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April 28, 2011

Elizabeth Moore  
Alberta Electric System Operators  
Calgary Place  
2500, 330 – 5<sup>th</sup> Ave SW  
Calgary, AB T2P 0L4

Dear Ms. Moore

1. EPCOR is pleased to provide the following comments in response to the AESO's request for comments regarding its draft recommendation for a competitive procurement process for Competitive Transmission Infrastructure (CTI) projects, dated March 31, 2011.

2. EPCOR continues to support the AESO recommended "Own" model as being most likely to generate bidding interest for these lines. EPCOR remains concerned that there are certain elements of the proposed framework that could increase the overall level of risk associated with delivery of a transmission facility, and so reduce or eliminate the potential benefits of the competitive process.

3. In its initial comments, EPCOR expressed an overriding concern that, structured poorly, any of the proposed models could result in higher costs compared to what we have today. EPCOR's initial concern was that higher contingencies would of necessity be included in all bids without first conducting sufficient design and siting work. The AESO proposal has now made it clear that it expects RFP participants to each conduct such work in development of their bids. This approach has its own problems. From a societal perspective, multiple parties carrying out the same work is inefficient. The AESO suggests there would be three to five RFP participants. If development work constitutes 5% of total costs, this represents an additional 10-20% of costs incurred that would not be under the regulated model. If these costs are to be borne by project proponents, the high costs combined with the risk of not being the successful bidder will likely deter proponents from being interested in this project. EPCOR's previous submission suggested that the proposed process be divided in two, and the upfront design and siting component be developed by either the incumbent TFO or a third party under competitive contract. This

would serve to both reduce the risk to potential bidders, and minimize the societal costs to do that work. The entity who would be responsible to prepare and have carriage of the Facility Application would have to be resolved along with how the final bid process would factor into the P&L approval.

4. In its verbal comments at the April 14, 2011 stakeholder meeting the AESO suggested that the existing legislative framework prevents the AESO expanding its scope of responsibility to include oversight of that development work. The AESO also expressed a strong preference to not be involved in the route recommendation as being outside of its scope of responsibility. It is EPCOR's view that, if this process is intended to be applied on an ongoing basis, the AESO should be willing to explore what changes may be required to the legislative framework and their role in the process if those changes could produce a better result. EPCOR remains of the view that the process be divided in two as previously explained, and changes to the legislative framework or the AESO's responsibilities as required to support this approach be considered.

5. In its Recommendation Paper, the AESO proposes two options for allocation of risk. Option one requires bidders to incur all development costs, and include recovery of such costs as much as they believe they are able through their total bid price. Option two separates the development costs from the overall project costs, and suggests the potential for all bidders to recover at least some of their development costs on a cost recovery basis. EPCOR is of the view that the risk perceived by bidders, without some element of cost recovery, will significantly reduce the pool of interested bidders. The risk associated with not doing a good job on the development work is unacceptable, and with the odds of being successful between only one in three and one in five, EPCOR believes that under option one many potential bidders will be unwilling to spend the required funds and so will not participate at all. EPCOR therefore supports some development cost recovery as necessary to attract the largest pool of potential participants.

6. EPCOR advocates cost recovery by bidders up to a cap. EPCOR suggests the cap be set at between two and three percent of the total bid. In making its bid, each bidder also sets the cap for itself for recoverable development costs. This mechanism has two positive attributes. First, the competitive pressures to keep the bid as low as possible will also serve to put pressure on the development costs, even though they are outside the scope of the bid. Second, rather than have a fixed recovery amount, the recoverable development costs are adjusted automatically with the size of the project.

7. The matter of the size of the pool of bidders is similar in nature and should also be addressed. The objective should not be to have the largest pool of bidders as possible. The effect of that is to reduce the probability of winning, and so discourage some of them from participating, particularly at the RFP stage where significant resources are committed. The objective should be to have a very highly qualified pool, with a sufficient number of participants to force each bidder to make the best bid possible. More participants than required will incur more costs to rate payers under a development cost recovery model, while the AESO's option one will reduce the quality of the pool of bidders. Three or four bidders is likely sufficient to produce the best or near-best outcome without incurring unnecessary costs to rate payers.

8. EPCOR has some additional general comments to make as well. First, the AESO has on occasion suggested that a bid for a life cycle project provides opportunities to mitigate risk because of the extended term. In EPCOR's view, this is incorrect. If the successful bidder makes a mistake in its bid, that effect will be realized and will not be mitigated, though it may occur over an extended period. Just as the bid will be determined on a discounted basis, so too will any loss resulting from a poor bid be immediately recognized on a discounted basis.

9. Second, there are many competitive advantages that are appropriately brought to bear in preparing a bid, such as balance sheet, expertise, innovative ability, etc. However, there are others that should not be. For example, incumbents with similar facilities have an advantage in economies of scale for spares. EPCOR expects that some form of inventory sharing could and should be facilitated between the incumbent TFOs and the prospective project owner.

10. Third, EPCOR is concerned that the per km adjustment mechanism is a blunt tool that does not mitigate risk, and therefore costs, as fully as it could. EPCOR suggests that the cost adjustment be determined in conjunction with determination of the route. If the AUC decides to change the route, they will also at the same time determine the associated change in costs. If the AESO is open to such an approach, EPCOR is happy to work with stakeholders to develop a simple mechanism to do so.

11. Finally, the AESO seeks stakeholder views on the packaging of the Fort McMurray projects. It is EPCOR's view that a balance of risk mitigation and size sufficient to attract international participants is appropriate. Accordingly, EPCOR suggests that the project be offered to bid in two segments – one for each line. EPCOR also suggests that a separate pool of

bidders into the RFP process for each segment be considered in order to mitigate operational risk should a single successful bidder fail.

12. EPCOR would be please to work with the AESO and other stakeholders to resolve concerns and implementation issues regarding this approach. If you have any questions please contact me directly at (780) 412-7773.

Sincerley,

*[Original signed by]*

Don Gerke  
Vice President, Regulatory Affairs  
EPCOR Utilites Inc.