

November 4, 2010

Alberta Electric System Operator
2500, 330 5th Ave SW
Calgary, Alberta
T2P 0L4

Attention: Shan Bhattacharya

**RE: Competitive Procurement Process for Critical Transmission Infrastructure
Comments of LS Power Transmission, LLC**

Dear Mr. Battacharya:

LS Power Transmission, LLC and its affiliates and their predecessors (“**LS Power**”) appreciate the opportunity to participate in the process to establish a competitive process for critical transmission infrastructure (“**CTI**”) in Alberta and to provide these comments on the terms of reference and September 17, 2010 Discussion Paper on Competitive Procurement Process for Critical Transmission Infrastructure.

LS Power is focused on developing, acquiring, financing, owning, and operating transmission infrastructure and electric power generation facilities in North America. LS Power has a proven track record of successful development activities, operations management and commercial execution, completing some of the sector’s most successful transactions. Highly regarded in the financial community, LS Power has raised over \$13 billion to support investment in energy infrastructure since 2005. Its generation affiliates are actively developing facilities throughout North America. Since 1990, LS Power has been involved in the development, construction, and operation of over 20,000 MW of power generation facilities across the United States and currently operates a diverse portfolio of resources.

LS Power’s transmission affiliates are developing a number of transmission facilities that will resolve reliability issues, increase market efficiency, and facilitate the delivery of renewable resources. LS Power’s most advanced transmission project is the Southwest Intertie Project, a 500+ mile, 500-kV transmission line between Idaho and southern Nevada. The Southwest Intertie Project is the most advanced long distance high voltage transmission project in the western United States and recently held a groundbreaking ceremony for its first phase, known as the ON Line. LS Power affiliate Cross Texas Transmission, LLC (“**Cross Texas**”) was selected by the Public Utility Commission of Texas as one of the qualified new entrants in the Competitive Renewable Energy Zone (“**CREZ**”) process. Cross Texas was designated as a public utility that will develop, finance, construct, own and maintain approximately 230 miles of double circuit 345-kV transmission facilities in the Texas Panhandle. Once the facilities are operational, Cross Texas will recover its costs through cost of service based rates.

LS Power is very interested in investing in and developing CTI projects in Alberta. The introduction of new entrants into transmission has the potential to provide

additional benefits to ratepayers, including cost savings, financing savings, reduced ratepayer risks, increased innovation, and increased overall efficiency. As reflected in the attached comments, we believe that the process should maintain enough flexibility to allow bidders to be creative to achieve the objectives of minimizing costs while maintaining a safe and reliable system. LS Power believes that the EPC Alternative will hinder potential benefits that may be achieved through a competitive process, but is supportive of the Own Alternative.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Adam Gassaway', with a long horizontal flourish extending to the right.

Adam Gassaway
LS Power

Date of Request for Comment: 2010-09-17 Period of Consultation: 2010-09-17 through 2010-11-04 Comments From: LS Power Transmission, LLC ("LS Power") Date [yyyy/mm/dd]: 2010-11-04	Contact 1: Adam Gassaway Phone: (636) 532-2200 E-mail: agassaway@lspower.com Contact 2: Lou Cusano (Stikeman Elliot LLP) Phone: (403) 266-9097 E-mail: LCusano@stikeman.com
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Interest in Participating in AESO Consultation for a Proposed Competitive Procurement Process

Please indicate your interest in participating in this consultation

	Stakeholder Comment	
	<input checked="" type="checkbox"/> Interested <input type="checkbox"/> Not Interested	

Terms of Reference - In-Scope Section

Do stakeholders agree with the scope set out in the Terms of Reference? Are there any other documents the AESO should consider as in scope?

Stakeholder	Stakeholder Comment	AESO Replies
LS Power believes the scope is appropriate.	<input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose	

Terms of Reference – Out-of-Scope Section

Do stakeholders agree with the out-of-scope section?

Stakeholder	Stakeholder Comment	AESO Replies
LS Power agrees with the out-of-scope section.	<input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose	

Terms of Reference - Consultation Activities, Documents and Schedule Section

Do stakeholders agree with the consultation activities, documents and schedule?

Stakeholder	Stakeholder Comment	AESO Replies
LS Power generally agrees with the consultation activities, documents and schedule. We believe that it might be more useful to stakeholders if steps 7 and 8 were reversed, such that the AESO issues the recommendation paper and then holds a stakeholder meeting to discuss the recommendation paper prior to stakeholder comments. Alternatively, we suggest that the AESO hold an additional stakeholder meeting after		

the release of the recommendation paper. Comments on the balance of the schedule are provided below.		
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Terms of Reference - Other Comments

Do stakeholders have any other comments regarding the Terms of Reference for the competitive procurement process documents?

Stakeholder	Stakeholder Comment	
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	

Discussion Paper

The AESO is seeking stakeholder comments regarding the proposed implementation schedule.

Stakeholder	Stakeholder Comment	
The proposed implementation schedule appears to be adequate. However, LS Power submits that every effort should be made to expedite the schedule or ensure that there are no schedule delays. Because of the AUC process and the development timeframe for transmission lines, significant delays in this implementation process now could limit competitive options later for the initial CTI project.	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	

Discussion Paper

The AESO is seeking stakeholder comments regarding the objectives and principles to be used in the design of a competitive procurement process for CTI in Alberta.

Stakeholder	Stakeholder Comment	
LS Power supports the objectives and principles described in the discussion paper. An additional goal of the process for CTI that should be considered is to create a fair and objective process that does not unfairly advantage one qualified party over another.	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	

Discussion Paper

The AESO is seeking stakeholder comments regarding additional alternatives including associated advantages and disadvantages for the competitive procurement process.

