



Stakeholder Comment and AESO Replies Matrix

AESO Consultation – Competitive Procurement Process

September 17, 2010

The AESO is asking market participants and interested parties to indicate their interest in participating in the AESO’s consultation regarding the AESO’s proposed competitive procurement process and to provide comments on the related Terms of Reference and Discussion Paper.

Date of Request for Comment: <u>2010-MM-DD</u> Period of Consultation: <u>2010-MM-DD</u> through <u>2010-MM-DD</u> Comments From: <u>TransAlta Corporation</u> Date [yyyy/mm/dd]: <u>2010-MM-DD</u>	Contact: <u>Kevin Van Koughnett</u> Phone: <u>403-267-2063</u> E-mail: <u>Kevin_van_koughnett@transalta.com</u>
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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
While TransAlta appreciates that the scope is at this time limited to CTI projects, we	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	



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<p>suggest that a competitive procurement process can and should also be used for other significant projects, e.g. for projects \$100 million or more.</p> <p>The AESO also needs to consider what resources and competencies the AESO will have to put in place on an ongoing basis to undertake and support the competitive procurement process. This could be a complex undertaking.</p>		
Terms of Reference – Out-of-Scope Section		
Do stakeholders agree with the out-of-scope section?		
Stakeholder	Stakeholder Comment	AESO Replies
	<input 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	Replies
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	



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Discussion Paper		
The AESO is seeking stakeholder comments regarding the proposed implementation schedule.		
Stakeholder	Stakeholder Comment	
	<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	
<p>Under goals in 2. we would suggest adding an objective relating to the “timely” addition of transmission assets. The ability of a qualified bidder to meet a specified in-service date should be both a selection criteria and a contractual term and as such timeliness should be a goal of this process. See for example Step 7 b) of the Own Alternative.</p> <p>3. a) assumes certain characteristics of a non-traditional rate base return contract. This may conflict with 3. c) for example.</p> <p>We suggest generalizing the “form of contract” and that the word “shall” not be used when the items a) through d) have significant flexibility in them.</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	



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<p>It would be useful to describe and contrast traditional rate base regulation to competitive approaches. Traditional rate base regulation, for example, provides that the return an investor receives is directly proportional to the size of the ratebase, i.e. the aggregate net original capital cost of projects, and this provides perverse incentives to maximize capital costs.</p>		
<p>Discussion Paper</p>		
<p>The AESO is seeking stakeholder comments regarding additional alternatives including associated advantages and disadvantages for the competitive procurement process.</p>		
<p>Stakeholder</p>	<p>Stakeholder Comment</p>	
<p>Another broad alternative for the AESO to consider is to allow for new entrants to become TFOs and be subject to the traditional regulatory process.</p> <p>This could be done by removing the geographic incumbency of existing TFOs by changing the Transmission Regulation by deleting 24(1)(a) and/or modifying 24(2) and 24(3). In the simplest terms the AESO should be able to choose any qualified person to construct, own and operate a transmission facility.</p>		



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<p>The AESO needs to question whether the use of traditional franchise service territories (geographic service areas) stifle competition and if elimination of service territories would provide incentive to compete to invest and to be efficient and effective. Performance on existing facilities could be a selection criteria for qualifying to compete for future projects.</p> <p>The various incumbent TFOs and new entrants could then compete for the opportunity to invest in transmission facilities. Investment would be an opportunity and not a right.</p> <p>We suggest that such competition to invest combined with some form of incentive regulation may be workable. Such incentives should include technology use to incent real time optimization, use of devices and communications to control power flows, efforts to reduce losses, and smart grid initiatives. Such incentives could include the “risk sharing” concepts as alluded to in the discussion paper.</p>		
<p>Discussion Paper</p>		



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The AESO is seeking stakeholder comments regarding the process steps in the Own Alternative.		
Stakeholder	Stakeholder Comment	
<p>Given an incumbent TFO is eligible in Step 2, how does the AESO plan on ensuring that the preparation of the RFQ is not a cost to be recovered through the regulatory process and that such costs are at the risk of the shareholders of the TFO?</p> <p>The analogous process was that for the Purchase Power Arrangements (PPA) except that the facilities in question already existed. We would suggest that the AESO study that process and inform themselves of the ongoing issues with substituting a long term contract in place of traditional regulation. It must be remembered that the PPA process was undertaken to deregulate generation.</p> <p>TransAlta believes it is important that the AESO is clear on the intent and likely outcomes of competitive procurement. Competitive Procurement is being advanced as a solution or remedy to a perceived problem and implicitly that perception is that the traditional approaches to transmission are not working. Is deregulation of the bulk transmission system the intent of the</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	



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Competitive Procurement process?		
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>It should be expected that if the Selected Entity is to take on increased risks than a traditional TFO then the rate of return requirements will increase.</p> <p>We wonder how a TFO who has both traditionally regulated transmission and an “Own Contract” will ensure separation of their regulated and unregulated businesses.</p> <p>Financial engineering is stated as a key driver for cost minimization. This assertion was provided without proof or evidence. Project financing is more expensive than balance sheet financing and requires higher interest rates given the non-recourse nature of such financing. The AESO should provide information on the relative merits of financial engineering to the traditional rate approach.</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	
Discussion Paper		



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The AESO is seeking stakeholder comments regarding efficient risk-sharing options that will optimize the overall cost of CTI projects.		
Stakeholder	Stakeholder Comment	
The risk sharing has to be designed not only on the development and construction phase but for the operational and maintenance phase for the transmission facilities. The tradeoffs between capital costs and operational costs must be considered.	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	
Discussion Paper		
The AESO is seeking stakeholder comments regarding the process steps in the EPC Alternative.		
Stakeholder	Stakeholder Comment	
We do not consider that the EPC Alternative provides any advantages over the existing traditional regulatory process.	<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	
	<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	



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	<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	
The creation of a contract which will be viable and fair over the 30 to 50 year life of transmission assets is challenging and time consuming. To expedite any process involving such a contract a draft contract will have to be provided to qualified bidders prior to bidding to allow pricing consistent with the terms and conditions of the contract and the risks and uncertainties inherent in a long term contract.	<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	
	<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		



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<p>qualifications to an RFQ, as well as any other information the stakeholder believes should be included.</p>		
Stakeholder	Stakeholder Comment	
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	
Discussion Paper		
<p>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.</p>		
Stakeholder	Stakeholder Comment	
	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	
Discussion Paper		
<p>The AESO is seeking any other stakeholder comments on the Discussion Paper concerning the AESO's proposed competitive procurement process.</p>		
Stakeholder	Stakeholder Comment	
<p>Implicit in structuring a “contract” outside of regulation which allows “financial engineering” is an underlying assessment that existing regulation and rates of return are deficient. Advocating such an approach is tantamount to deregulating transmission except for the routing approvals.</p> <p>The AESO and the DOE need to consider if bifurcation of transmission into coexisting regulated and unregulated facilities is</p>		



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<p>prudent. If regulation is not producing the required outcomes then regulation needs to be changed rather than having carved out processes which may be both disruptive and counterproductive.</p> <p>Section 26 of the Transmission Regulation already requires that transmission facilities be constructed by “a TFO or other person” using competitive tenders. Is it the assessment that Section 26 is ineffective in obtaining competitive costs for transmission facilities and that a new process is required? If it is ineffective in that it does produce the desired results, then what needs to be done or changed so the process is effective?</p> <p>Prudence of capital expenditures must compare the initial forecast cost estimate and the actual as-built capital costs. Such prudence testing may result in such capital cost increases either being disallowed or allowed a lower rate of return on the increased portion.</p>		
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