



Stakeholder Comment and AESO Replies Matrix

AESO Consultation – Competitive Process

August 19, 2011

Recommended Risk Allocation Model		
The AESO seeks stakeholder comments on other constraints that may be thought to impact the development of the Process.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	In the discussion about constraints there is no discussion about the in-service date, the potential for this date changing during the process as a result of external (third party) influences and how the costs associated with any change would be accommodated.	The ISD will be part of the Project Scope. Changes to the Project Scope, and resulting costs, from forces beyond the control of the Preferred Proponent will be held by ratepayers. See Section 7.3.4 of the Recommendation Paper.



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<p>Brookfield</p>	<p>Aboriginal Consultation</p> <p>The Paper suggests transferring ‘Land Acquisition Costs / Aboriginal Peoples’ and ‘Land Acquisition Timing / Aboriginal Peoples’ risks to the proponent.</p> <p>Brookfield has owned and operated electricity facilities in Canada for almost one hundred years. We have significant experience working with First Nations on new projects. Examples include Kwagis Power, a partnership between the ‘Namgis First Nation and Brookfield to develop, build, own and operate a 45 MW run-of-river hydroelectric project in British Columbia; and the proposed 250 MW Pehonan hydroelectric generating station in Saskatchewan being undertaken in partnership with three First Nations – The James Smith Cree Nation, Chakastaypasin Band of the Cree Nation and Cumberland 100A First Nation/Peter Chapman Band – and Kiewit, one of North America’s largest and most respected construction and mining organizations.</p> <p>In spite of this experience, we remain concerned about the practicalities of transferring these land acquisition risks to the proponent given recent Court decisions.</p> <p>In recent decisions e.g. Haida (see note below), the Supreme Court determined that the duty to consult and, if necessary, accommodate Aboriginal interests rests with the Crown and cannot be delegated to proponents, although proponents may undertake some of the procedural aspects of the duty on the Crown’s behalf. On the principle that risks should be transferred to the party best able to manage them, Brookfield suggests that it would be inappropriate and inefficient to allocate these risks to proponents. Specifically, we suggest the preferred proponent should not be liable for the consequence of any delay or failure on the part of the Crown to consult with Aboriginal peoples as part of the permitting process. Furthermore, the proponent should also not be liable</p>	<p>See Attachment 3 on the Competitive Process webpage titled: AESO Comments on Duty to Consult.</p>
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	<p>for any resulting accommodation costs determined by the Crown given that they are outside the proponent’s direct control: the uncertainty as to the amount and timing of these costs makes it impossible for any bidder to efficiently price this risk. In addition, there is a risk that making bidders responsible for Aboriginal accommodation payments could result in the competitive process collapsing.</p> <p>Instead, although Brookfield remains committed to working with affected First Nations and Métis, we suggest, given that the responsible for Aboriginal consultation and accommodation ultimately lies with the Crown, that these land acquisition issues are more appropriately treated as Relief Events as per Appendix G.</p> <p>Note: In <i>Haida Nation v. British Columbia (Minister of Forests)</i>, 2004 SCC 73, the Supreme Court of Canada found that “... the duty [to consult] arises when the Crown has knowledge, real or constructive, of the potential existence of the Aboriginal right or title and contemplates conduct that might adversely affect it ...” and that “... the ultimate legal responsibility for consultation and accommodation rests with the Crown. The honour of the Crown cannot be delegated.”</p> <p>Route Adjustment</p> <p>The Paper proposes to adjust the capital cost, variable O&M costs and major maintenance costs to account for route changes during the permitting process. A dead band of $\pm 5\%$, a cap of 15% and no floor are also recommended to encourage accurate bidding.</p> <p>Given the competitive nature of the AESO process, bidders will likely seek to minimize their capital costs. With subsequent AUC route adjustments likely to increase the proponent’s route cost, a symmetrical dead band would therefore have an expected outcome greater than zero and penalize the ‘honest’ bidder. It would be more appropriate to use an</p>	<p>See Theme Paper, Section 1.1</p>
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	<p>asymmetric dead band (+3%/-7%), and to narrow the dead band (+3%/-5%) to limit windfall profits from AUC route changes and protect ratepayers' interests.</p> <p>Further, the cap of 15% is too low given the risk that AUC could significantly increase construction costs by requiring, for example, a section of underground cable. Brookfield suggests AESO consider (i) increasing the cap to, say, 25%, and (ii) introduce a sharing mechanism for costs in excess of 25%.</p> <p>AESO should test the robustness of the adjustment mechanism against a range of offers, including negative pricing.</p> <p>Permitting Delays</p> <p>Brookfield suggests that ratepayers should bear the risk of significant delays in issuing permits where these delays are outside the proponent's reasonable management control: for example, regulatory agency staff shortages, case backlogs, poor case management, frivolous or vexatious intervention or litigation, or judicial review of AUC process. We believe these events are more appropriately explicitly treated as Relief Events (Appendix G).</p> <p>Commodity indexation</p> <p>Bidders are able to manage commodity price risk. However the premium for transferring this risk to bidders, especially if the permitting process is expected to be lengthy, could be high. As the provincial economy has significant counterbalancing exposure to commodity markets, it may be more efficient for the commodity price risk to be allocated to ratepayers. This would help lower the headline sticker price for competitively procured transmission. We recommend AESO gives this further consideration.</p>	<p>Relief Events are presently being addressed. See Theme Paper, Section 1.4.</p> <p>Commodity price risk will be shared. Ratepayers will retain the risk until AUC FA approval. The AESO is developing the bundle of indices that will be used.</p>
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<p>TransCanada Energy</p>	<p>TransCanada suggests that more robustness around delays should be considered and incorporated into the process. For example, the Project Development Agreement (PDA) expires in 3 years. Provision needs to be made for the potential that the Facility Application (FA) approval is delayed beyond the 3 year window.</p> <p>Also, routing changes may arise from the FA approval resulting in cost increases (adjustments allowed) and schedule impacts (adjustment not allowed). Furthermore, Proponents will not be able to acquire land, order material, and sign EPC for construction until FA is approved (High risk in the event a major route change is required).</p> <p>To minimize the potential premiums required to cover such risks, resulting in additional costs to rate payers in the bid, schedule risk should be transferred to the project proponent when there is project certainty after the AUC approves the FA.</p>	<p>Relief Events are presently being addressed. See Theme Paper, Section 1.4.</p> <p>In addition, the PDA can be extended by mutual agreement.</p> <p>The AESO continues to develop an approach that features target and threshold ISDs to better accommodate timing issues.</p>
<p>UCA</p>	<p>No additional constraints</p>	



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Recommended Risk Allocation Model		
The AESO seeks stakeholder comments on the risk allocation model.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	<p>In general, the risk allocation model is a significant improvement from the previous version.</p> <p>The risk allocation model as described in the paper leaves commodity price risk entirely to the proponent. While proponents may have some options (e.g. passing some risks to vendors) in hedging commodity price risk, their capability of hedging the commodity risk is time limited given that proponents have to submit firm price bids 3-5 years in advance. This approach to risk allocation will likely force proponents to build a large risk premium in their bids resulting in higher cost to customers.</p> <p>Long lead times and inflation risks are identified as risks to be shared between ratepayers and the successful proponent. Is it the AESO's intention that this sharing is on a 50:50 basis or is some other sharing formula contemplated?</p> <p>The risk allocation model allocates all the timing risk related to land acquisition to the proponent. There is a significant uncertainty relating to the length of time required to complete land acquisition and typically proponents would have limited options to mitigate this risk. Land acquisition may involve proceedings before the Surface Rights Board, the timing of which will be beyond the proponent's control. This may result in the need to incorporate additional risk premium in the bids.</p> <p>The contract term sheet indicates there is a 2-3 year period between submission of the RFP and the start of construction. It also indicates there will be liquidated damages associated with schedule delays. The</p>	<p>Commodity price risk will be shared. Ratepayers will retain the risk until AUC FA approval. The AESO is developing the bundle of indices that will be used.</p> <p>Inflation risk will be borne by the ratepayers through commodity and labour adjustments based upon indices. The risk is transferred to the Proponent at the point of AUC FA Approval.</p> <p>The AESO accepts the point and has submitted an amendment letter to the Recommendation Paper to correct the timing error. Please see</p>

