deloitte & Touche (the Official Representative), who transmitted such requests to the bidders.

The role of Merrimack Energy in the process was defined as reviewing and evaluating the documentation prepared and used by members of the Evaluation Team to complete all steps of the evaluation process to ensure consistency in the results. Merrimack Energy was primarily responsible for the technical issues associated with the evaluation process, including review and assessment of the minimum requirements evaluation, the monetary evaluation, and the non-monetary evaluation. Merrimack Energy staff participated in the review and evaluation of all bids from the perspective of both the monetary and non-monetary categories.

Consistent with the procedure followed in other Calls for Tenders, Hydro-Quebec Distribution organized a Call for Tenders Committee comprised of the President of Hydro-Quebec Distribution, the Director of Electricity Supply, the Manager for Energy Supply, legal staff and other members of the project team, and representatives from the Official Representative and Merrimack Energy. The Committee met several times during the bid evaluation and selection process to discuss the status of the process and address any issues.

As noted, bids were received on June 15, 2004 and were publicly opened on June 16, 2004. All bids were subject to a completeness check upon receipt and opening of the bids. No bids were eliminated during the bid opening process. Two bidders received clarification questions from Hydro-Quebec Distribution upon the bid opening, and complied with the request for clarification. All thirty-two bids were eligible for the minimum requirements assessment. Further specific details associated with the Steps involved in the implementation of the bid evaluation and selection process are provided below.

After the bid opening, members of Hydro-Quebec Distribution's Evaluation Team reviewed and evaluated the bids to determine whether or not the bids met the established minimum requirements. A representative from Merrimack Energy also reviewed the bids for conformance with the minimum requirements. During this process, Hydro-Quebec Distribution issued clarifying questions to every bidder. After review and evaluation of

the bids and after receiving responses from bidders associated with the clarifying questions sent by Hydro-Quebec Distribution, four variants were rejected for failure to satisfy minimum requirements. Five submissions were also rejected for failure to conform to other requirements of the Call for Tenders.

In the second step of the process, Hydro-Quebec Distribution undertook a detailed monetary and non-monetary evaluation of the remaining bids and variants, which totaled over 250 options. The monetary and non-monetary evaluations proceeded on parallel paths as well, with separate team members responsible for the monetary and non-monetary evaluation.

For the non-monetary evaluation, project team members were assigned to specific criteria and were required to evaluate all bids relative to the specified criteria. Project team members completed an initial evaluation based on the established criteria. A representative from Merrimack Energy also read the bids and focused on the information required to evaluate the bids relative to each criteria.

Subsequent to Merrimack Energy's review, a Merrimack Energy representative and Hydro-Quebec Distribution's project team members discussed the results of the evaluation and justification for the evaluation. In some cases, the evaluation went through a few iterations and re-check of the information presented by the bidders before final evaluations were complete. This served to ensure that the evaluation process was fair and consistent, and all reasonable information was accounted for in conducting the evaluation. The objective of this process was to ensure that a consistent evaluation of each bid was achieved. Merrimack Energy was in agreement with the final non-monetary evaluation and with the final scores developed by Hydro-Quebec Distribution.

From the monetary standpoint, all bids were evaluated using the information provided by the bidders in their proposals regarding the cost components, pricing formulas and contract output. As noted, three separate cost analyses were performed including analyses conducted by separate analysts within Hydro-Quebec Distribution. Hydro-Quebec Distribution and Merrimack Energy each conducted a real levelized cost analysis for the base bids offered and compared results. Due to the large number of bids received, Merrimack Energy conducted its evaluation based on a sample of bids that included at least one bid from each of the nine individual bidders. After identifying any differences in assumptions and methodologies, the models produced virtually the exact results for all bids prior to inclusion of the applicable transmission costs. Any differences in the real levelized cost between the two analyses amounted to very minor and insignificant differences (which could be explained), illustrating that the pricing analysis results could be verified through an independent assessment.

