

Competitive Process for Critical Transmission Infrastructure

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Session Purpose

- Provide overview of Draft Recommendation Paper
- Encourage dialogue

Agenda April 14, 2011



9:00 – 9:10	Opening Remarks
9:10 – 9:30	Entry Model Decision
9:30 – 10:10	Cost Recovery Model
10:10 – 10:25	Break
10:25 – 11:10	Panel Question and Answer
11:10 – 11:30	Next Steps and Closing Remarks

Introduction

- Competitive Process (Process) moves Alberta towards a new operating environment as intended by legislation
- Variety of expertise being used to determine the best approach:
 - Financing and technical consultants
 - AESO in-house teams
 - Review of other national and international jurisdictions
 - Stakeholder input
- The AESO continues to seek your input to make this a collaborative effort
- We are on track to file the Process application with the AUC by September 2011

Next Steps



Consultation Activities	Date
Stakeholders provide comments on Draft Recommendation Paper	April 28, 2011
AESO – Stakeholder consultation as appropriate	Before May 27, 2011
The AESO issues Recommendation Paper	May 27, 2011*
*Date may vary due to consultation requirements	
Stakeholders provide comments	June 24, 2011

Action	Date
The AESO files AUC application	Sept. 2011
Expected AUC decision*	June 2012
*Estimate only AUC will determine approval timelines	

Desired Process Outcome

- To create a fair, efficient and openly competitive opportunity for incumbent TFOs and new market participants to develop, own and operate CTI

Revised Goals

Competitive Model Goals

- Minimization of life cycle costs
- Opportunity for maximum innovation throughout the life cycle
- Opportunity for new market entry
- Allocate risk to most efficiently and effectively reduce costs and mitigate risks
- Foster efficient investment, operation and maintenance across the life cycle

Revised Goals

Process Goals

- Foster regulatory predictability
- Achieve a reasonable level of transparency and consistency over time
- Ensure performance and reliability standards are met

- **Power Advisory Study**
 - *Competitive Procurement for CTI Facilities, Dec. 2010*
 - Texas
 - United Kingdom
 - Ontario
- **Alberta Regulatory Trends**
 - AUC
- **Other Alberta Industries**
 - Alberta Transportation – P3s

Power Advisory Study

- In other jurisdictions, legislation in place for competitive tendering process to proceed
- Significant investment required in each jurisdiction for transmission system expansion
- Competitive approach believed to create value for both investors and consumers
- Key benefits of competition include innovation and new sources of technical and financial expertise
- All jurisdictions studied allowed new entrants to develop, construct, own, operate and maintain CTI-like facilities – entry was not restricted to one project component

Power Advisory Study

- Market design and competitive tension level were specific to each jurisdiction
 - some moved risk from customers to shareholders through predetermined, agreed-upon pricing
 - others employed traditional cost-of-service rate making principles
- Tendering rules were jurisdiction specific

Alberta Regulatory Trends

- AUC adjusting regulatory regime to encourage right economic behaviours (PBR) — those that more closely mimic incentives in a competitive market

Other Alberta Industries

- The AESO is reviewing Alberta Transportation tendering documents for aspects relevant to the Process

Entry Model Decision

- The AESO evaluated three models
- The AESO supports advancing the AESO Own model
 - AESO Own: successful bidder completes upfront development work, builds and finances, owns, operates and maintains the CTI facility
- See the Draft Recommendation Paper for an evaluation of the advantages/disadvantages of each model