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	<p>main body of the paper shows a period of 45 months between bid submission and the start of construction. RFP submission is currently scheduled for the spring of 2013. Regardless of which pre-construction period is correct, the current in-service date outlined in the 2011 Long-term Transmission Plan for the first line to Fort McMurray (2017) is already in jeopardy. Assigning damages to schedule milestones will only work if the schedule is realistic.</p> <p>The risk allocation model stated that risk associated with project scope change initiated by AUC and/or AESO will be borne by ratepayers. There are no details provided regarding how proponents bids will be adjusted in these circumstances.</p> <p>Clarification is required regarding the concept of a 20 year re-opener for project operation and maintenance costs. This re-opener is reasonable if the objective is to re-benchmark the O&M cost, however, tendering solely for benchmarking purposes is unlikely to attract serious participants. The paper suggests that O & M costs could be re-tendered after 20 years. This concept would be problematic, in terms of long-term financing, if there was a possibility that subsequent O & M work could be awarded to a third party and the owner would no longer be in control of its asset.</p> <p>The paper indicates that risk related to end of contract term will be borne by the proponents. It would be helpful to provide some further details regarding what risks AESO contemplates here such as specific performance requirements at the end of term and residual value. Clarity on these items will be critical for preparing bids, particularly in view of the AESO having a unilateral right to extend the contract.</p>	<p>the AESO website and letter dated 20 July 2011.</p> <p>It is presently envisaged that scope changes will be adjusted on a 1:1 basis (i.e. scope changes will be borne by ratepayers).</p> <p>The AESO is examining the benchmarking approach at this time.</p> <p>Agreed. This detail is under development.</p>
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<p>ATCO Electric</p>	<p>It appears that the current recommendation transfers all schedule risk to the proponent and it also appears that it is intended for Force Majeure to be narrowly defined; this does not appear as an effective sharing of the risk as the risk premium will likely be elevated to deal with unknowns beyond the control of the Proponent. As such our thoughts are the proponent should not be responsible for delays that are demonstrably beyond its control. Examples of such delays would include delays resulting from scope changes by AUC/AESO or the actions of NGOs opposed to development on environmental or other grounds.</p> <p>Proponents should be able to anticipate commodity price change and integrate this within their bid; however, a risk premium may be applied to consider unanticipated commodity risk. Unanticipated events such as economic booms or collapses greatly affect commodity prices in the short term around the event – in either direction. Instead of applying a risk premium for unanticipated commodity price risk possibly apply a threshold concept similar to the route threshold and cap.</p>	<p>Agreed. See Section 7.3.4 of the Recommendation Paper. Also, see Theme Paper, Section 1.4.</p> <p>Commodity price risk will be shared. Ratepayers will retain the risk until AUC FA approval. The AESO is developing the bundle of indices that will be used.</p>
<p>EPCOR</p>	<p>Commodity prices can be highly volatile, arguably more so than interest rates. Bidders have some ability to hedge these risks, however, given that there are a number of uncertainties, including volume and timing, risk premiums may still be included in bids. EPCOR proposes that Commodity price risks be accorded similar treatment as interest rate risk to minimize any necessary risk premium. Alternatively, acceptable price indices can be used to adjust the Commodity price component of the successful bid.</p> <p>It is unclear how the proposed sharing of risk with respect to interest rates would be reflected when determining the NPV of a bid. If a cost of debt is not included in calculating the discount rate used when calculating NPV (as is currently proposed in Appendix G Section 4) then the actual NPV to the ratepayer could change dramatically depending on</p>	<p>Commodity price risk will be shared. Ratepayers will retain the risk until AUC FA approval. The AESO is developing the bundle of indices that will be used.</p> <p>See Theme Paper Section 1.3.</p>

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	<p>the financial structure submitted by the preferred proponent. Alternatively, if a particular TFO's declared cost of capital is used in determining the NPV of its bid an opportunity to modify the cost of debt at "financial close" may incent bidders to include a cost of debt that is not realistic. If a uniform cost of capital is used as a discount rate when comparing competing bids than any benefits that may arise from financial engineering would not be reflected in the results.</p> <p>EPCOR submits that certain risks arising from either Land Acquisition costs or timing should be shared rather than borne solely by the proponent. As an example, where an impasse involves stakeholders with rights to land where there is no set process to resolve the dispute (such as the Surface Rights Board process) the impasse can persist for an indeterminable period and not be resolvable by the preferred proponent. This would impact both the cost and the timing of land acquisition.</p> <p>The particular risks to be included within the definition of Project Scope changes should be further clarified. As an example, if a TFO puts forward a route with few deflections it would result in a lower total cost even though such a route may result in a higher level of landowner dissatisfaction. If the AUC subsequently determines that the route must deflect at various points, thus requiring more expensive towers, is the increase in cost deemed to be AUC initiated or TFO initiated as the TFO would be aware upfront that route adjustments would occur?</p>	<p>See Recommendation Paper, Section 7.3.4. See Theme Paper, Section 1.4.</p> <p>While the example is purely speculative, the AESO would interpret such a situation as a lack of due diligence on the part of the Preferred Proponent, thereby assigning the related costs accordingly. See Theme Paper, Section 1.1</p>
<p>LS Power</p>	<p>The risk allocation model as proposed continues to place major project risks on the Proponent and in our opinion will lead to large risk premiums being placed on bids. The adjustments for timing and interest rates on debt are an improvement over the previous draft and should aid in reducing overall prices. The ratepayer retained risk of changes in law and changes to project scope are critical to the success of the process. To further avoid high risk premiums, LS Power suggests that the AESO</p>	<p>Commodity price risk will be shared. Ratepayers will retain the risk until AUC FA approval. The AESO is developing the bundle of indices that will be used.</p> <p>See Theme Paper, Section 1.1.</p>

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	<p>go a step further by considering the following:</p> <ul style="list-style-type: none"> • Modify the model so that commodity price risk is shared between the Proponent and the ratepayer • Modify the route adjustment model so that the 5-10% sharing band is removed and all prudent route adjustments are fully adjusted on a 1 to 1 basis • Allow for adjustments resulting from actual vs. estimated geotechnical differences • Adjustments for timing should take into account any event that the Proponent cannot control • Allow adjustments for changes in labour rates (not as a result of a timing delay) <p>In addition LS Power believes that it would be beneficial to allow Proponents to propose their own risk sharing model in addition to a conforming bid. For example a proposal may say the price is X in a conforming bid and Y if risks are shared in an alternative model. This would allow Proponents to submit innovative approaches for consideration by the AESO while still ensuring that conforming bids are received.</p>	<p>See Theme Paper, Section 1.2.</p>
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<p>NextEra</p>	<p>NextEra agrees that the largest risk to the developer is route; and through route, geotechnical, structure type and land cost risks. Therefore, NextEra agrees that the adjustors used during the FA to modify the cost of the project take into account route length, as well as any modifications to the expected structures and subsurface.</p> <p>This should extend to changes in route that require additional or significantly different land types. That is, if the proposed route requires land of a certain type given the land study, and the final route requires a different land type, the adjustor should be applied not based on length, but based on length on a certain land type</p>	<p>See Recommendation Paper Table 1.0: Allocation of Risk.</p>
<p>TransCanada Energy</p>	<p>TransCanada is concerned with the AESO assumption that Commodity Risk is best held by the project proponent at the time of the RFP submission. Foreign Exchange Risk is also an issue given the global nature of suppliers for transmission towers and insulators. While it may be possible to mitigate some of these risks through the use of various mechanisms, few potential proponents, if any, would enter into such hedges on the basis of bidding on a prospective project. In order to manage these risks, proponents may incorporate substantial risk premiums into their bids under the currently proposed risk sharing structure.</p> <p>Typically, material suppliers do not provide fixed price quotes until materials are ordered (or even later, upon delivery). Accordingly, commodity price escalation is one of the largest risks in the capital costs. Further, raw steel, aluminum, copper, as inputs to finished goods are just a few of the many drivers influencing the delivered cost of transmission infrastructure. Suppliers normally seek greater pricing margins during periods of significant global demand. A rise in commodity indexes could be further inflated by increasing supplier margins, a risk that project proponents could not effectively mitigate during the development phase.</p>	<p>Commodity price risk will be shared. Ratepayers will retain the risk until AUC FA approval. The AESO is developing the bundle of indices that will be used.</p>