After the monetary and non-monetary scores were compiled, the bids were ranked on the basis of total score. The ranking of bids included both the base bids and variants for each proposal. Transmission cost impacts were included in the ranking.

Hydro-Quebec Distribution initially pre-established several principles for selecting the bids from Step 2 to include in Step 3 combinations. These included: (1) the number of bids that pass into Step 3 has to be sufficient enough to allow for the development of many combinations to ensure competition between the bidders; (2) the number of different bidders has to be significant enough to ideally prepare a backup list; and (3) the number of MW and number of bids has to satisfy the designated wind turbine manufacturers' minimum order requirements. In fact, the bids containing the equipment of one manufacturer were eliminated from consideration because there were not enough bids to satisfy the manufacturer's minimum requirements. Fourteen offers representing sixty bids or "offer years" (i.e. an offer could include multiple offer years) totaling more than 1,300 MW were brought forward to Step 3.

However, the large number of potential combinations created an obstacle for completing the evaluation within a reasonable timeframe since TransEnergie was required to evaluate the transmission costs associated with the selected bid combinations, including transmission system investments required or avoided as a result of each combination.

The large number of combinations and the time required to complete transmission studies for each combination caused Hydro-Quebec Distribution to develop a set of rules that would allow the identification of the dominant bid combinations for detailed evaluation by TransEnergie. In developing such a methodology, Hydro-Quebec Distribution had to consider the following constraints:

- Manufacturers limits
- The years in which the bid is available
- The ability of TransEnergie to interconnect the project on-time relative to the proposed in-service date
- Annual amounts specified in the by-laws and identified in the Call for Tenders
- The number of possible combinations
- The location of the projects included in the combinations
- The bid price
- Mutually exclusive bids

To test the consistency of the rules, three members of Hydro-Quebec Distribution's project team applied the rules independently of each other and developed the same combinations. Applying the rules, eight combinations were selected and the average cost for each combination calculated, including transmission costs.

D. Evaluation of Hydro-Quebec Distribution's Performance in the Bid Evaluation and Selection Process

The Wind-Generated Electricity Call for Tenders is a targeted solicitation process limited to a specific resource located in a defined eligible region within Quebec. For example, the Call for Tenders document clearly defines the eligibility requirements in the Call for

Tenders document. Thus, issues associated with fairness and equity, etc. must be considered given the nature of the Call for Tenders.

Based on Merrimack Energy's experience with competitive bidding processes and observations regarding such processes, an effective solicitation process should be designed to achieve the following objectives:

1. The solicitation process should be consistent, fair and equitable, comprehensive and unbiased to all bidders.
2. The solicitation process should ensure that competitive benefits result from the process.
3. The solicitation process should be designed to encourage broad participation from potential bidders.
4. The Call for Tenders (i.e. Call for Tenders document, the Bid Form, and Standard Contract) should describe the bidding guidelines, the bidding requirements to guide bidders in preparing and submitting their proposals, and the bid evaluation and selection criteria.
5. The solicitation process should include thorough, consistent and accurate information on which to evaluate bids, a consistent and equitable evaluation process, documentation of decisions, and guidelines for undertaking the solicitation process.
6. The solicitation process should ensure that the Power Purchase Agreement is designed to minimize risk to the utility customers while ensuring that projects selected can be reasonably financed.
7. The solicitation process should incorporate the unique aspects of the utility system and the preferences and requirements of the utility and its customers.

The implementation of the Wind-Generated Electricity Call for Tenders process relative to the first five characteristics is described below. Merrimack Energy has not been involved in the contract negotiation process and is thus not in a position to discuss this objective.

1. The solicitation process should be consistent, fair and equitable, unbiased, and comprehensive

The first objective focuses on Hydro-Quebec Distribution's Call for Tenders process and its performance in carrying out the evaluation and selection process. The key criteria (fair, equitable, consistent and unbiased) are applied to Hydro-Quebec Distribution's implementation of the evaluation and selection process as well as Hydro-Quebec Distribution's ability to adhere to the requirements outlined in the Call for Tenders

document and associated Addendum. Therefore, the critique will focus on the implementation of the process rather than specific issues regarding the process.

