



Competitive Process for Critical Transmission Infrastructure

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June 9 and 13, 2011



Recommendation Paper Review Agenda



9:00 – 9:10	Opening Remarks
9:10 – 9:30	Process Part One
9:30 – 10:10	Process Part Two
10:10 – 10:25	Break
10:25 – 11:10	Panel Question and Answer
11:10 – 11:30	Next Steps and Closing Remarks

Draft Recommendation Paper: Risk Allocation Framework



- Fixed Price
 - All aspects of the project (Option One)
 - All aspects except upfront development work (Option Two)
- Adjustors
 - Change in route length
- O&M
 - 10 to 20 years
 - Indexed

Draft Recommendation Paper: Stakeholder Feedback



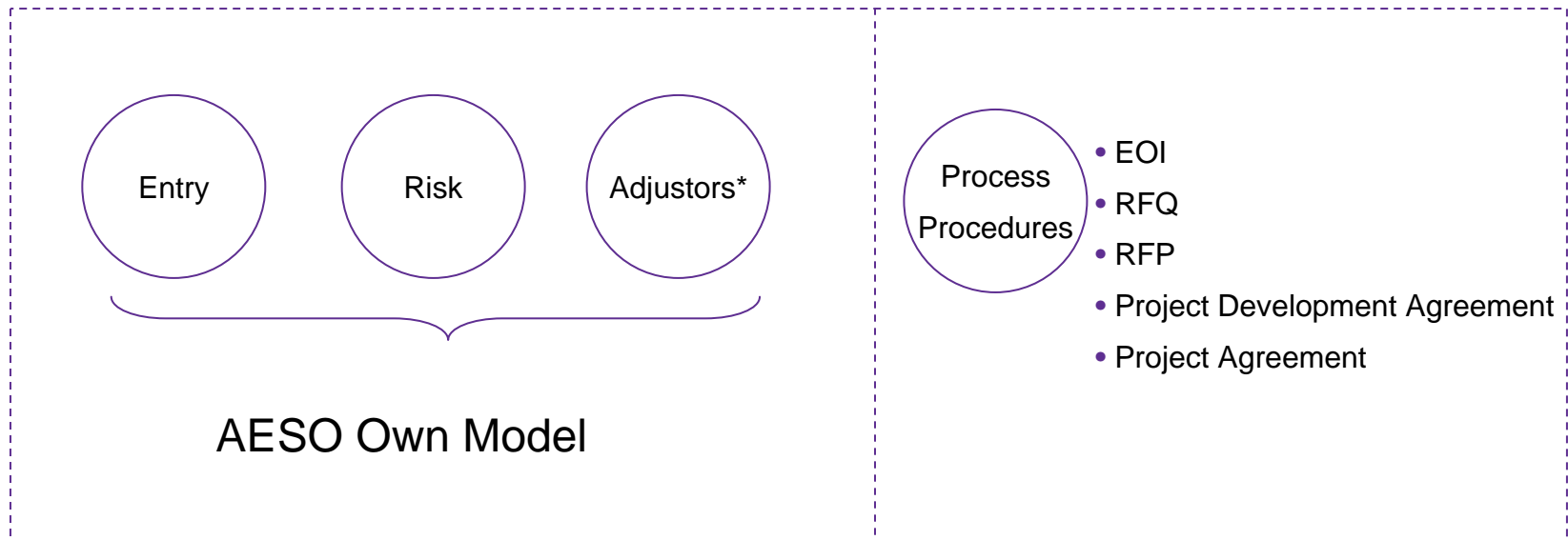
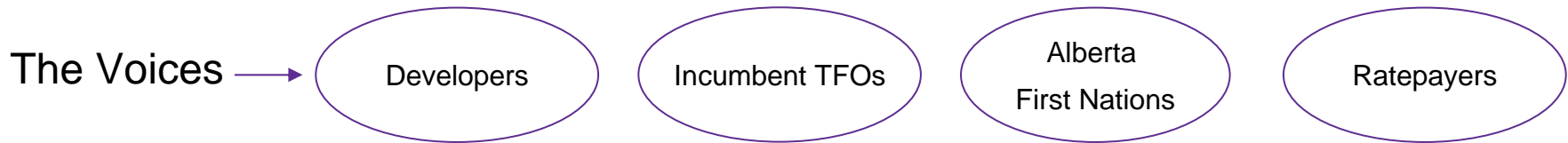
- Risk Allocation
 - Timing and Route
- Contract Provision Considerations
 - Term
 - End of Life
 - Functional Specifications
- Bidding of Project Components
- RFQ Selection Criteria and Process
 - Relationships
 - Integration
 - Honorarium

