



Stakeholder Comment and AESO Replies Matrix

AESO Consultation – Competitive Process

March 31, 2011

The AESO is asking market participants and interested parties to provide comments on the related Draft Recommendation Paper.

Date of Request for Comment: <u>2011-03-31</u>	Contact: <u>Steve Hodgkinson</u>
Period of Consultation: <u>2010-03-31</u> through <u>2010-04-28</u>	Phone: <u>(403) 267-4273</u>
Comments From: <u>AltaLink Management Ltd.</u>	E-mail: <u>steve.hodgkinson@altalink.ca</u>
Date [yyyy/mm/dd]: <u>2011-04-28</u>	

Risk Sharing Options – Cost Recovery / Pricing Arrangements

The AESO seeks stakeholder comments on other risk sharing options the AESO may consider for the AESO Own model.



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	Stakeholder Comment	
	<p>The proposal for a route length adjustment mechanism does little to recognize timing risks associated with initial planning and the regulatory process prior to Permit & Licence. During the stakeholder meeting, the AESO indicated that it would seek commitment of the AUC regarding the duration of the P & L process. Other timing risks are associated with potential legal challenges and delays through the land acquisition process and dealing before the Surface Rights Board, both of which are beyond the control of the AUC.</p> <p>Consideration should be given to some sort of price reopener mechanism in the event of unforeseen delays during the front end process.</p> <p>Consideration should also be given to an alternative mechanism for dealing with O & M risks, particularly the need for maintenance capital and dealing with catastrophic failures due to weather, etc.</p>	
Risk Sharing Options – Cost Recovery / Pricing Arrangements		
<p>The AESO also seeks stakeholder comments on all aspects of its cost recovery / pricing scheme including:</p> <ul style="list-style-type: none"> • the implied allocation of risk under Option 1 and Option 2 • O&M escalation provisions including proposed indices 		



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- Information the AESO could provide to assist with route estimation in advance of bid submissions
 - Performance specifications
 - Contract term



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Stakeholder	Stakeholder Comment	AESO Replies
	<p>The descriptions of the options suggest there may be different issues associated with contract term and issues related to the end of term for each option. There doesn't appear to be any rationale for making this type of distinction between options.</p> <p>There are substantial risks associated with predetermined escalators and indices for long-term contracts. The contracts should include provision for re-openers if the costs begin to get out of market in the future.</p> <p>Other than determining termination points and any intermediate electrical constraints, the AESO cannot be seen to be influencing route determination since it will be up to the successful bidder to defend routing before the AUC. AESO involvement in the route determination increases the potential for bias and possible legal challenges throughout the process.</p> <p>Performance specifications should deal with high level requirements like availability and restoration requirements, but should generally be non-prescriptive. They should allow as much flexibility as possible to encourage innovation.</p> <p>The contract term should be matched to the life of the asset to maximize the</p>	



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	<p>opportunity for cost recovery and manage shorter term impacts on consumer rates. A significant issue is determining what happens at the end of term (ownership, salvage liability, etc.)</p>	
<p>Arrangements Arising out of Implementation of the Process</p>		
<p>With regard to contractual arrangement arising from the Process, the AESO is seeking stakeholder identification of key project risks and commentary on ways of allocating the otherwise addressing these risks in a fair and equitable manner.</p>		
<p>Stakeholder</p>	<p>Stakeholder Comment</p>	<p>AESO Replies</p>
	<p>Considerable attention needs to be paid to end of term issues, particularly how any residual value is to be handled. Another key issue will be change of law, which will have to deal with changing regulatory requirements or reliability standards. Emphasis throughout the recommendation paper appears to be on shifting as much risk as possible to the successful proponent. Care must be taken in drafting the contract to ensure that risks are allocated to the parties best able to mitigate them. If potential risks cannot be reasonably mitigated by bidders the result could be the unintended consequence of significant risk premiums or a lack of bids. Some of these risks may become significant enough in the future to encourage the successful proponent to simply abandon the project.</p>	



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Fort McMurray Project Components Subject to Bid		
<p>The AESO seeks stakeholder comments, including advantages and disadvantages, on whether the stages of the project should be bid out as one project or whether each stage should be bid out separately.</p>		
Stakeholder	Stakeholder Comment	Replies
	<p>Separate bids for each stage would allow for adjustments to the process based on lessons learned during the first stage. It would also ensure that the projects are a reasonably manageable size, thereby encouraging participation by more potential bidders.</p>	
Draft Recommendation Paper - Other Comments		
<p>Do stakeholders have any other comments regarding the Draft Recommendation Paper?</p>		
Stakeholder	Stakeholder Comment	Replies
	<p>During the stakeholder meeting, the AESO indicated an intention of limiting the RFP to three participants following the RFQ process. There is merit in considering the AESO underwriting at least a portion of the substantial cost of participating in the RFP process.</p>	