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	<p>Commodity and Foreign Exchange risks should be transferred to the project proponent when there is project certainty after the AUC approves the FA. There are several means to accomplishing this transfer, one of which is the provision of an escalation table to be used during the RFP process, with an adjustment once the FA is approved for actual deviations from the escalation table.</p>	
UCA	<p>The timeline in Graph 1.0 appears to be a reasonable representation of the process lapse time recognizing the pressures on the AUC calendar. As one of the drivers of risk for proponents, the timing risk adjustments should efficiently offset the premium that would otherwise be built-in. The UCA assumes that the adjustable timing factors such as labour rates and interest rate will be clearly identifiable in the RFP and Final financial models and that the indices used in the adjustments would be included in the AESO process application for approval by the AUC.</p> <p>In Table 1.0, specific risks are allocated between the Preferred Proponent and Ratepayers. Where these risks are to be shared, the allocator appears to be the time period each is responsible for the complete risk. Any further detailing of this sharing relationship could be included in the AESO Application.</p>	<p>The actual indices may not be necessarily identified in the filing application but will be a component of the RFQ/RFP.</p> <p>Agreed.</p>



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Recommended Risk Allocation Model		
The AESO seeks stakeholder comments on the proposed contents of the Study.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	It is recommended that the study information be provided in GIS layers for ease of use by proponents. It would also be important that data sources be identified to allow proponents to determine the accuracy and quality of the information.	Agreed.
EPCOR	The proposed contents of the Study should include subsurface geotechnical information. The methodology used by of the author(s) of the Study should also be disclosed. For example, is the author just looking at provincial databases or is “ground-truthing” done? Would the authors of the study be available to respond to questions from bidders?	Agreed, sources will be identified.

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<p>LS Power</p>	<p>The Study should contain as much detail and information as is feasible to identify the opportunities and constrains in the study area. Contents could include:</p> <ul style="list-style-type: none"> • Land Characterization and Use <ul style="list-style-type: none"> - Ownership type by parcel - Use (agriculture, residential, industrial, undeveloped rural, park, etc) - Topography, physiography, and visual character - Wetlands, riparian areas, streams, rivers - Protected areas • Infrastructure (roads, transmission facilities, airports, rail lines) • Wildlife, vegetation, and threatened and endangered species • Cultural Resources • Expected soil and subsurface conditions • Climate conditions 	<p>Agreed.</p>
<p>NextEra</p>	<p>Given that with perfect information and fewer assumptions, most experienced developers would propose a similar, that is, optimal, route, NextEra proposes that the AESO provide as much information as possible to selected bidders. With greater information bidders will provide a more consistent response to the RFP and the process of choosing a selected proponent will rest largely on the quality of the financial offer put forth.</p> <p>In addition, a method for obtaining additional information throughout the RFP process should be available to proponents in order to clarify or validate any assumptions.</p>	<p>Agreed.</p>



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Recommended Risk Allocation Model		
The AESO seeks stakeholder comments on the proposed land assessment methodology.		
Stakeholder	Stakeholder Comment	AESO Replies
EPCOR	EPCOR understands that the AESO will require Proponents to rely only on table top assessments for all land assessments and route selection to minimize initial disruption to land owners. This assessment methodology will carry a risk premium due to potential material factors not discoverable from such assessments. This risk premium could be magnified as the AESO will not warrant the content or accuracy of the Land Research Study (Study) it will provide. It could also become an area of dispute during the AUC hearing as landowners will question the effectiveness of any subsequent consultation if the proponent is financially incented not to change the original route as a result of consultation.	The concept of “Table Top” is under review.
TransCanada Energy	TransCanada proposes that project proponents be allowed to conduct non-intrusive, non-impacting field surveys (i.e., aerial survey) to better inform their route selection process.	The concept of “Table Top” is under review.
UCA	The UCA recognizes the AESO is seeking balance between limiting proponents to table-top assessments and exposing the region to unnecessary disruption. The expected number of Interested Parties may be the best indicator of potential disruption and the need to mitigate incumbent advantage.	



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Recommended Risk Allocation Model		
The AESO seeks stakeholder comments on the incentives initiative.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	<p>The main report discussed the incentives around ISD and key milestones. No further details are provided in the draft term sheet. AltaLink suggests that incentive/penalty mechanisms be linked to the in-service date. This is the key date in the process. Rather than tying incentives to intermediate milestones which could lead to sub-optimal planning and scheduling, consideration could be given to including an obligation to provide remedial action plans to rectify scheduling issues.</p> <p>The draft term sheet discussed the concept of an availability penalty (i.e. reduction of monthly payment when availability target not met). Any penalty scheme should have a symmetrical design. A penalty for poor performance should be balanced with a reward for good performance around reasonable performance targets. The establishment of availability metrics and associated incentives/penalties should have input from participants in the process.</p>	The AESO will consider these recommendations.



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<p>ATCO Electric</p>	<p>Starting the contract term on the actual In-Service Date, be it earlier or later than the planned date, will sufficiently motivate the proponent to complete the project on time. Lateness is a deterrent to the Proponent due to carrying costs and IDC and early is a benefit to be accrued to the Rate Payer. The Proponent and AESO must consider the most correct date for delivery of energy and the Proponent is motivated to meet that naturally within the anticipated payment structure.</p> <p>Therefore our thoughts are that reducing the term for late completion is overly punitive as the proponent will also incur additional interest and management costs in addition to the cost of correcting the cause of the delay.</p>	<p>The AESO will consider this recommendation.</p>
<p>EPCOR</p>	<p>The general framework for incentives as provided is reasonable. However, specific details should be provided. As an example, an impasse involving stakeholders with rights to land where there is no set process to resolve the dispute (such as the Surface Rights Board process) can persist for an indeterminable period. Time penalties that only stress the preferred proponent would increase the leverage of the land owner, perhaps resulting in settlements that are greater than that budgeted. As such, any penalty imposition on the Proponent resulting from land acquisition delays due to circumstances outside its control may not be appropriate.</p>	<p>See Section 7.3.4 of the Recommendation Paper. See Theme Paper, Section 1.4.</p>
<p>LS Power</p>	<p>LS Power supports the use of incentive payments for meeting key project milestones during development and construction and believes that they will help ensure the project is on schedule. Incentive payments for high performance during commercial operations should also be considered (higher than average availability, safety, etc.).</p>	<p>The AESO will consider this recommendation.</p>