Rationale for AESO Own Model

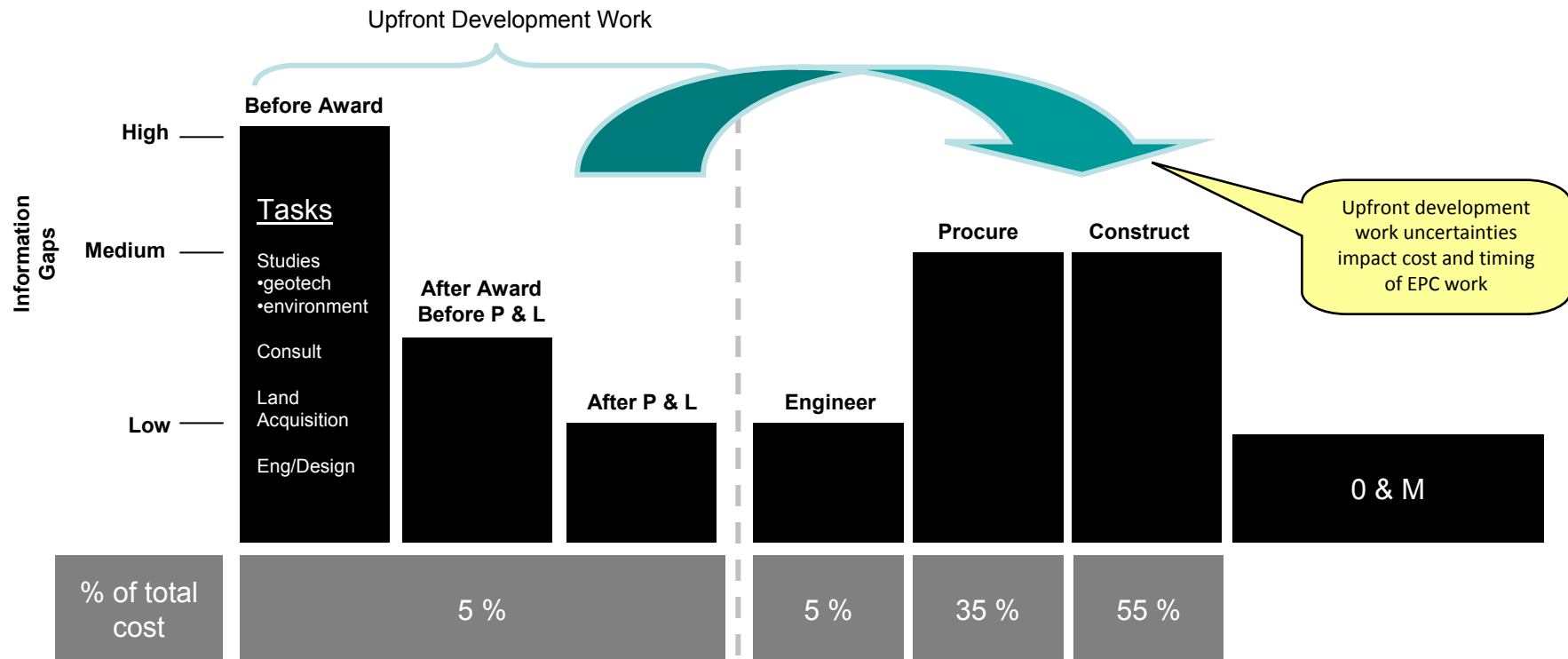


- **Broader Market Participation** – will increase competitive pressures in the marketplace by diminishing entry barriers
- **Life Cycle Efficiencies** – a single entity develops, operates and maintains the CTI facility, allowing it to optimize costs across the project's life cycle
- **Innovation** – allows for maximum innovation across the project's life cycle, including financial innovation
- **Landowner Relationships** – a single entity takes responsibility for relationships from inception to decommissioning
- **Simple Administration** – does not require transfers between entities