Desired Outcome



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

The Recommendation Paper

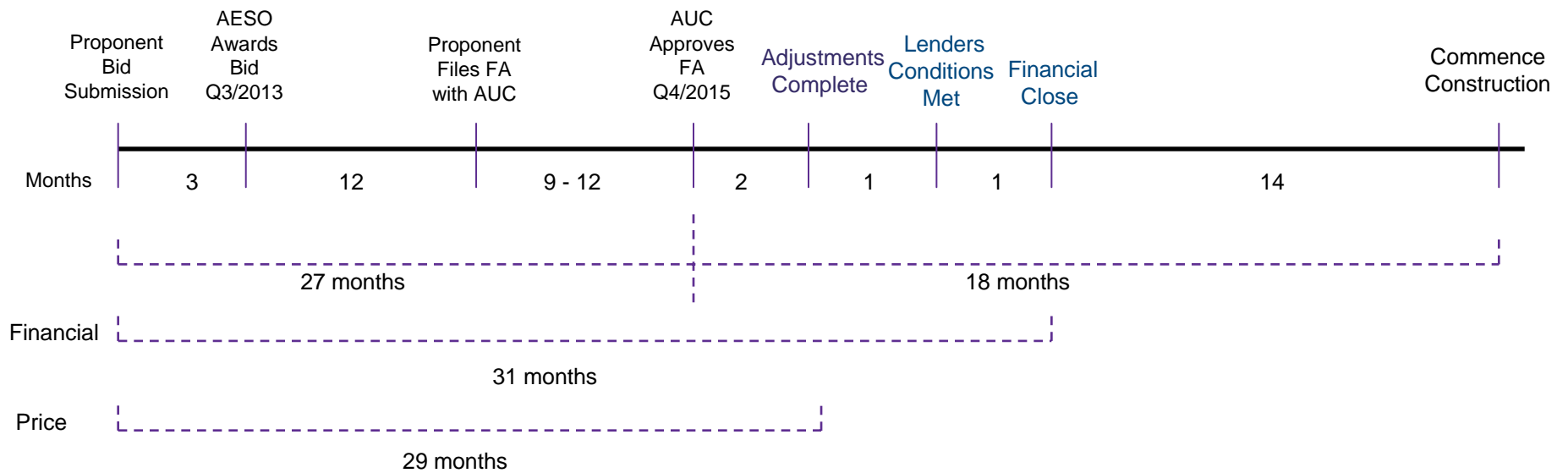


*Adjustors for route changes, timing considerations (labor cost) and financial changes (debt cost, changes in financial structure that reduces cost)