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<p>TransCanada Energy</p>	<p>TransCanada is supportive of appropriate incentives. There is a need to ensure that incentives are straight forward, easily measured and determined and do not lead to unintended consequences.</p> <p>TransCanada is supportive of a financial incentive at the AUC FA approval milestone. TransCanada also supports the AESO's proposed in-service date incentive.</p> <p>The incentive mechanisms for a delayed or early in-service date are unclear. Would the length of the contract term be increased/shortened or would the project just start earning monthly revenues earlier/later, once ISD is achieved? ie. extra monthly payments would be made for early completion or fewer monthly payments would be made for late completion?</p>	<p>The AESO will consider this recommendation.</p> <p>The AESO is still considering incentive mechanisms for early ISD.</p>
<p>UCA</p>	<p>The UCA understands that the incentive mechanisms are still evolving and will be more clearly articulated in the Process Application. The most effective incentives for proponents are those where there are consequences associated with non-performance such as meeting the ISD. Otherwise, the proponent should have an inherent incentive to meet the contracted expectations, such as receiving a payment stream and should not require any additional incentives to meet those obligations ie meeting the FA requirements. It would only make sense to incent Proponents for exceptional performance if performance and the gains are identifiable and the sharing with ratepayers is symmetrical.</p>	<p>Motivating the proper behaviour and sharing any benefits with ratepayers remain paramount considerations within the AESO.</p>

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	<p>this section but not in the risk allocation model. Further information is required to understand risk sharing associated with refinancing.</p> <p>Section 5, Performance Standards, it would be helpful if stakeholders have an opportunity to comment on the performance standards proposed by the AESO.</p> <p>Section 6. Payment Mechanism. (1) It would be helpful to have definitions for fixed O&M, variable O&M, and major maintenance; (2) The section discussing the resetting of O & M costs after 20 years contemplates the use of competitive tenders for subsequent O&M work. It is not clear how this would work under the circumstances where the successful proponent provides its own O&M services. If the intent of tendering is only to obtain a cost benchmark, the tendering process is unlikely to attract serious participants. If the concept contemplates a potential change of operator depending on the tendering results, this will create significant issues and uncertainty for the proponent and debt provider related to obtaining long-term financing and maintaining operational performance; (3) route adjustment: Page 123 refers to capital cost adjustment whereas in Page 119 adjustment applies to construction cost only. Also would be helpful to have an example to show the adjustment of 5-10-15%; (4) timing and financing risk adjustment – see comments on risk allocation model. The payment adjustments are to be finalized 2 months following AUC approval of the Facility Application. Adjustment for subsurface conditions will be difficult without access to the land which, in many cases, may not be available at least until after AUC approval of a route. This will be extremely difficult to accomplish in a 2 month period.</p> <p>Section 7, Availability and Performance Deduction. Need symmetrical treatment of penalties and incentives (see comments re: risk allocation model);</p>	<p>Performance standards are currently under development.</p> <p>Variable O&M is that O&M only associated with the route change as finally determined at the AUC FA. Further definitions will be provided in the RFP.</p> <p>The AESO is further developing the benchmark approach.</p> <p>The route adjustment mechanism applies to capital, variable O&M and major maintenance costs. See Theme Paper, Section 1.1</p> <p>The AESO will consider this recommendation.</p>
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	<p>Section 12, Insurance – Insurance for “all risks” may be prohibitively expensive. Similar to the self-insurance concept used under the current cost of service model, it would be advantageous for ratepayers to assume certain risks related to catastrophic events.</p> <p>Section 14, Default. Failure to secure AUC FA approval within a specific timeframe is treated as a default event. Care must be taken in setting appropriate time frames as the time required to obtain FA approval is often unpredictable and beyond the Proponent’s control. If, for some reason beyond the proponent’s control, no approval was granted this should not be considered a default and provision needs to be made for dealing with costs incurred.</p> <p>The commercial arrangements should include assignment provisions.</p>	<p>The AESO continues to develop the insurance provisions.</p> <p>See Section 7.3.4 of the Recommendation Paper. See Theme Paper, Section 1.4.</p> <p>The commercial arrangements will include assignment provisions.</p>
<p>ATCO Electric</p>	<p>It is difficult to comment on a summary of the terms and conditions as the effect is usually in the details. We look forward to the draft contract as soon as it is available.</p> <p>On the overview level we believe force majeure should be defined to include events beyond the reasonable control of the proponent.</p>	<p>The AESO is reviewing the timeframe for featuring the PDA and PA.</p> <p>Force Majeure and Relief Events are being developed.</p>
<p>Brookfield</p>	<p>Brookfield believes the Paper would benefit from the clarification of a number of issues:</p> <ol style="list-style-type: none"> 1) What is the basis for the discount rate for calculating the NPV of project costs? 2) How will AESO evaluate debt costs where bidders have different capital structures? 3) When does the contract Term start? 	<p>See Theme Paper, Section 1.3.</p> <p>Contract Term is intended to start post ISD. See Recommendation Paper Appendix G, Section 6. Early or late delivery dates will influence the</p>

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	<p>4) Who is included in the term ‘the public sector’?</p> <p>5) Indexation – when refining the various indices for labour costs and on-going operational costs, AESO should use different Alberta indices for construction, office and professional services and, where appropriate, use weighted composite indices for adjusting, say, O&M costs.</p>	<p>contract term length. The AESO is developing the bundle of indices that will be used.</p>
<p>EPCOR</p>	<p>Comments by section of Draft Contract Term Sheet as follows.</p> <p>Section 3 Extension of Contract – Any contract renewal should be with mutual agreement of both the parties.</p> <p>Section 4 Financing – As per comments included above, it is not clear how NPV of individual bids can be determined absent cost of debt. The financing structures proposed by proponents will impact cost of debt and therefore NPV of project. If a cost of capital is not used to determine NPV, the actual cost to the ratepayer of the completed project could be substantially different from that used to determine the preferred proponent.</p> <p>Section 6 Payment Mechanism – General Principles – It is not clear whether the “varying geotechnical conditions” listed under “route adjustments” is only related to route adjustments directed by the AUC or is a general provision related to the entire route. If it is related to the entire route than is may incent proponents to submit bids that under-cost the expense of tower foundations.</p> <p>Section 9 Security Requirements – It is not clear whether the cap on liabilities as mentioned under “operating period” relates to third party liabilities. We would recommend that the preferred proponent be subject to the same protection regarding third party liabilities as afforded current TFOs.</p>	<p>See Theme Paper, Section 1.5.</p> <p>See Theme Paper, Section 1.3.</p> <p>This adjustment is being further developed in light of the Table Top (plus) consideration. Regardless, any route adjustment cost increases will be capped at 10%.</p> <p>The cap on liabilities for the parental guarantee described in the security section, relates to the limitation on the dollar value of the guarantee security only.</p>

Stakeholder Comment and AESO Replies Matrix

	<p>Section 15 Termination – Greater clarity is necessary as to how the payments under the three scenarios would be calculated. As an example, how is “residual value” defined and how would it be realized by the preferred proponent under the No Fault Termination scenario?</p>	<p>The termination section is under development.</p>
<p>LS Power</p>	<p>The type of security is very prescriptive, particularly during the construction and operation periods. LS Power suggests that the type of security allow more flexibility as long as it is in an acceptable form to the AESO. For example a letter of credit in lieu of a parental guarantee.</p> <p>The construction security requirements will be burdensome to respondents and are likely higher than needed. In the upper range provided the security could exceed 100% of the EPC contract value. If the Proponent defaulted during the construction period there would be residual value from construction that had occurred and the AESO could assign the project to another party to continue service. Further, since the Proponent was selected in the RFQ process and proved that it is qualified, the AESO can be assured that the Proponent has a high reputation value that would be lost if it were to fail. Construction security should coincide with reasonable damages expected from a default. LS Power suggests that cumulative construction security of approximately 10% of the EPC value would be reasonable level. Exceedingly high levels of security will increase costs without commiserate benefits. LS Power’s affiliate that was selected in the CREZ process in Texas was not required to provide any security other than the standard security normally required by project lenders.</p> <p>It is not clear what the amount of operating period security is proposed by the AESO (what is meant by O&M payments? Fixed O&M + variable O&M + major maintenance?). A large amount of operating period security should not be needed and will act to increase costs to ratepayers. The security of the asset itself and the ability of the AESO to withhold payment both act to secure the responsibility of the</p>	<p>See Theme Paper, Section 1.3.2.</p> <p>The AESO will have potential exposure in terms of Operator default and finding remedies for which security is required.</p>



