

Competitive Procurement Process for Critical Transmission Infrastructure

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Agenda



9:00 – 9:10	Opening Remarks
9:10 – 10:00	Terms of Reference and Discussion Paper
10:00 – 10:10	Break
10:10 – 11:15	Panel Question & Answer Period
11:15 – 11:30	Closing Remarks

Need for a Competitive Procurement Process



- Outlined in the new Transmission Regulation (T-Reg)
- The T-Reg describes the roles and responsibilities and the key requirements of the competitive procurement process
- Pursuant to the requirements of the T-Reg, the AESO is developing a competitive procurement process that will apply to the Fort McMurray CTI project and all future CTI projects

Terms of Reference – In Scope

- The proposed implementation schedule
- Objectives and principles for a successful process
- Alternatives within a Competitive Procurement Process
- Critical implementation issues and proposed resolution
- Request for qualification process development
- Proposed regulatory changes required as a result of implementing a Competitive Procurement Process

Terms of Reference – Out of Scope

- This Terms of Reference paper and consultation does not include:
 - discussion and/or debate on changes to CTI legislation
 - discussion and/or debate on alternatives to a Competitive Procurement Process for CTI projects

Consultation Principles



- Inclusive, transparent, fair and efficient
- A process substantially similar to the Independent System Operator (ISO) Rules consultation process will be used for the development of the competitive procurement process

Consultation Process



Consultation Activities	Proposed Date
Step 1: The EUA identified a requirement for the AESO to develop a competitive procurement process for Critical Transmission Infrastructure	December 2009
Step 2: The AESO issues an invitation to stakeholders to participate in the consultation process. The invitation will include briefing materials including a Discussion Paper, Terms of Reference and a Stakeholder Comment/AESO Replies Matrix	September 17, 2010
Step 3: Stakeholders notify the AESO of intent to participate	September 29, 2010
Step 4: The AESO holds an initial stakeholder meeting	October 13, 2010
Step 5: Stakeholders provide written comments to the AESO	November 4, 2010
Step 6: The AESO replies to stakeholder comments	November 25, 2010
Step 7: The AESO holds an additional meeting prior to issuing its Recommendation Paper	December 1, 2010
Step 8: The AESO issues its Recommendation Paper to stakeholders for review and comment (a Stakeholder Comment/AESO Replies Matrix will be attached)	January 10, 2011
Step 9: Stakeholders provide comments on the Recommendation Paper and the AESO responds	2011: February 9 – comments received March 9 – AESO replies

Objectives and Principles



- Developing the process for competitive procurement of CTI in Alberta must:
 - be open and consultative
 - provide opportunities for stakeholders to participate and make their views known to the AESO and other authorities responsible for developing and implementing the process

Goals of the CPP

- Create cost minimization without adversely affecting system reliability
- Create opportunity for innovation
- Create opportunity for new entrants
- Foster regulatory predictability
- Be administratively straightforward and efficient
- Allocate risks fairly
- Foster efficient investment, operation, maintenance and use of transmission assets
- Be clear on the accountabilities of various parties involved in the project
- Achieve a reasonable level of transparency and consistency over time
- Result in the development of transmission infrastructure that meets or exceeds all of the performance and reliability standards and requirements of the AESO and other regulatory bodies, including ISO Rules, policies and procedures

Goals of the CPP

- The form of the contract applied to critical transmission assets procured on a competitive basis shall:
 - be based on a predictable revenue stream, potentially with a symmetric incentive mechanism, or on the traditional rate base return with competitively priced initial investment
 - take into account performance standards (safety, quality, cost, service and reliability) consistent with those required for other transmission assets built in Alberta
 - allow for innovation and creativity throughout the life cycle of the contract including, but not limited to, financial engineering, adoption of new technology, supply chain management and ability to attract a talented workforce
 - consider obligations typically assumed by the incumbent TFO, including environmental obligations and mandatory consultation with the Aboriginal Peoples of Canada under Section 35 of the *Constitution Act* (Canada)
- Selection criteria for the successful project developer(s) will be transparent and address the above principles. Detailed weightings for each selection attribute will be developed following stakeholder consultation and incorporated in the tender documents

Discussion of Alternatives

- Two alternatives:
 - **Own Alternative:** Design-build-finance-own and maintain
 - **EPC Alternative:** Design-build-transfer to an incumbent TFO
- The suitability of either alternative depends on many factors and related complexities including but not limited to:
 - project schedule
 - need for interconnection with loads and generators
 - acquisition of land
 - impact on grid reliability during normal and emergency conditions

Own Alternative: Design-Build-Finance-Own and Maintain



Description:

- an entity (Selected Entity) would be selected via a competitive tender process to perform the duties and responsibilities of a TFO in respect of the CTI, unless otherwise required in the Own Contract

