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November 8, 2010

Alberta Electric System Operator
Calgary Place
2500, 330 – 5th Ave SW
Calgary, Alberta, T2P 0L4

Attention: Elizabeth Moore and Allison Mathews

Dear Mesdames:

Re: Discussion Paper Competitive Procurement Process for Critical Transmission Infrastructure

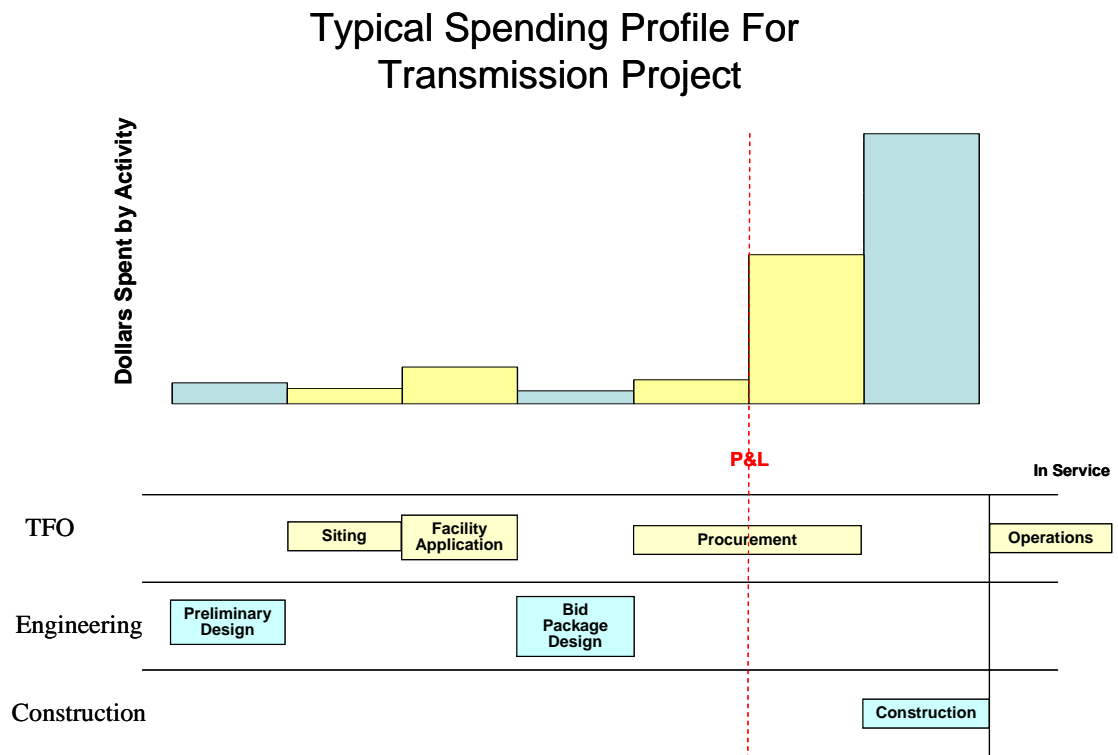
1. EPCOR is pleased to provide the following comments in response to the AESO's request for comments regarding its framework on a competitive procurement process for Competitive Transmission Infrastructure (CTI) projects. The AESO has issued documents titled *Terms of Reference* and *Discussion Paper Competitive Procurement Process for Critical Transmission Infrastructure*, each dated September 17. The AESO has included two "bookend" alternatives in its documentation. These include a Design, Build, Finance, Own/ Operate (DBFO) model versus a service model of Engineering, Procurement, Construction (EPC) with the completed project transferred to the incumbent TFO. More detailed comments are set out in the comment matrix as requested by the AESO.

2. EPCOR is of the view that the EPC model is not a significant departure from what we have today where the TFO typically puts the major EPC elements out to competitive tender. The DBFO model is likely to provide greater scope for competitive efficiencies, will attract more bidders and could therefore have a greater chance of achieving the objectives of the competitive bid process as detailed by the AESO.