Stakeholder Comment and AESO Replies Matrix

	transmission owner.	
NextEra	<p>The AESO has proposed that the process essentially consist of a form of fixed-price bid, with adjustors, adjustment limits and adjustment caps. After thorough review, we feel that this form of bid provides significant economic disincentive to proponents to act in the best interest of Alberta ratepayers.</p> <p>It has been previously discussed by stakeholders that a fixed-price will result in significant risk premiums being added by proponents. Had this been a highly liquid market, that risk premium would be negated through intense competition, but the AESO has already stated that only 3 proponents will continue to the RFP, and it is assumed that only a single round of bidding will occur. These are hardly the conditions that lend themselves to aggressive price competition.</p> <p>In addition, the existence of the minimum 5% adjustment can result in two forms of potential gaming. The first is that bidders bid slightly lower in order to ensure that they obtain an adjustment of greater than 5%. The second is that bidders bid slightly higher in order to obtain an 'adjustment' outside the process of the AESO. In addition, the 10% cap indicates to bidders that any capital that is invested above 10% of the project cost is invested not only at an unreasonable rate of return, but at a complete and total loss. Therefore, there will be the tendency for bidders to bid risk premiums that not only cover potential low returns, but essentially 'insure' capital that may be lost if significant overages are incurred.</p> <p>Note that significant overage is not meant to imply the result of any inefficiency or incompetence by a given proponent. The AESO is requesting that proponents provide a fixed price bid based on desk-top studies, which are of limited use in such a detailed bid. The AESO has defined that these adjustments can be based on changes such as route,</p>	See Theme Paper, Section 1.1.



Stakeholder Comment and AESO Replies Matrix

	<p>geotechnical, etc, but will not be compensated for levels above 10%. As this work will be based, by necessity, on significant assumptions at the request of the AESO, it is only reasonable that proponents protect themselves and their shareholders against significant loss through higher contingencies and risk adjusted ROIs, at the expense of the ratepayer.</p> <p>NextEra proposes here an alternative, based on a form of ROE sliding scale. The incentives that should be put to the proponent are cost-minimization, while allowing for the proponent to insulate themselves against fair and reasonable changes in cost and scope from the fixed-price agreed upon almost 3 years earlier, with little to no intensive development work completed.</p> <p>What is being proposed (and requested) here is the ability for the Preferred Proponent to be able to pass through reasonable and justifiable costs in a manner that promotes economic efficiency, while protecting the ratepayer and proponent.</p> <p>NextEra proposes a multi-tiered incentive/deterrent mechanism as follows: Given the proponents submitted bid price and proposed route, the proponent's cost is allowed to fluctuate (given reasonable and justifiable reasons such as those outlined in the AESO risk matrix), without any minimum, to a maximum of +10% at the same terms given in the fixed price bid. For such a large linear project, a +10% variance in the cost is considered a reasonably accurate bid given the inputs used and allowed. By allowing a +10% variance with the same ROE as placed in the bid essentially signals to the bidder that a +10% variance in the bid price is an acceptable tolerance and will not be penalized. For any amount greater than 10%, the bidder's excess costs above 10% will earn a return on a decreasing scale that begins at Alberta's typical cost-of-service rates and tapers downwards. At +50%, the proponent is earning 0%, or essentially inflation, or some variant thereof, on the</p>	
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Stakeholder Comment and AESO Replies Matrix

	<p>incremental invested capital.</p> <p>In the other direction the opposite is true. For 0% to -10% below bid cost, the proponent is kept whole. For every dollar that the capital expenditure of the project comes in below -10%, the proponent earns an incrementally larger ROE on that dollar to some maximum threshold, for example at -50% the proponent is earning twice the return on the last incremental dollar saved. While this may seem like a windfall situation, one must remember that netted out, the ratepayers of Alberta will have saved 50% of the capital expenditures of the project, compared to the increased cost of the proponent's return and for this feat the proponent is rewarded. Alternatively, if the project goes over, the proponent's capital will be kept whole, although returns will diminish significantly. By maintaining the capital, the proponent will not be required to add such a heavy risk premium in order to 'insure' capital against project cost overages that are essentially out of their control.</p> <p>The purpose of having a symmetrical gain/loss curve is to equally incent one behavior as deterring its opposite. In addition, having a skewed incentive schedule would result in proponents skewing their bid costs in their favour, assuming that the others would perform a similar analysis and therefore perform a similar skew.</p> <p>Generally speaking, the Preferred Proponent would be looking to maximize return and not invested capital. Therefore, any opportunity to increase return, even if smaller invested capital is required, would be taken if possible. Under the proposed scenario, proponents would be free to submit a bid largely free of exorbitant risk premiums (essentially a form of 'capital insurance') knowing that their capital will not be at risk, only their returns, which is incentive enough to perform well. As well, three proponents should maintain a level of competition that each does not submit a higher price in the interest of 'setting the bar higher' in order to obtain intentional windfall returns. Finally, in the worst case scenario,</p>	
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Stakeholder Comment and AESO Replies Matrix

	<p>the Preferred Proponent is held accountable for major overruns, in that the weighted average return of the project is below that of a cost-of-service project. (COS)</p> <p>In summary, by widening the band on allowable and justifiable cost increases/decreases and implementing a pseudo-performance based metric into the return formula, the risk premiums incurred by the ratepayers of Alberta would be greatly reduced, while still ensuring that proponents are held accountable (and rewarded) for cost overruns (and project efficiencies). Note that the above does not mention unjustified, unapproved, or out-of-scope changes in cost. NextEra feels that many of the risks described in the AESO risk charts are acceptable and usual for proponents to carry in an RFP submission. Those would be outside the scope of the proposed adjustment mechanism as described above. As well, many of the specific values given in the above example were used for illustration and of course open to modification, although are representative of NextEra's views on both concept and magnitude.</p>	
TransCanada Energy	<p>Payments - Fixed operations and maintenance payments are established through the RFP response and then indexed based on predetermined indices. These amounts would have been based on a proposed route and could differ based on the final route approved. Therefore, route changes could have an impact on fixed operations and maintenance costs and TransCanada suggests that there be an opportunity to adjust these payments once the FA has been approved and impacts of route changes are known.</p> <p>The proposed process suggests resetting the O&M component after 20 years. This is a fairly long period of time and many factors that could impact O&M or the indices used to index these payments could change over this length of time. The longer the period of time the higher the risk that payment mechanisms may be out of line with actual costs. TransCanada recommends that the reset period should be shorter. - ie</p>	<p>The AESO intends that the fixed O & M payment will allow the Successful Proponent to recover costs that are independent of the route.</p> <p>The AESO will continue with planning for a 20 year reset. The AESO is further developing the benchmark approach.</p>