In our view, Hydro-Quebec Distribution's evaluation and selection process was consistent throughout. From a non-monetary perspective, the approach of requiring individual team members to evaluate specific criterion for all bids ensures that bids should be consistently evaluated since the evaluator has the opportunity to not only evaluate one specific criterion in conjunction with their expertise but to review the relative scoring of each bid within the established criterion. Merrimack Energy's independent review of the evaluation confirms that the bids were consistently evaluated from a non-monetary perspective.

The monetary evaluation methodologies were designed to evaluate bids using the same or consistent set of input parameters. In addition, the real levelized cost analysis applied in Step 2 is an excellent methodology for comparing bids of this nature (i.e. similar resources) on a consistent basis. To ensure consistency in the evaluation, three analysts conducted the real levelized cost analysis, two within Hydro-Quebec Distribution and one at Merrimack Energy. The results of the evaluation indicated a consistent evaluation of the bids since the results were virtually identical.

With regard to bias, the most obvious consideration is whether the process favors one type of bidder over another. Since all bids were for a similar type resource (and technology) any presence of bias would likely be in the implementation of the process itself, rather than the criteria or other information that could affect different bidders. Based on our direct involvement in the process, we could find no examples where one bid was more favorably treated than another. First, the presence of the Official Representative and its role as link between Hydro-Quebec Distribution and the bidder ensures that all bidders have access to the same information at the same time. In addition, the process was a fairly open process with information pertinent to all bids provided on the Website for review. Hydro-Quebec Distribution responded to over 100 questions from bidders and posted all responses on the Website in a timely manner. The Call for Tenders was also designed to explain in detail the evaluation process, the requirements of Hydro-Quebec Distribution, and the information that all bidders were required to submit.

The fact that Hydro-Quebec Distribution adjusted the methodology used in Step 3 of the procedure for developing bid combinations or portfolios after the bids were received and evaluated raises the prospect of potential bias. Hydro-Quebec Distribution informed Merrimack Energy of its proposed rules and guidelines for developing bid combinations prior to implementing these rules. Using these guidelines, several analysts within Hydro-Quebec Distribution were able to arrive at the same combinations. Merrimack Energy could find no bias in the analysis due to the timing of adjusting the guidelines for bid combinations.

As noted before, we do not believe any bid had an inherent competitive advantage within the parameters of the Call for Tenders. The non-compliance assessment and follow-up information requirements affected all bidders and ensured all bidders provided the same

information for evaluation purposes. Also, Hydro-Quebec Distribution was focused on ensuring that all bidders competed on an equal footing.

The Call for Tenders process was well structured to ensure that the information required in the Call for Tenders document was linked to the evaluation criteria. Hydro-Quebec Distribution requested a considerable amount of information from the bidder to gain an in-depth assessment of the proposed project and utilized all the relevant information to evaluate and score the bid.

The only criterion of question was the quality of the wind data to support the projected output from each project. While Hydro-Quebec Distribution allotted twelve months for bidders to develop their projects and submit the bids, bidders had limited time to collect wind data. We would expect that bidders would be more proactive for future solicitations and begin to collect wind data in advance of future Calls for Tenders.

The thoroughness of the evaluation criteria also enhanced the ability of Hydro-Quebec Distribution to develop a comprehensive database and information support to back-up the non-monetary and monetary evaluation. Merrimack Energy reviewed all the non-monetary and monetary evaluation documentation and recognizes the thoroughness of the documentation process. In the case of the non-monetary evaluation, the evaluation process went through several iterations, including independent analysis by several individuals within Hydro-Quebec Distribution and Merrimack Energy.

2. The solicitation process should be designed to ensure that competitive benefits result from the process

The large number of bids and options submitted illustrated a wide range of prices for wind-generated electricity. The significant level of competition ensured that the best projects could be identified and selected.