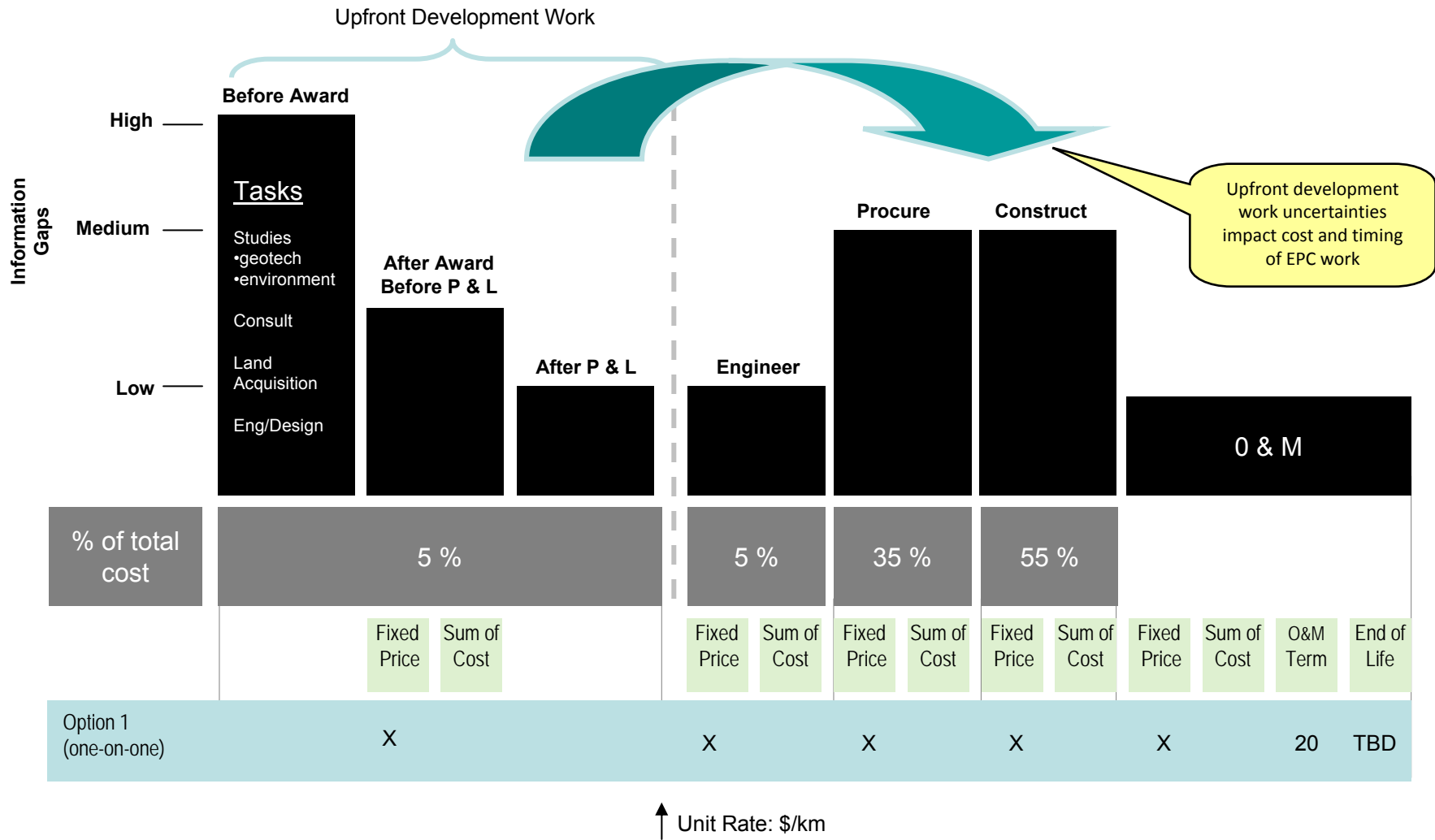
Risk Sharing: General Principles

- **Life Cycle** — A single entity that develops, constructs, operates and maintains a CTI facility over its life cycle has better opportunity to manage risks, i.e., life cycle vs. EPC period
- **Risk Recovery** — Upfront development work represents 3 to 7 per cent of total costs but affects the remaining 93 to 97 per cent; the AESO will manage this risk through cost recovery / pricing arrangements that fairly compensate the proponent for this risk
- **Risk Sharing** — The AESO proposes the risk and costs associated with upfront development work be shared between ratepayers and the successful bidder and its shareholders; currently the ratepayer assumes all risk
- **Route** — The AESO will not establish a route in advance of the bidding process — the AUC is responsible for specific route approval through the FA process
- **O & M** — The longer the O&M period, the greater the opportunity to distribute risk