Stakeholder Comment and AESO Replies Matrix

	<p>every 5 years.</p> <p>Although there will be an adjustment to capital payments for route adjustments, the amount of the capital adjustment is proposed to be capped. Since control over route adjustment, if any, is under the direction of the AUC, it is unclear why the proponent should bear the entire risk of route adjustments beyond a cap.</p> <p>Is the project development fee proposed during the RFP process part of the evaluation criteria?</p> <p>Relief Events - Includes delays resulting from public sector and TransCanada seeks a more definitive understanding of what is meant by the “public sector”. It also should be clear if this includes relief from permitting delays that are not within the control of the proponent. It is not clear what is intended by including “uninsurable events” in this section. There may still be schedule relief required even if an event is insurable. Relief events should include delays resulting from receipt of required (construction) permits.</p> <p>Security Requirements - Appear to be very standardized and are not based on the creditworthiness of the proponent.</p> <p>TransCanada recommends that the security required should be appropriate for the obligations and creditworthiness of the proponent. The amount and form of security should also be flexible.</p> <p>There is no detail on liquidated damages in this section. It would be useful to understand the potential impact of schedule delays on the AESO and how the schedule damages would be calculated. It is also not clear if specific security would be required to cover potential liquidated damages.</p>	<p>See Theme Paper, Section 1.1.</p> <p>Yes, see Theme Paper, Section 1.3.</p> <p>The AESO is developing the list for Relief Events.</p> <p>See Theme Paper, Section 1.3.2.</p> <p>The issue of liquidated damages is being developed.</p>
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Stakeholder Comment and AESO Replies Matrix

	<p>It is not clear that the AESO would have significant counterparty exposure to the proponent during the operating period. Security requirements during the operating period should also be flexible and assessed based on the creditworthiness of the proponent.</p> <p>Termination - Termination payment due to the default by the proponent is not clear. How would residual value be assessed? Why would insurance proceeds reduce the amount paid to proponent?</p>	<p>The AESO will have potential exposure in terms of Operator default and finding remedies.</p> <p>The termination section is under development.</p>
UCA	<p>The UCA sees the contract term and life extension provisions as key for the competitive procurement process to as closely as possible mimic current customer expectations of utility service. It is anticipated that many details will be contained in the Project Development Agreement and the Project Agreement and these document templates should be filed with the Process material with the AUC.</p>	<p>The AESO does not intend to file agreement templates at this time.</p>

Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the Procedures.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	The AESO should make the Project Development Agreement and Project Agreement available as part of the RFQ package. Short listed candidates are compelled to participate in the RFP through provision of a letter of credit. As such they should know what kinds of business arrangements are associated with this commitment.	Agreed. This will be incorporated.
EPCOR	The three-stage approach proposed by the AESO is generally reasonable. Specific comments from EPCOR are provided in the sections below. Clarification regarding the role of the fairness advisor should be provided e.g. is there some thought that bidders could appeal a decision to that individual?	See Theme Paper, Section 1.7.
LS Power	The expression of interest stage appears to add little value to the overall process and may add more time to the process (taking time away time needed for development and construction). LS Power suggests that the AESO broadly announce the competitive process for the project, hold detailed information sessions and move directly to the RFQ stage.	The AESO will consider this recommendation.
UCA	The UCA assumes that the Fairness Advisor would be involved in the process at the EOI, RFQ and RFP stages. The AESO could further articulate the role and reporting functions of the Fairness Advisor.	See Theme Paper, Section 1.7.



Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the indicative structure of the EOI.		
Stakeholder	Stakeholder Comment	AESO Replies
EPCOR	The AESO should confirm the intent of this stage. It appears there may be two drivers. First to provide the AESO with an initial gage as to the level of interest; and second to allow interested parties to identify themselves and thus create a forum to develop bidding consortiums. If the intent is to allow for the formation of consortiums then the AESO should allow sufficient time between the submission of the EOI to the submission of the RFQ for parties to do so. If the main intent is to allow the AESO to gage interest, the voluntary nature of this stage may limit its usefulness.	The AESO will consider this recommendation.



Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the high level summary of the RFQ.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	The requirement to commit to submitting a compliant bid and posting security in the form of a letter of credit is onerous without the Project Development Agreement and Project Agreement being provided during the RFQ stage. In two locations the RFQ process highlights a respondents past experience in similar competitive processes. It is suggested that past experience with similar projects is a much more relevant indicator.	Agreed. This will be incorporated regarding the introduction of the PDA and PA at the RFQ stage; the AESO will consider the latter recommendation.
ATCO Electric	<p>It is noted that in the event that AESO terminates the PDA or the PDA expires, the proponent should be kept whole. We support the recovery of all reasonable incurred costs (less recoverable costs).</p> <p>It appears that the Proponents are required to confirm, at the RFQ stage, that they will provide security as a condition of participating in the RFP prior to seeing the Project Agreement terms, and will lose their security if they withdraw during the RFP process. Our thoughts are that the Proponent must review the contract draft with finance and legal resources to verify to senior management the commitment of the security is appropriate. Therefore we urge the sharing of the Project Agreement well ahead of the requirement to post security. Further to this, we note the explanation given at page 116 regarding the posting of security for the RFP process. Is this the same security that is referred to at page 110?</p> <p>It is noted that the concept of an Honorarium is being considered. This concept has several issues associated with it and we look forward to</p>	<p>Agreed. This will be incorporated regarding the introduction of the PDA and PA at the RFQ stage.</p> <p>See Theme Paper, Section 1.3.2.</p>



Stakeholder Comment and AESO Replies Matrix

	<p>further information to offer a response to whether it is appropriate or not.</p> <p>It is noted in Appendix D (page 109) the Proponent must display financial viability and strength. Does this definition establish a minimum credit rating? What other measurements are being contemplated for this determination (assuming a minimum credit rating would be one)?</p>	
EPCOR	<p>The contents of the summary appear to be generally reasonable. EPCOR continues to support the concept that a limited number of proponents be selected as a result of the RFQ process.</p>	
LS Power	<p>The summary indicates that a respondent will be required to execute a Proponent Agreement that requires it to participate in the RFP process (if selected) and provide a letter of credit to secure its undertaking in the RFP. However, it is unclear if at the time of executing the Proponent Agreement whether the terms and conditions of the RFP process, the Project Development agreement, and the Project Agreement will be finalized. If they are unknown the AESO would be asking the respondent to agree to participate in a process under terms and conditions that it may find unacceptable. The respondent should not be required to enter into an agreement or post security until it can fully evaluate the risks and rewards of doing so.</p>	<p>At the RFQ stage, the AESO will provide drafts of the PDA and PA so that Respondents can review these documents.</p>
UCA	<p>The UCA assumes a Proponent Agreement template will be filed with the AUC.</p>	<p>The AESO will not submit templates.</p>



Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the indicative description of the RFQ selection process.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	The current weighting proposed by the AESO suggests that the majority of the weight is assigned to getting the facilities built as opposed to ongoing operations. Given that the contemplated facilities are critical infrastructure and will have to be operated and maintained, to meet specified reliability criteria, for at least 40 years, AltaLink suggests that more emphasis be placed on the operation and maintenance capability of the Proponent. In this regard it is suggested that the O & M weighting be increased from 15% to 25%. A corresponding reduction of 5% in the weighting of each of financing and consultation will result in a shift to emphasize the importance of operations and maintenance to recognize that transmission lines are an integral component of the entire power network.	Based on overall feedback, the AESO is confident that the current weight assignment in the RFQ is reasonable.
ATCO Electric	<p>In the preamble prior to the chart where the statements are made to provide the AESO absolute discretion to discontinue evaluation of a Proponent; what is the difference between item ii) and item iii)?</p> <p>It is of great interest to the Proponent to understand how the financial capacity and experience measurement will be determined. This will likely be considered as a 'Go'-'No Go' condition to the potential Proponent.</p>	The difference in this case is: Respondents are to demonstrate the ability to raise sufficient equity to fund the equity portion of the project and any potential cost overruns, and project development. This includes experience of the firms and key individuals in raising project finance; and secondly, the ability of the Respondents and its team to demonstrate overall financial health to sufficiently carry out the Project. This will be an examination of the firm's financial statements and credit ratings.