3. EPCOR has an overriding concern that, structured poorly, both processes could result in higher costs compared to what we have today. In particular, our concern is with any process that requires a binding bid, up-front, before sufficient engineering and siting work has been carried out for bidders to have a good understanding of what they are bidding on. In our view, this may only serve to drive up costs as bidders will almost certainly add higher contingencies to account for

design and cost risk that is present until sufficient design and siting work has been completed. It may make more sense to divide the process in two with an upfront design and siting component that could be performed by either the incumbent TFO or under a competitive contract. Once sufficient engineering design and siting work has been completed a reasonably specific bid package for final design, procurement, construction and operation could be put to bid. 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 factors into the P&L approval.

4. The reference point for our thinking about this process is set out in the figure below. It sets out the major steps versus what the relative spends would be for a typical CTI transmission project.



6. As can be seen from the figure, most of the spending has historically occurred after the P&L has been issued. And as noted above, most of this spending is already subject to competitive procurement. However, allowing bidders to bid on final design, procurement, construction, ownership and operations under a contractual commitment may yield cost efficiencies that are not present today.

7. It is not clear to EPCOR whether there would be any benefit to putting the preliminary design, siting and facility application preparation and carriage steps out to competitive bid.
8. EPCOR would be pleased to work with the AESO and other stakeholders to identify and resolve issues and implementation details regarding this approach.
9. If you have any questions or concerns contact myself at (780)412-7773.

Sincerely,

[Original signed by]

Don Gerke
Vice President, Regulatory Affairs
EPCOR Utilites Inc.

Attachment



Stakeholder Comment and AESO Replies Matrix

AESO Consultation – Competitive Procurement Process

September 17, 2010

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

| | |
|---|---|
| Date of Request for Comment: <u>2010-MM-DD</u> Period of Consultation: <u>2010-09-17</u> through <u>2010-11-04</u> Comments From: <u>EPCOR Utilities Inc.</u> Date [yyyy/mm/dd]: <u>2010-11-04</u> | Contact: <u>Kirk Poteet</u> Phone: <u>(403) 861-4484</u> E-mail: <u>kpoteet@telus.net</u> |
|---|---|

| Interest in Participating in AESO Consultation for a Proposed Competitive Procurement Process | | |
|---|---|---------------------|
| Please indicate your interest in participating in this consultation | | |
| | Stakeholder Comment | |
| | <input checked="" type="checkbox"/> Interested <input type="checkbox"/> Not Interested | |
| Terms of Reference - In-Scope Section | | |
| Do stakeholders agree with the scope set out in the Terms of Reference? Are there any other documents the AESO should consider as in scope? | | |
| Stakeholder | Stakeholder Comment | AESO Replies |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose | |



Stakeholder Comment and AESO Replies Matrix
AESO Consultation – Competitive Procurement Process
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| Terms of Reference – Out-of-Scope Section | | |
|---|---|--------------|
| Do stakeholders agree with the out-of-scope section? | | |
| Stakeholder | Stakeholder Comment | AESO Replies |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose | |
| Terms of Reference - Consultation Activities, Documents and Schedule Section | | |
| Do stakeholders agree with the consultation activities, documents and schedule? | | |
| Stakeholder | Stakeholder Comment | Replies |
| | <p>The proposed consultation process and schedule appears reasonable. However, substantial information is expected to be provided in the AESO's Recommendation paper on January 10 2011. Adjustments to the schedule and process at that time may be required to allow participants to fully respond.</p> | |
| Terms of Reference - Other Comments | | |
| Do stakeholders have any other comments regarding the Terms of Reference for the competitive procurement process documents? | | |
| Stakeholder | Stakeholder Comment | |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose | |



Stakeholder Comment and AESO Replies Matrix
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| Discussion Paper | | |
|--|---|--|
| The AESO is seeking stakeholder comments regarding the proposed implementation schedule. | | |
| Stakeholder | Stakeholder Comment | |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose The first CTI project to which the competitive procurement process could apply (Genesee to Fort McMurray area) has an in service date of 2014 in AESO's 2009 Long Term Plan. It is not clear whether this new process can be fully implemented in time to allow the project to meet that in service date. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding the objectives and principles to be used in the design of a competitive procurement process for CTI in Alberta. | | |
| Stakeholder | Stakeholder Comment | |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose EPCOR is generally supportive of a competitive procurement process that would reduce the life cycle costs of major capital builds if it does not expose the system to increased risks regarding system reliability, availability or the financial stability of participants. In addition to the | |