Own Alternative Process: Design-Build-Finance-Own and Maintain



- Step 1:** The AESO develops a Process for the Own Alternative and submits it to the AUC for approval
- Step 2:** The AESO issues a Request for Qualifications (RFQ). Upon receiving responses to the RFQ, the AESO establishes a short list of eligible entities (Eligible Bidders)
- Step 3:** The AESO develops a Request for Proposal (RFP) for the CTI project and issues it to Eligible Bidders
- Step 4:** Eligible Bidders prepare and submit proposals in response to the RFP (Proposals)
- Step 5:** The AESO evaluates qualifying Proposals in accordance with the Approved Process
- Step 6:** The AESO may accept a qualified Proposal, reject all qualified Proposals or repeat the RFP process
- Step 7:** In accordance with the Approved Process, the Selected Entity would be required to enter into a contract with the AESO to “design, build, own, finance and maintain” the CTI project (Own Contract). Included in this Own Contract would be items such as:
 - Preparing and filing a Facilities Application for the CTI project
 - Making the transmission facility available in a timely manner for the AESO’s use
 - Submitting an application under Section 37 of the EUA for approval of the payment obligations under the Own Contract as its tariff

Own Alternative: Design-Build-Finance-Own and Maintain



- Advantages:
 - potential for improved full lifecycle efficiencies
 - selected entity as relationship holder with landowners and other stakeholders
- Disadvantages:
 - schedule
 - added uncertainty introduced with Regulatory and other risks

EPC Alternative: Design-Build-Transfer to an Incumbent TFO



- The AESO would undergo a competitive tender process to select an entity (EPC Entity) to perform some of the duties and responsibilities of a TFO
- The EPC Entity would not ultimately own and operate the completed CTI and would transfer its interest to the incumbent TFO (Incumbent TFO) upon completion of construction and commissioning
- The EPC Entity will receive compensation from the Incumbent TFO as directed by the AESO based on satisfactory completion of previously established milestones

EPC Alternative Process: Design-Build-Transfer to an Incumbent TFO



Steps 1 to 6: Similar to Own Alternative

Step 7: The EPC Entity would be required to enter into a contract to “design and build” the CTI project (EPC Contract). Included in this EPC Contract would be:

EPC Entity and the Incumbent TFO coordinate the preparation and filing of the Facilities Application for the CTI project

- a provision outlining the transfer of the completed CTI project to the Incumbent TFO
- the source of construction financing
- would require cooperation between the Incumbent TFO and the EPC Entity during certain phases of the CTI project. To prevent any appearance of self-dealing between the EPC Entity and the Incumbent TFO, the AESO, or its agent, will oversee all coordination and transactions

Step 8: Once the AUC approves the FA, the EPC Entity builds the CTI facility and transfers it to the Incumbent TFO, pursuant to the terms of the EPC Contract

EPC Alternative: Design-Build-Transfer to an Incumbent TFO



- Advantages:
 - potential for improved design and construction efficiencies
 - operational familiarity
 - establishment of long-term stakeholder relations
- Disadvantages:
 - construction capital
 - no potential for increased financing efficiencies
 - piecemeal approach may lead to sub-optimization
 - hand-off of relationship with landowners and other stakeholders
 - issues related to warranty provision

Additional Issues for Consideration



Issues Applicable to the Own and the EPC Alternative:

- What will be the AUC's role in overseeing, adjudicating and approving the Process? What role, if any, will the AUC have over the life of the contract?
- What provisions are required in the event of default? Which party assumes ownership? What protections are required to ensure performance (e.g., collateral and/or letters of credit, etc.)?
- How will an affiliate rule be structured to prevent any undue advantage for an incumbent TFO?

Additional Issues for Consideration

Issues Applicable to the Own Alternative:

- Will the Selected Entity be subject to the same duties and responsibilities as the Incumbent TFOs (technical, financial and other reporting)? If not, then how will this entity be defined to allow it to be exempt from certain provisions?
- How would the facilities be operated? What are the requirements of operating agreements with the interconnecting incumbent TFO(s) to provide integrated services?
- What happens at the end of the contract term vis-à-vis ownership, rights and obligations?
- How will force majeure be defined? What force majeure provisions/rights will be included?
- What assignment rights and obligations will be set (contract and land easements)?

Structure of the RFQ

- Suggested structure of the RFQ is included in Appendix A of the Discussion Paper

Proposed Regulatory Changes



- Suggested amendments to relevant statutes and regulations to provide the appropriate legal authority to implement the Own Alternative and EPC Alternative are included in Appendix B of the Discussion Paper

Next Steps



Consultation Activities	Proposed Date
Stakeholders provide written comments to the AESO	November 4, 2010
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Road Map Competitive Procurement Process



PHASE	1 CONCEPTS & CONSULTATION	2 AUC APPLICATION & DECISION	3 IMPLEMENT COMPETITIVE PROCUREMENT PROCESS	4 EXECUTE AGREEMENT
TASKS	KEY ACTIVITIES			
	Issue Discussion Paper	Pro Forma RFQ/RFP	Issue RFQ	Complete Agreement
	Seek Stakeholder Input	Pro Forma Agreement	Determine Bidder Short List	Execute Agreement
	Incorporate input	Pro Forma Selection Criteria	Issue RFP	Communication Update
	Issue Recommendation Paper	File Application	Evaluate Bids	
		Participate in Application Process	Award Project	
		Communication Update	Communication Update	
	PRE-WORK FOR NEXT PHASE			
	RFQ Development	Develop Bidding Schedule	Develop Agreement Schedule	
	RFP Development	Resource Bidding Process	Resource Agreement	
	Selection Criteria Development	Communication Planning	Communication Planning	
	Application Development			
	Agreement Development			
	Communication Planning			

Contact Information



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Questions