Stakeholder Comment and AESO Replies Matrix

Brookfield	Bidders should be provided draft copies of the Project Development Agreement and Project Agreement in the RFQ process.	At the RFQ stage, the AESO will provide drafts of the PDA and PA so that Respondents can review these documents.
EPCOR	Since the scoring of the each Selection Factor involves judgment in how each Selection Criteria is applied, EPCOR would like to clarify if there is any process for appealing the AESO's RFQ decision is contemplated. For example, is the expectation that legislation gives the AESO the final decision therefore no appeals can be made?	The AESO is currently not contemplating an appeal process. See Theme Paper, Section 1.7.
LS Power	At a high level, the RFQ selection process seems appropriate. It is not clear exactly how scores in each category will be derived.	See Theme Paper, Section 1.6.
UCA	The proposed component weightings need to be balanced at this stage in the process. The principle driver for the competitive procurement process has been improved overall costs of major transmission projects and the UCA recognizes that the process has been designed to encourage innovation to accomplish this objective. The selection criteria at this point only avails 5 points for Innovation and cost effectiveness. In support of the primary objective and recognition that all proponents would have an equal opportunity to be innovative, the UCA suggests this criteria receive a higher weighting.	Based on overall feedback, the AESO is confident that the current weight assignment in the RFQ is reasonable.

Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the high level summary of the RFP.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	<p>As previously indicated, it is important that the Project Development Agreement and Project Agreement be available at a much earlier stage to ensure that proponents fully understand the commercial terms.</p> <p>Also as previously indicated, there are numerous issues related to the end of term, contract extension, residual value, etc. that require clarification to assist with the bidding process.</p> <p>Timing adjustments are only being considered up to the date of AUC approval. AUC approval is the start date for the land acquisition process which itself involves many timing uncertainties. Consideration should be given to a risk sharing mechanism to deal with these uncertainties</p>	At the RFQ stage, the AESO will provide drafts of the PDA and PA so that Respondents can review these documents.
ATCO Electric	<p>Proponents will be very keen to understand proposal compliance and the process (if any) to provide alternative proposals or proposal elements. Potential Proponents will likely treat this understanding as a 'Go'-'No Go' condition.</p> <p>In section 3 Other Matters, the Proponents will need to see more details of the AESO-defined insurance coverage.</p> <p>In section 5 part a) there is definition of what is included in the SR1 submission. Is there also definition for the SR2 submission? The timing and content of SR1 vs. SR2 is not clear to us.</p> <p>Descriptions of the SR2 financial submission are not clear to us and we seek further clarity and information to ensure understanding and that</p>	<p>See Theme Paper, Section 1.2.</p> <p>The AESO continues to develop the insurance provisions.</p> <p>See Theme Paper, Section 1.3.</p>

Stakeholder Comment and AESO Replies Matrix

	<p>compliance can be achieved.</p> <p>What exactly is required in the “financial model” and why does the AESO need to see it?</p> <p>The concept of financial engineering to achieve a lower cost for the rate payer seems in contradiction to section 7.3. Perhaps further description can assist the interested parties to understand the AESO’s instructions.</p> <p>Will the submissions and successful Proponent’s model and associated information be available to the public?</p> <p>Appendix G Draft Term Sheet – page 122, Financing. It is stated that the cost of one refinancing of less than 40 year debt will be a cost adjustment. Please clarify if both the cost of the refinancing and the resultant new terms are flowed through to rates. Also, what is meant by the 5th bullet under rationale?</p>	<p>These are commercial matters and therefore the AESO does not intend to make these documents public.</p> <p>See Theme Paper, Section 1.3.1.</p>
<p>Brookfield</p>	<p>The paper states that the Project Development Agreement (‘PDA’) terminates after three years unless it has been extended by mutual agreement of the parties.</p> <p>How does AESO intend to prevent a proponent from unreasonably abandoning the project without penalty by allowing the PDA to lapse?</p>	<p>See Theme Paper, Section 1.3.2.</p> <p>The Preferred Proponent is required to post a Preferred Proponent Security which will be forfeited if the Preferred Proponent allows the PDA to lapse.</p>



Stakeholder Comment and AESO Replies Matrix

<p>EPCOR</p>	<p>In Section 1 of Appendix F, it is stated: “Unless expressly identified, all other risks associated with the Project will be transferred to the Proponent”. EPCOR submits that this statement is inconsistent with section 7.3.4 of the Recommendation Paper, which states: “In general terms, ratepayers will be responsible for those risks over which Proponents have no control.” As such, EPCOR proposes that “Unless expressly identified, all other risks associated with the Project will be retained by ratepayers”.</p>	<p>The AESO stands by Appendix F.</p>
<p>LS Power</p>	<p>As previously mentioned, it appears that there is a requirement to post security for submitting a compliant bid prior to knowing the terms and conditions of the Project Development Agreement and Project Agreement on which the bid will be based.</p> <p>The quantities for the Proponent letter of credit and the Preferred Proponent letter of credit have not been indicated. A letter of credit comes at a cost to the respondent and if the required amount is unreasonably large for the particular stage in the process then the number of respondents may be reduced. LS Power believes that the level of security should be vetted with stakeholders before it is finalized.</p> <p>The mechanics of the route adjustment mechanism are not clear. In a sub-bullet to the land and right-of-way adjustment it is indicated that only changes resulting in costs that are +/- 5% to 10% will receive adjustment. It is worded as though this adjustment band is meant to apply to all route adjustments and not only to land and right-of-way costs. LS Power believes that the route adjustments as high as a 1:1 adjustment for changes in route length would be the best result for ratepayers. Shifting route length risk onto bidders provides an incentive to assume the longest route possible, which would result in the highest cost possible, without savings to ratepayers for a shorter final route. Alternatively, should a bidder identify the shorter of the proposed routes,</p>	<p>At the RFQ stage, the AESO will provide drafts of the PDA and PA so that Respondents can review these documents. See Theme Paper, Section 1.3.2.</p> <p>See Theme Paper, Section 1.1.</p>



Stakeholder Comment and AESO Replies Matrix

	<p>or even an aggressively short route, it could likely result in a winning bidder who cannot deliver in the event of approval of a much longer approved route, with a significant potential cost increase. In addition, LS Power suggests that the AESO consider adjustments for route after AUC approval. It is LS Power’s experience that once a route is approved there is often new information that is discovered on the ground that may necessitate route adjustments.</p> <p>The route adjustment includes an adjustment for subsurface conditions but it is only based on an estimate of what subsurface conditions will be. This adjustment does little to mitigate the risk of actual subsurface conditions being different than expected conditions.</p> <p>The expiration date of the PDA should be extended for all reasons that are beyond the control of the Preferred Proponent.</p>	<p>For “all reasons” may be too broad, but the AESO will consider this recommendation.</p>
<p>NextEra</p>	<p>As it stands now, it is our understanding that the RFP will require proponents to submit a primary and alternative route based on a land study provided by the AESO. For this reason, it can be reasonably expected that each submission will require the proponent to make significant assumptions, as desk-top studies are of limited value during the early-stage development phase of a major construction project. It is at this stage that the AESO is requesting that proponents submit a form of fixed-price bid. (i.e. fixed price with potential adjustors)</p> <p>NextEra participated in the Texas CREZ proceedings before the PUCT, where a similar methodology was initially put in place. After proponents responded, the PUCT quickly found that it was difficult, if not impossible, to determine the quality of the proponents submissions without additional clarity and transparency into the details of each submission. For this reason, the PUCT proposed a 20 mile ‘proxy’ line, with exacting specifications and details, that each proponent was required to provide a price and financing plan for. Through this mechanism, the PUCT gained</p>	<p>The concept of “Table Top” is under review.</p>