3. The solicitation process should be designed to encourage broad participation from potential bidders

Given that the solicitation was a targeted solicitation for one type of resource, the number of bids and options submitted illustrates a very robust and competitive process. With approximately four times the amount of capacity bid relative to the amount required and the large number of offers and options proposed, there was certainly a significant level of competition. The level of competition resulting from the process is an excellent indicator that bidders viewed the process to be fair and equitable and consistent with the prescribed procedures.

4. The Call for Tenders Documents should describe the process clearly and provide adequate information on which bidders could complete their proposals

This objective deals with the quality of the documents contained in the Call for Tenders package (i.e. Call for Tenders, Standard Contract, and Bid Form) and the integration

among the documents. Hydro-Quebec Distribution's Call for Tenders provided considerable detail regarding the information required of bidders, the basis for evaluation and selection, and the criteria of importance. The Call for Tenders process clearly provides a direct link between the Call for Tenders document, bid form and standard contract.

5. The solicitation process should include thorough, consistent, and accurate information on which to evaluate bids

The bid form requires a significant amount of information that bidders must include in their proposals. Under Hydro-Quebec's evaluation process, the vast majority of this information is used in the analysis and is consistent with the evaluation criteria developed. The level of information provided ensured that Hydro-Quebec Distribution could undertake a consistent and comprehensive analysis of each proposal and reflect the individual attributes of each proposal in the evaluation.

E. Conclusions

The Call for Tenders procedures followed by Hydro-Quebec Distribution and the subsequent bid evaluation and selection processes and methodologies are, in substance, consistent with industry standards and represent a fair, consistent, and unbiased evaluation and selection process. The following summarize some of the major considerations relative to the consistency of the Call for Tenders with industry standards.

- The three-step evaluation process followed by Hydro-Quebec Distribution (i.e. minimum requirements; ranking of bids based on monetary and non-monetary evaluation criterion; and simulation of bid combinations to determine lowest overall cost) is, in substance, consistent with the approaches followed by other utilities and by Hydro-Quebec Distribution in other Call for Tenders processes. In particular, the use of monetary or price values as the final determinant for selection of the preferred combination or portfolio of bids is common practice in the industry. This approach minimizes evaluation bias and represents the most objective approach for bid selection.
- The Wind-Generated Electricity Call for Tenders was a very competitive process, with approximately four times the amount of megawatts bid than the amount required. The response to the Call for Tenders was very significant, with over 250 bid options and variants to consider.
- The Call for Tenders Documents (A/O 2003-02) clearly reflected the unique nature of the solicitation process and the products requested.
- Hydro-Quebec Distribution responded to a number of questions from bidders during the period preceding submission of bids and also issued five major addenda to the Call for Tenders in an attempt to ensure that bidders would possess all the information they needed for submitting a bid. In our view, Hydro-Quebec

Distribution staff was very responsive to the needs of bidders and such communications with bidders led to comprehensive and responsive proposals.