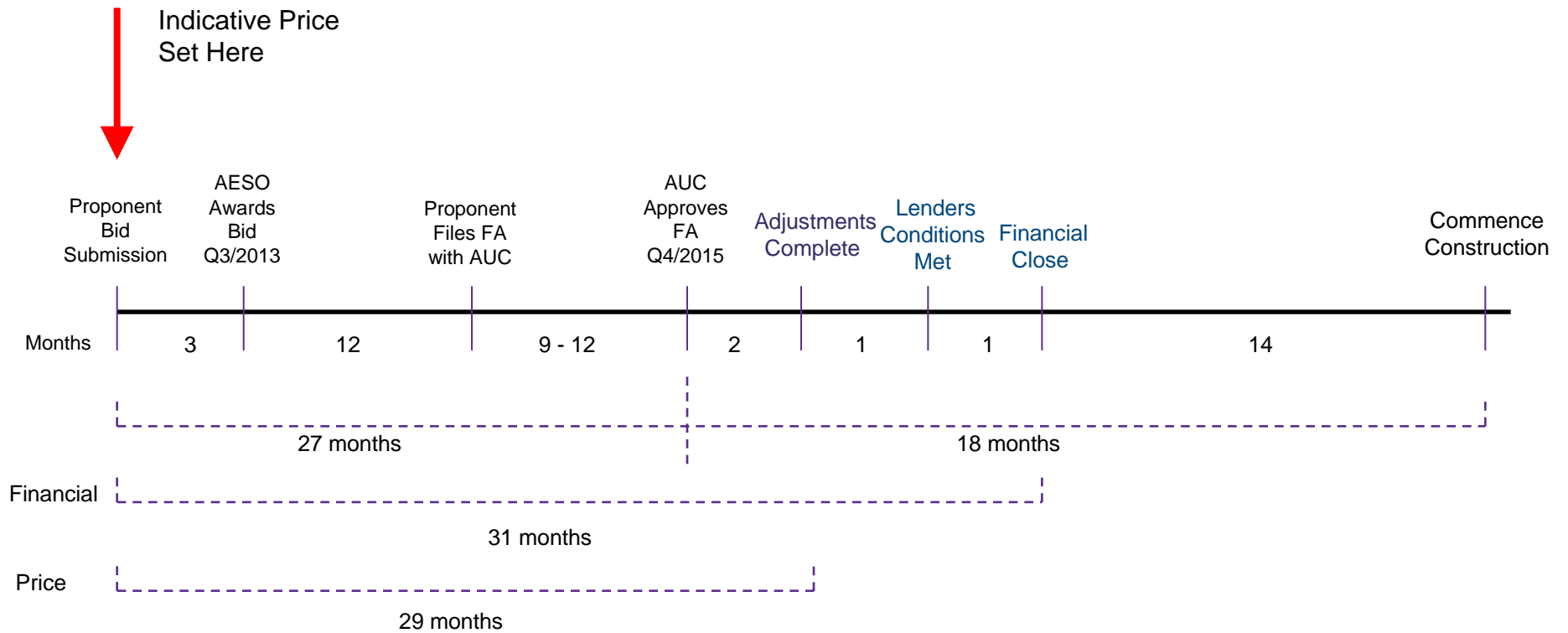
The Constraints

- The AESO must develop a Competitive Process
- Fort McMurray and all future CTI must use the Process
- The AESO will provide point-to-point project coordinates for determining route
- The Alberta Utilities Commission (AUC) determines project route; route certainty occurs on approval of FA
- No public funding of project
- The current Alberta regulatory regime creates timing issues for development of the Process