Framework Cost Recovery / Pricing Arrangements



Framework Cost Recovery / Pricing Arrangements Option 1



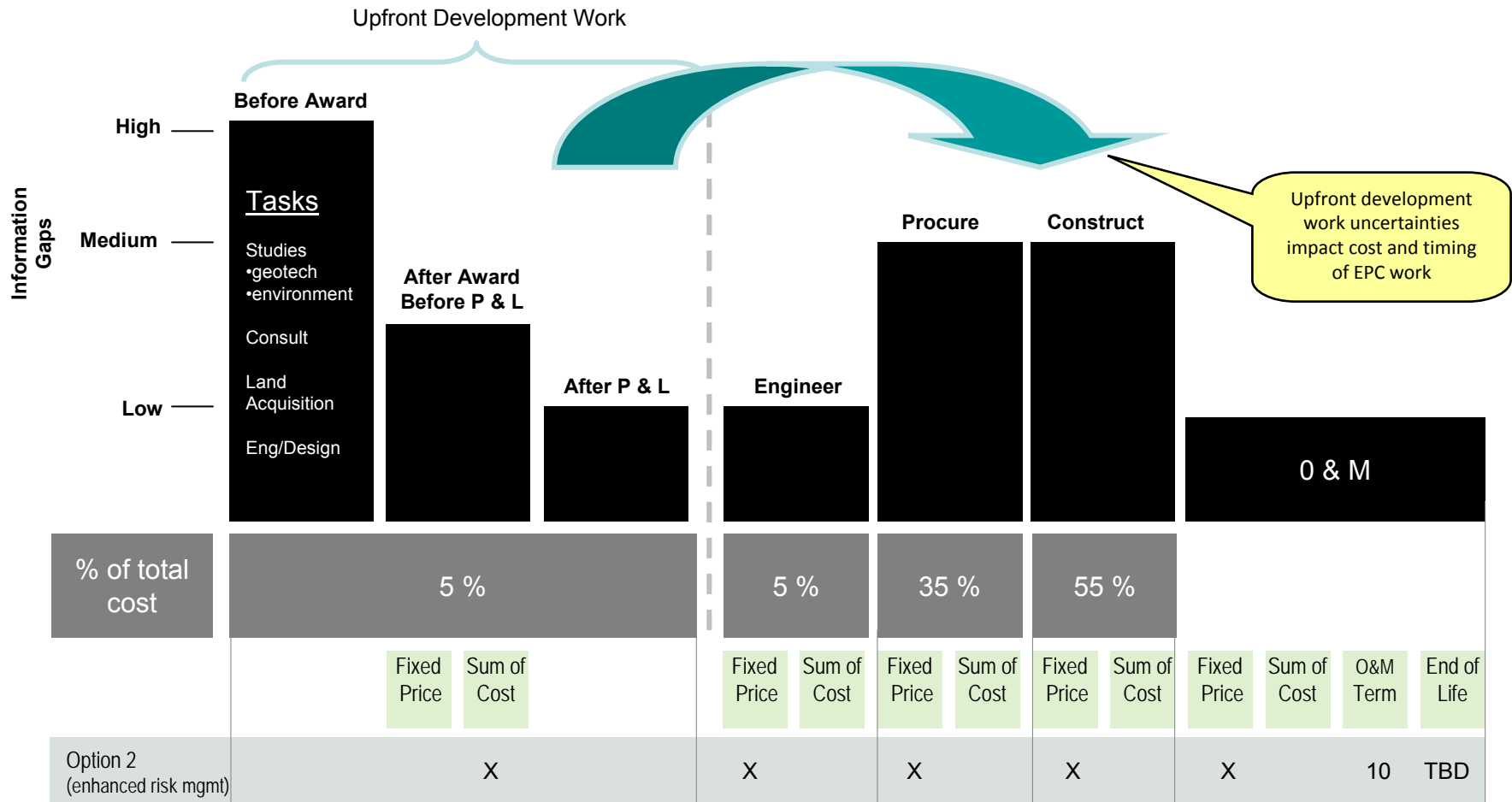
Option 1

Cost Recovery / Pricing Arrangements



- Fixed or predictable pricing for all aspects of the project
- Predetermined index/set of indices for annual escalation of Operation and Maintenance expense
- Route-length estimate based on a qualified bidder's upfront development work completed in bid preparation
- Unit rate (\$/km) used to adjust bid price after AUC route approval, i.e., route uncertainty adjustor
- Fixed/predictable pricing, route-length estimate, route uncertainty adjustor will be used in bid evaluation of qualified bidders
- Operating and maintenance agreement, e.g., 20 yr term
- The AESO currently considering *post* end-of-contract life provisions
- Bidders will be required to meet performance specifications to ensure system reliability requirements continuously met

Framework Cost Recovery / Pricing Arrangements Option 2



↑ Unit Rate: \$/km

Option 2 Differences

Cost Recovery / Pricing Arrangements



- Fixed or predictable pricing for all aspects of the project costs EXCEPT upfront development work
- Bidders will be compensated for all reasonable upfront development work costs, as determined by the AESO
- Operating and maintenance agreement, e.g., 10 yr term subject to tariff amendment in the following years

Seeking Stakeholder Comments



- Please provide other risk sharing options the AESO may consider for the AESO Own model
- Comments on all aspects of the AESO cost recovery / pricing scheme including:
 - Implied allocation of risk under Option 1 and Option 2
 - O&M escalation provisions including proposed indices
 - Information the AESO could provide to assist with route estimation in advance of bid submissions
 - Performance specifications
 - Contract Term

Seeking Stakeholder Comments



AESO Own Model Contractual Arrangements

- The AESO is currently developing
 - the type of arrangement/contract that will result from the process
 - key provisions of the contractual arrangements
- The AESO requests that stakeholders identify key project risks and comment on ways of allocating or addressing the risks arising from the process in a fair and equitable manner

RFQ and RFP Document Development

- **RFQ**
 - Will establish the short list of qualified bidders
 - Paper provides a framework for content of RFQ
- **RFP**
 - Will establish the preferred and reserve bidder
 - RFP rules and supporting documents under development
- **Selection Criteria**
 - Evaluation criteria
 - Scoring

Fort McMurray Project Components Subject to Bid



- See Appendix G of the Draft Recommendation Paper for an overview of the functional specifications associated with each stage of the Fort McMurray Project
- Request for stakeholder comments on the advantages and disadvantages of these approaches:
 - Bidding the stages of the Fort McMurray as one project
 - Bidding each stage of the project separately

Fifteen Minute Break



Return for Panel Question and Answer

Questions



Closing

- A significant undertaking
- Seeking comments by end of April
- Consultation continues

Contact Information



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Thank you