- The price analysis undertaken assessed each proposal and option based on the pricing formulas proposed by the bidder. The analysis used the same consistent set of economic assumptions and allowable indices proposed by the bidder, thus ensuring that all bids were fairly and consistently evaluated. All bids were evaluated using a typical price evaluation methodology (i.e. real levelized cost analysis with a base period of 2007 to ensure a consistent comparison) that is standard in the electric utility industry. Hydro-Quebec Distribution's two monetary evaluation teams and Merrimack Energy arrived at the same consistent results using different models but based on the same general methodology and input assumptions based on the proposals submitted.
- The economic screening methodology used was effective in comparing bids with different commercial operation dates and generation levels. Given the large number of bids received, this methodology proved effective in evaluating and ranking the different proposals and variants.
- Some bidders apparently had some difficulty understanding the price formula requirements outlined in the Call for Tenders Documents and the Addenda. During the monetary evaluation phase, a number of questions were issued to bidders or Hydro-Quebec Distribution had to inform bidders of restrictions or limitations in their bid formulas. These revisions pertained primarily to the formula components and did not involve a revision to the base prices submitted by the bidders. Merrimack Energy does not view the procedure followed by Hydro-Quebec Distribution to inform bidders of the bid formula requirements and allowing for clarification of the formulas to affect the competitive process in any way.
- All proposals that passed the Minimum Requirements step were thoroughly and consistently evaluated and ranked based on a detailed monetary and non-monetary assessment with all evaluation scores thoroughly scrutinized by Hydro-Quebec Distribution's bid evaluation team and Merrimack Energy staff.
- Merrimack Energy reviewed the evaluation and selection process undertaken by Hydro-Quebec Distribution for the eligible proposals and independently verified and supported the results of the monetary and non-monetary evaluation. Merrimack Energy conducted an independent assessment of at least one proposal from every bidder and evaluated the projected prices submitted in the bid price formulas. While a few of the bids evaluated initially contained slight differences in the results compared to Hydro-Quebec Distribution's own evaluation team, all differences were identified and reconciled. Merrimack Energy's results illustrate that there are no systematic biases in the evaluation and indicated a consistency in interpreting and modeling the bid price formulas.

- Hydro-Quebec Distribution included all direct project costs as well as system transmission and interconnection costs associated with each bid (in Step 2) and simulation of bid combinations (in Step 3) in the evaluation process, in conformance with the Call for Tenders procedures. This is consistent with the approach undertaken by most utilities in the bid evaluation process, which is designed to include all costs in the analysis.
- Selection of the combination of bids for the final Step 3 evaluation was complicated by a large number of factors and constraints associated with such issues as specified annual capacity limits, timing considerations, location of the projects, manufacturers limits, the year the project would be commercially available, etc. that had to be considered in developing the combinations or portfolios. Hydro-Quebec Distribution established a detailed methodology and procedures and guidelines for selecting a workable number of combinations. Hydro-Quebec Distribution consistently followed the procedures in the process of establishing the combinations to be evaluated. These procedures led to a reasonable number of combinations and allowed for timely completion of the evaluation and selection process. The selected combinations were replicated by several individuals within the project team using the same methodology. Merrimack Energy has reviewed the methodology and procedures used by Hydro-Quebec Distribution to select the combinations and concurs that the methodology and procedures were fair and equitable and did not bias the selection process.
- The combination of bids selected by Hydro-Quebec Distribution for contract negotiations was the combination of bids that resulted in the lowest overall cost, consistent with the requirements of the Call for Tenders.
- Hydro-Quebec Distribution developed the evaluation guidelines, evaluation criteria and scoring system, and forecasts of the allowable indices prior to receipt of bids. As a result, the evaluation parameters were pre-established prior to bid receipt and evaluation biases were therefore minimized or eliminated. The only aspect of the evaluation that was adjusted after receipt of bids was the Step 3 simulation of bid combinations. As noted, developing the parameters on which combinations of bids would be based was a complex process, involving multiple constraints and a substantial number of bids. Hydro-Quebec Distribution developed a very comprehensive and well structured process for developing the bid combinations that would be considered in the final evaluation.
- Hydro-Quebec Distribution has developed a detailed documentation process designed to support the evaluation and selection decision for both the non-monetary and monetary criteria.
- Hydro-Quebec Distribution followed an approach to bid evaluation that included an auditing of the monetary evaluation results by another member of the project team as well as an auditing of the results of several non-monetary criteria.

- The non-monetary criteria were developed to reflect the unique nature of the product sought (i.e. wind-generated electricity). Criteria such as regional content, quality of the wind data, and the consistency of the wind data with the projected generation levels were important for distinguishing bids.
- The short-list selected was comprised of 60 individual bids, representing more than 1,300 MW of capacity. This selection resulted in more capacity than the amount required, thus ensuring a competitive outcome throughout the solicitation process.
- The evaluation and selection process was carried out in a fair, equitable, consistent and comprehensive manner. Merrimack Energy could not find any undue bias in the evaluation.