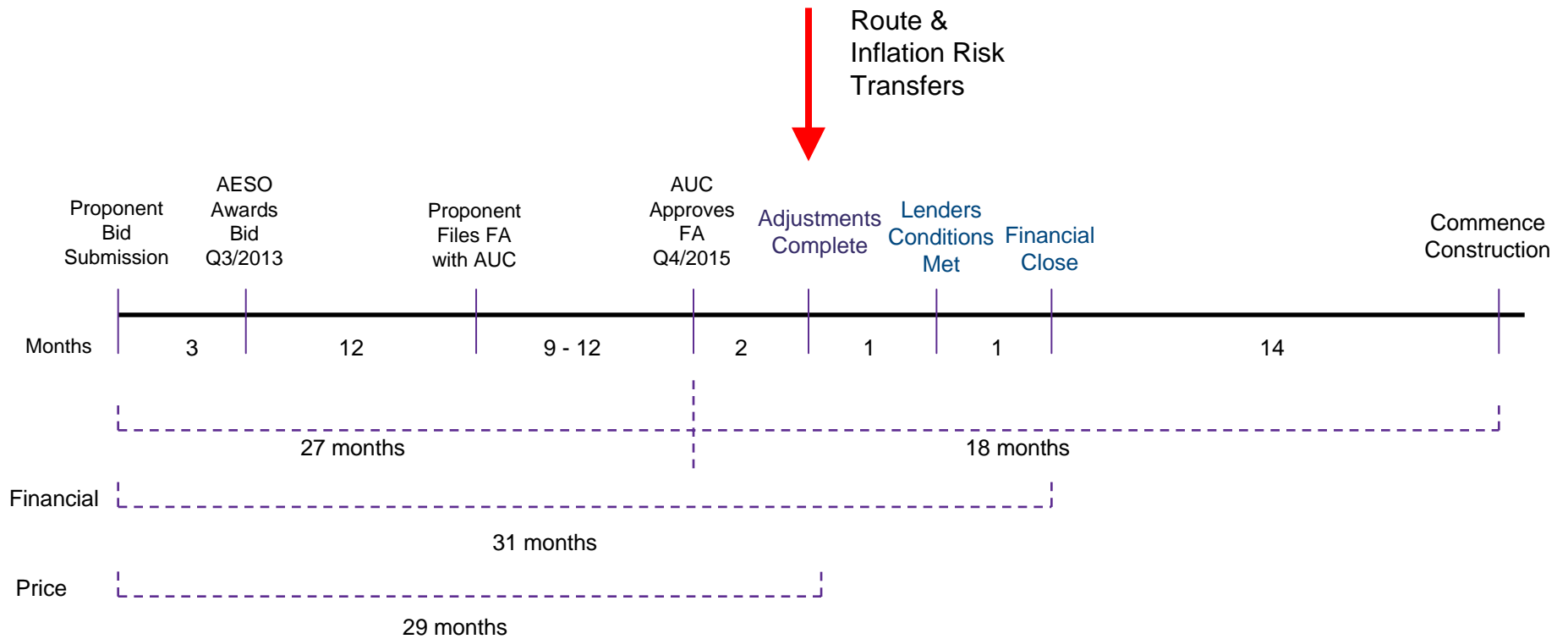
Timing Considerations



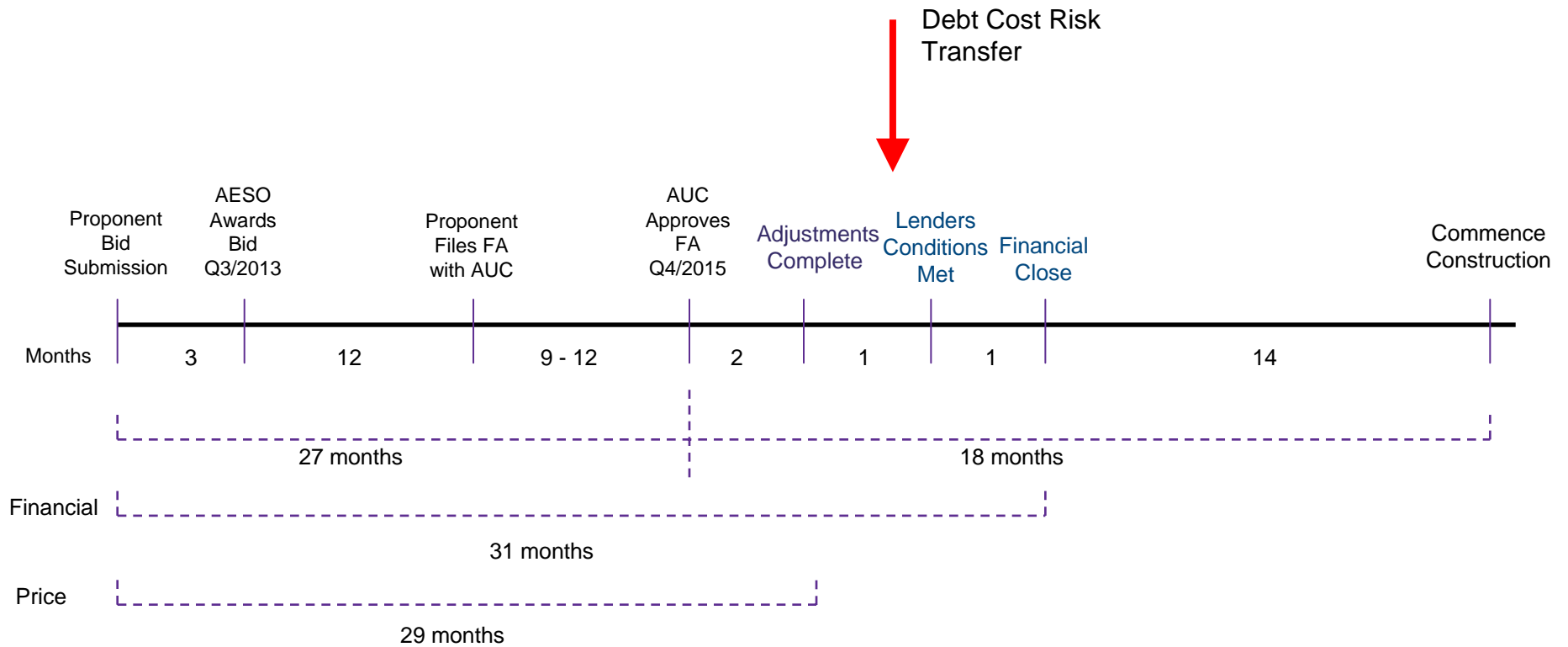
Timing Considerations



Timing Considerations



Timing Considerations



High Level Risk Summary

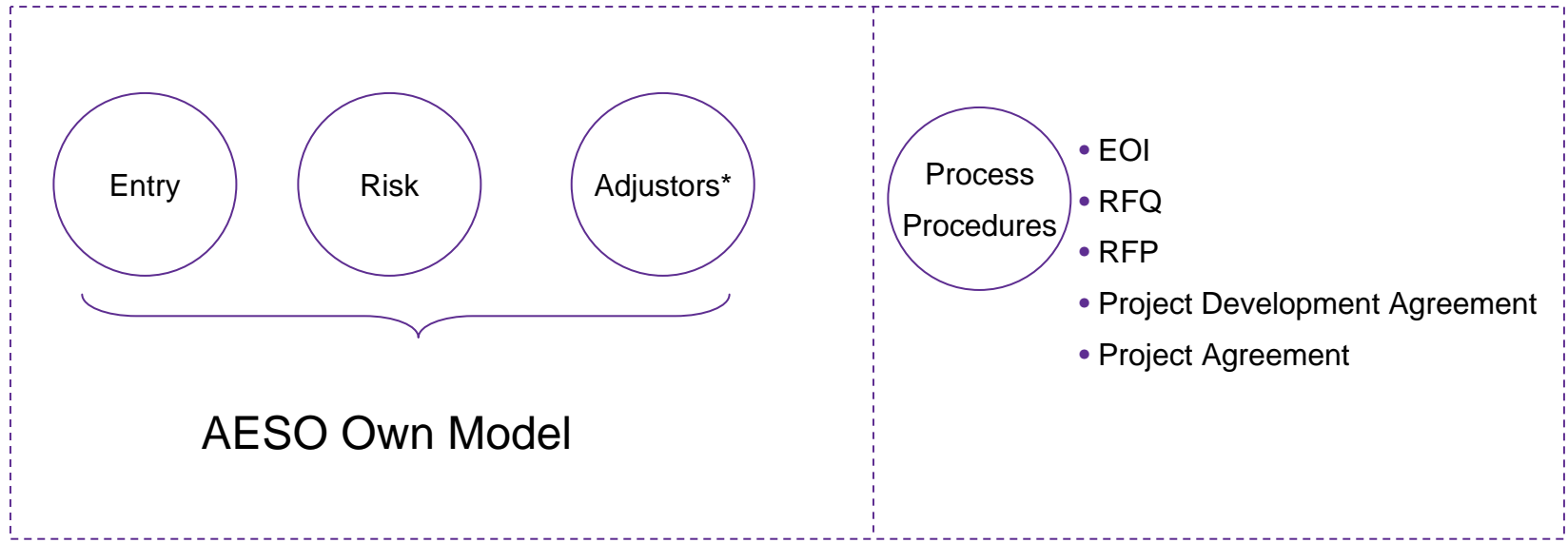
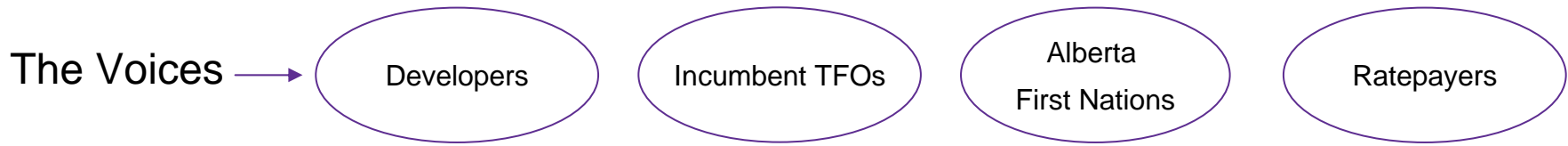
Development of Project to Energization				
	Retain	Transfer	Share	Comments
Route Uncertainty			X	Up to FA
Timing & Price				Up to FA
<ul style="list-style-type: none"> • Commodity Price • Other 		X	X	
Land Cost		X		
Land Timing		X		
Project Scope	X	X		
New Process			X	Stakeholder consultation
Change in Law	X			
Operations and Maintenance				
Project O&M				
<ul style="list-style-type: none"> • Change in Law • Inflation • 20 Year 	X		X	
Route Uncertainty			X	
End of Contract Term		X		
Post Contract Period			X	
Commercial Terms	X	X	X	