Stakeholder Comment and AESO Replies Matrix

	<p>visibility into the unit cost of each proponent by distance and structure, as well as seeing how the costs combined with financing in order to obtain the final total cost (NPV) of each proposal.</p> <p>The AESO has a similar opportunity in this process. While the process requires that proponents provide a primary and alternative route, this is largely an exercise in pre-stage development and high level route selection. It does provide insight into a proponent's technical capabilities, although the resulting NPV masks all the detail of the proponent's financial capabilities.</p> <p>As the RFP is essentially a desk-top exercise, there is high probability that the route may require significant changes in the years between RFP submission and construction. The additional information gained from the inclusion of the proxy line will provide the AESO with significant information into potential incremental costs and/or savings. As well, NextEra proposes that during the selection process the AESO use the information learned from the proxy line to weight the NPV submitted provided by each proponent to take into account not only the NPV submitted, but also the sensitivity of the NPV to change based on the major factors that can affect the project and its cost, such as route, timing, cost-of-capital, among others.</p>	
TransCanada Energy	<p>It appears that the evaluation process of the bid is mostly focused on the NPV of the project. Proponents of these types of projects could provide innovative cost-saving/gain-sharing proposals, and it is unclear how these initiatives would be incorporated into the Project Development Agreement, Project Agreement and/or the evaluation process.</p> <p>Will the selection process be robust enough to place a value on cost-saving/gain-sharing proposals offered by proponents in their RFP submissions against those whose RFP submissions do not include such</p>	<p>See Theme Paper, Section 1.2 and 1.3.1.</p> <p>See Theme Paper, Section 1.6.</p>



Stakeholder Comment and AESO Replies Matrix

	<p>provisions?</p> <p>Performance standards as well as requirements for spare parts must be set prior to the RFP process, as they will form the underlying assumptions for O&M and major maintenance costs.</p> <p>A guideline should be established to define terms of access and appropriate market based transfer prices to an incumbent's stock of spares i.e. transformers, breakers etc.</p>	<p>Agreed.</p>
UCA	<p>The UCA assumes that the indices "predetermined by the AESO" are those resulting from the AUC Process Review.</p>	<p>Specific Indices will not be part of the AUC Filing.</p>

Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the indicative RFP selection criteria.		
Stakeholder	Stakeholder Comment	AESO Replies
AltaLink	<p>It would be helpful if contemplated timing of submission of the SR1 and SR2 packages was clear. As previously explained, there is some confusion about how the NPV of the combined cost of two routes will be evaluated alongside the “reasonableness” of a financing plan. There are no criteria presented for reasonableness and it is difficult to understand how the aggregate cost of two alternative routes provides a meaningful indicator.</p> <p>The discussion includes provision that if the AESO terminates the Project Development Agreement, the proponent will essentially recover its costs. It would be more appropriate (in terms of mutual commitment to the process) for the proponent to recover its costs plus a development fee to cover the time and effort lost in pursuing the process.</p>	<p>See Theme Paper, Section 1.3.</p> <p>Termination provisions are being developed.</p>
Brookfield	<p>Brookfield believes the Paper contains a number of issues that would benefit from further clarification.</p> <p><u>Route Alternatives</u> How will the two alternative routes provided by each bidder be used in the evaluation process?</p> <p><u>SR1/SR2 Packages</u> Is the intention for the two RFP packages to be submitted at the same time or separately? If separately, what is the acceptable timeframe between submissions?</p> <p><u>Evaluation Criteria and Weightings</u></p>	<p>See Theme Paper, Section 1.3.</p>

Stakeholder Comment and AESO Replies Matrix

	<p>Brookfield recommends that further details are required about how the AESO Selection Panel will evaluate the technical submissions. For example, what criteria will the Panel use to determine whether a construction management plan warrants a ‘pass’ rating?</p> <p>We suggest AESO provide clear direction to the Selection Panel on the appropriate referral to, and consideration of, other materials and sources, in addition to the RFP submission, in proponent evaluation and selection.</p> <p><u>Alternative Offers</u> The process appears to favour the least-cost technically compliant offer. AESO should provide guidance on:</p> <ul style="list-style-type: none"> a) whether AESO would consider non-compliant alternative offers; perhaps containing different risk sharing proposals – for example, a bidder assumes commodity price risk versus the ratepayer taking commodity price risk through indexation. If so, how will AESO evaluate alternative offers without jeopardizing the robustness of the process; b) how AESO would evaluate an offer than was judged technically deficient in evaluation of SR1 but presented ratepayers with a significant cost saving in evaluation of SR2? Would AESO negotiate with bidders to correct deficiencies if a revised offer represented a cost-saving for ratepayers? 	<p>This remains under development.</p> <p>See Theme Paper, Section 1.6.</p> <p>See Theme Paper, Section 1.2.</p> <p>See Theme Paper, Section 1.3; a technically deficient submission at SR1 will not proceed to SR2.</p>
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Stakeholder Comment and AESO Replies Matrix

EPCOR	<p>Regarding Section 5 (RFP Evaluation and Response format), it is not clear how the AESO will evaluate each of the two routes included in a proponent's RFP and how they might be combined into a total score.</p> <p>In Section 7.1 it is not clear as to the intent of the surface/subsurface adjustment factor. Will each proponent's bid be evaluated before the condition adjustment factors are applied or after? Are the factors applied after geotech work has been completed, in which case the final cost could be materially different from the bid cost. Will this adjustment factor be subject to the [10]% cap?</p>	<p>See Theme Paper, Section 1.3.</p> <p>The Bid will be evaluated before the adjustment factors are applied, See Recommendation Paper Timeline Graph 1.0, page 13 and Section 7.3.7. This adjustment is being further developed in light of the review of the Table Top concept. Regardless, any route adjustment cost reimbursement will be capped at 10%.</p>
LS Power	<p>Several items are described as being examined on a pass/fail basis, such as the Proponent's financial models. As the process will only include 3 Proponents, there should be an opportunity for a Proponent to cure an element identified as "fail" prior to dismissal of a proposal.</p>	<p>The process will allow for a period of clarification/bidder meetings. The same process is a feature of P3s.</p>
NextEra	<p>As mentioned in the section above, NextEra request that the AESO use the results of a bid for a common 'proxy line' as the basis for a weighting mechanism to adjust proponent submitted NPV values. Alternatively, the 'proxy line' bid could be inserted as a third, independent, RFP selection criterion.</p>	<p>The AESO will not entertain a proxy line approach at this time.</p>
UCA	<p>The UCA supports the emphasis on life time cost NPV.</p>	

Stakeholder Comment and AESO Replies Matrix

Process		
The AESO seeks stakeholder comments on the selection panel approach.		
Stakeholder	Stakeholder Comment	AESO Replies
Brookfield	In addition to the selection criteria proposed in the Paper, Brookfield suggests, members of the selection panels should also be required to be independent: they should not be an owner, officer, director or employee of a bidder in the competitive process, nor related to an owner etc. nor have any pecuniary or other interest in the outcome of the process etc.	See Theme Paper, Section 1.6.
LS Power	LS Power is supportive of the independent selection panel approach as long as the panelists do not have a bias for any certain respondent that meets the AESO's criteria. The selection criteria in the RFQ stage are in many instances subjective which could lead to a disagreement among the panelists on who the winning Proponents will be. It is not clear as to whether the panelists will need to come to a unanimous decision or a majority vote.	See Theme Paper, Section 1.6.
NextEra	NextEra agrees that the use of multiple specialty panels consisting of pan-Canadian or internationally recognized experts with specific experience is appropriate. The selection process will be afforded both credibility and integrity through the use of such panels, and allow for a decision that is unbiased and in the best interests of the ratepayers of Alberta.	See Theme Paper, Section 1.6.
TransCanada Energy	In addition to the evaluation and adjudication of the process by the Selection Panels, TransCanada supports the notion of a Fairness Monitor suggested in Appendix F, Section 5, page 117. TransCanada suggests that the Fairness Monitor be an independent 3rd party to support the decision making process by AESO Management and the	See Theme Paper, Section 1.6 and 1.7.



Stakeholder Comment and AESO Replies Matrix

	AESO Board at each stage of the selection process and should be shared with the AUC, the Minister, and the general public.	
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