Stakeholder	Stakeholder Comment	
An additional alternative that the AESO may want to consider is a hybrid between the Own Alternative and the EPC Alternative. Under this alternative the selected entity would develop construct and own the transmission facilities but the incumbent TFO would provide operations and maintenance services.		

<p>Advantages to the hybrid alternative would be the same as the Own Alternative but would have the operational advantage of the EPC Alternative where existing crews and infrastructure required to operate and maintain the facilities are utilized in a more cost-effective manner.</p>		
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Discussion Paper

The AESO is seeking stakeholder comments regarding the process steps in the Own Alternative.

Stakeholder	Stakeholder Comment	
<p>The steps in the Own Alternative seem appropriate. However, the AESO may want to consider in Step 6 whether it should also be able split projects amongst developers. Most of the current CTI projects are very large in scope and may have more than one developer providing advantageous proposals. In some cases the AESO may want to assign portions of large projects to multiple developers to reduce overall counterparty risks.</p> <p>While LS Power believes the RFQ process followed by an RFP process will work, we suggest that the AESO consider combining the RFQ and RFP process to reduce the time of the overall process and to avoid eliminating bidders too early in the process. During the CREZ process in Texas it was ultimately found to be more efficient to combine the two.</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	

Discussion Paper

The AESO is seeking stakeholder comments regarding the advantages, as well as any other advantages and disadvantages the stakeholder believes are appropriate for the Own Alternative.

Stakeholder	Stakeholder Comment	
<p>The Own Alternative better fits with the goals of the Process outlined in Section 2.0, Paragraph 2, including (a) create cost minimization without adversely affecting system reliability, (b) create opportunity for innovation, and (c) create opportunities for new entrants.</p> <p>LS Power's experience is that most of the entities that are capable of developing and constructing large infrastructure projects while bringing ratepayer benefits and innovation are also primarily interested in a long-term return on investment that comes through ownership. Hence, an additional benefit of the Own Alternative is that it will attract a larger pool of qualified entities.</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	

<p>Schedule is listed as the first disadvantage in the Own Alternative yet is not listed as a disadvantage in the EPC Alternative. LS Power does not see the fundamental reason why the schedules for the Own Alternative and EPC Alternative should be drastically different. The discussion paper anticipates six months to one year to develop and finalize the process and approximately one year identify a Selected Entity and initiate a FA. This schedule of up to two years to develop a process and select an entity has room for improvement. LS Power suggests that finalizing the competitive process and identifying a Selected Entity could be done more quickly.</p> <p>The discussion paper also lists that added uncertainty is introduced with regulatory and other risks. LS Power submits that if qualified parties are selected to develop and own the facilities, the added uncertainty is minimal relative to the existing process or the EPC Alternative.</p>		
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Discussion Paper

The AESO is seeking stakeholder comments regarding efficient risk-sharing options that will optimize the overall cost of CTI projects.

Stakeholder	Stakeholder Comment	
<p>LS Power suggests that the process should not fix the structure for risk-sharing at this point. Instead, bidders should be allowed to propose what they see as the most advantageous risk-sharing approach. For example, with respect to the costs of the project bidders may choose to provide:</p> <ul style="list-style-type: none"> (1) a fixed price taking into account the risk premium (2) a rate-based proposal that places most of the risk on ratepayers but may have a lower price. (3) a hybrid solution where portions of the price are fixed and risks are shared between the developer and ratepayers. <p>The AESO would need to establish evaluation criteria that balance costs and risks and publish the criteria prior to the solicitation.</p>	<p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>	

Discussion Paper

The AESO is seeking stakeholder comments regarding the process steps in the EPC Alternative.

Stakeholder	Stakeholder Comment
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking stakeholder comments regarding the advantages, as well as any other advantages and disadvantages the stakeholder believes are appropriate for the EPC Alternative.

Stakeholder	Stakeholder Comment
<p>LS Power believes that an additional disadvantage is that the EPC Alternative will attract fewer qualified new entrants and investors. The EPC Alternative may also provide fewer opportunities for innovation and savings.</p> <p>LS Power believes that while EPC construction contracts are not uncommon, the permit/finance/build/transfer model is very unusual and introduces development and financing risks without the long-term reward. In addition, the cost to ratepayers may be higher for the EPC Alternative because another layer of cost (the EPC entity's profit) will be added to the rate base when the incumbent TFO takes ownership.</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking stakeholder comments regarding additional issues for consideration applicable to the Own and EPC Alternatives, as well as identification of any other issues that will need consideration.

Stakeholder	Stakeholder Comment
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking stakeholder comments regarding additional issues for consideration applicable to the Own Alternative, as well as identification of any other issues that will need consideration.

Stakeholder	Stakeholder Comment
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking stakeholder comments on the inclusion of the proposed structure for the Request for Qualifications (RFQ), as well as any other information the stakeholder believes should be included.

Stakeholder	Stakeholder Comment
<p>In the description of the selection process it would be helpful to include a timeline for developing the shortlist and selection of a successful bidder.</p> <p>As previously mentioned the AESO may want to consider combining the RFQ and RFP steps to expedite the overall process.</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking stakeholder comments on the inclusion of the information required by potential bidders to substantiate their qualifications to an RFQ, as well as any other information the stakeholder believes should be included.

Stakeholder	Stakeholder Comment
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking stakeholder comments on the potentially required amendments to relevant regulations, as well as any other amendments the stakeholder believes will be necessary.

Stakeholder	Stakeholder Comment
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose

Discussion Paper

The AESO is seeking any other stakeholder comments on the Discussion Paper concerning the AESO's proposed competitive procurement process.

Stakeholder	Stakeholder Comment