Risk Adjustments

- Route Adjustments
 - Length
 - Surface / Subsurface
 - Structures
 - Land and Right of Way
- Timing Adjustment
 - Inflation (labor)
- Financing Adjustment
 - Debt cost

- No adjustments applied for an estimate within +/- 5%
- Adjustments capped at 10%

The Process (Part Two)



*Adjustors for route changes, timing considerations (labor cost) and financial changes (debt cost, changes in financial structure that reduces cost)

The Process

- General Process Procedures
- Process Documents
 - Expression of Interest (EOI)
 - Request for Qualifications (RFQ)
 - Request for Proposal (RFP)
- Process Agreements
 - Project Development Agreement (PDA)
 - Project Agreement (PA)

Request for Qualifications Selection Criteria



SELECTION FACTOR	SELECTION CRITERIA	PER CENT (%)
Ownership & Organizational Structure	Strength and demonstrated ability to undertake the complete project	20
Technical Record & Capability Engineering, Design, Development & Construction	Strength and demonstrated ability relating to the design & construction of the project	15
Technical Record & Capability Operations & Major Maintenance	Strength and demonstrated ability relating to the operations and major maintenance of the project	15
Financial Viability & Capability	Strength and relevance of demonstrated financial experience relating to capacity, financing, and plan	25
Consultation & Relationship Management/Development	Strength and demonstrated ability to undertake the required consultation for the project	20
Innovation & Cost Optimization	Discretionary points awarded for innovation & added value	5

Request for Proposal Selection Criteria



Submission Requirement #1 (SR1) – Pass/Fail

- Technical submission
- Financial model & capacity
- Indicative financial submission – not evaluated
 - Populated financial model for each route (functionality of the model)

Submission Requirements #2 (SR2) – Weighted

- Reasonableness of Financial Structure* – 10%
 - Proposed debt / equity structure
 - Proposed return on equity
 - Indicative pricing of the cost of debt and instruments (terms)
- NPV cost for each route – 90% only on technical costs
 - Excludes all financing costs

·As compared to the then market conditions

Request for Proposal Financial Inputs



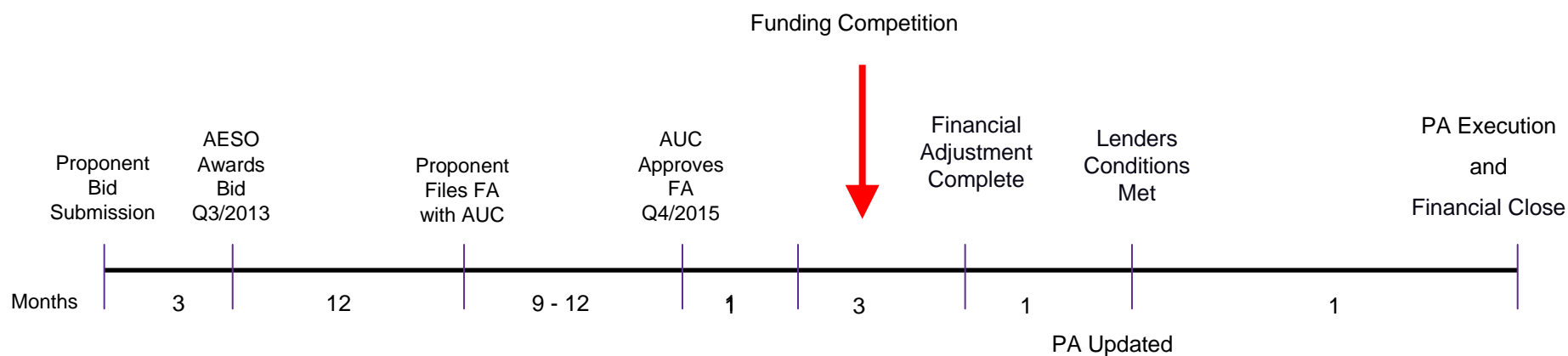
SR1 – Pass/Fail				
Assumptions	Debt Funding Structure	Debt/Equity Ratio	Cost of Debt	Return on Equity
Reasonableness				
Commitment				
SR2 – Weighted - 10%				
Assumptions	Debt Funding Structure	Debt/Equity Ratio	Cost of Debt	Return on Equity
Reasonableness			X	
Commitment	X*	X*		X
SR2 – Weighted – 90%				
Assumptions	Debt Funding Structure	Debt/Equity Ratio	Cost of Debt	Return on Equity
Reasonableness				
Commitment				
Funding Competition				
Assumptions	Debt Funding Structure	Debt/Equity Ratio	Cost of Debt	Return on Equity
Reasonableness				
Commitment	X	X	X	X

* Letter from lenders regarding due diligence on debt funding structure and PA; Letter from CFO on equity commitment; Debt funding structure changes if results in lower cost

Funding Competition

- Post AUC FA Approval & Provision in PDA
 - lender commits to debt component
 - lender commits to debt cost
 - D/E ratio can change only if alternative debt funding structure results in lower cost
 - lender accepts all terms of PA
- Financial Close
 - all lenders conditions are met

Financial Completion (PDA-PA)



- All adjustments but financial must be applied prior to funding competition
- PA Execution commences upon agreement of commercial terms and financial close

Key Contract Terms

TERM	DESCRIPTION
Project Scope	General description
Term	40 years
Contract Extension	Rolling renewal option for 5 year terms
Financing	See financing terms slide
Performance Standards	TBD
Payment Mechanism	Post energization, monthly (capital _a , fixed O&M _i , variable O&M _{a,i} , MM _{a,i}) payments over 40 years
Availability & Performance Deductions	TBD
Relief Events	Change in law, force majeure, etc
Security Requirements	Differs as between Process, construction and operations
Completion Test	TBD
Reporting Requirements	TBD
Insurance	Under development
Dispute Resolution	As per current TFO T&Cs
Default	Standard terms
Termination	See termination terms slide

Termination Provisions

- TFO Defaults
 - TFO paid:
 - market value less (insurance proceeds + AESO costs to continue)
- No Fault Termination
 - TFO paid:
 - Balance of equity investment not recovered less market value and insurance proceeds
 - Debt principle
- Public Sector Termination
 - Notice to Preferred Proponent/TFO
 - Preferred Proponent/TFO will be kept whole

Security Requirement Provisions

- Process
 - Proponent Letter of Credit
 - Preferred Proponent Letter of Credit
- Construction
 - Parental Guarantee - cap of 35–50% of EPC
 - Surety Bonds - 35–50% of EPC
 - Liquidated Damages
 - Letter of Credit - 5–10% of EPC
- O&M
 - Parental Guarantee – cap of 1 to 3 times annual O&M
 - Letter of Credit – cap of 1 to 2.5 times annual O&M
- No additional security during construction & operating periods if similar security is provided to lenders

Incentives and Penalties



- AUC FA Approval Milestone
 - Lump sum bonus
- Construction Milestones / In-Service Date Milestone
 - Incentives
 - Early monthly revenue stream
 - Minimize construction interest costs
 - Penalties
 - Loss of monthly revenue stream
 - Additional construction interest costs

Next Steps



Consultation Activities	Date
Stakeholders comment on Recommendation Paper	June 24, 2011
AESO – Stakeholder consultation as appropriate	Before July 15, 2011
AESO files AUC Application	Sept 15, 2011
Expected AUC decision*	June 2012

*Estimate only AUC will determine approval timelines

Contact Information



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