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| | <p>more specific comments below, EPCOR suggests that a guiding principle/objective should be that this process results in better outcomes than the current process for building major projects.</p> <p>Regarding Objective/ Principle 2 a) – EPCOR suggests clarification that the objective of cost minimization should be on a life cycle basis</p> <p>Regarding Objective/ Principle 2 f) – EPCOR suggests that a fair allocation of risks is insufficient. The process should also have as an objective to appropriately compensate for risks undertaken.</p> <p>Regarding Objective/ Principle 2 g) – EPCOR is unclear as to how a process for provision of transmission facilities can foster efficient use of the assets. In EPCOR's view, facility usage is considered in determination of the need for the facility, which is necessarily contemplated in its designation as CTI and within the legislative framework. Please explain what the AESO intends by inclusion of efficient "use" of assets within this context.</p> <p>Regarding Objective/Principle 2 h) –</p> | |
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| | <p>EPCOR suggests that in addition to “clear accountabilities” it should be clear as to the compensation various parties receive for accepting those accountabilities.</p> | |
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| Discussion Paper | | |
| <p>The AESO is seeking stakeholder comments regarding additional alternatives including associated advantages and disadvantages for the competitive procurement process.</p> | | |
| Stakeholder | Stakeholder Comment | |
| | <p>EPCOR is concerned that each of the Own and EPC alternatives described by the AESO requires bids to be submitted and contractually agreed upon prior to establishment of a clear route or assured timing as to when approval would be received to begin construction. This lack of clarity as to what the participants are bidding on exposes the bidder to a considerable amount of risk. Bidders can be expected to add material contingencies to address unknowns regarding route changes and timing of the approval / construction process. This would make it difficult for comparable bids to be provided by qualified bidders, and would also result in material premiums built into final bids. An alternative that would allow</p> | |



Stakeholder Comment and AESO Replies Matrix

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| | for the completion of routing in advance of bidding would address much of the risk. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding the process steps in the Own Alternative. | | |
| Stakeholder | Stakeholder Comment | |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose See comments above. In addition, EPCOR asks that the AESO provide in the discussion paper a clear outline as to what is expected to be included in the RFP. For example, it is EPCOR’s view that the RFP should designate a route for the proposed facility. Otherwise a direct comparison and evaluation of competing bids will be difficult. Also, if the RFP is to be based on a pre-established route, what process does the AESO propose to determine that route? | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding the advantages, as well as any other advantages and disadvantages the stakeholder believes are appropriate for the Own Alternative. | | |
| Stakeholder | Stakeholder Comment | |
| | <input checked="" type="checkbox"/> Support <input type="checkbox"/> Oppose | |



Stakeholder Comment and AESO Replies Matrix

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| | <p>a) EPCOR supports the use of life cycle efficiencies as the standard for evaluation of bids. EPCOR furthermore suggests that not only costs, but also safety, resistance to force majeure events and management of rerouting risk be considered over the life of the asset as well.</p> <p>EPCOR also seeks confirmation that ‘tradeoffs’ between capabilities as mentioned in the second paragraph does not imply that minimum standards for landowner consultation, financial strength, environmental approvals, etc are to be relaxed in the name of efficiency.</p> <p>EPCOR sees more advantages of the “Own” vs the EPC model. In EPCOR’s view, the Own model is likely to attract more bidders, and therefore produce a better outcome relative to EPC option in a competitive process. Furthermore, the Own option provides one more bid element for bidders to demonstrate efficiencies relative to EPC option.</p> <p>As explained above, EPCOR sees the uncertainty of project specifics and seeking regulatory approvals for the line route after</p> | |
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| | submitting a bid as adding risk to the project, and therefore resulting in the addition of a risk premium by qualified bidders. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding efficient risk-sharing options that will optimize the overall cost of CTI projects. | | |
| Stakeholder | Stakeholder Comment | |
| | <input type="checkbox"/> Support <input type="checkbox"/> Oppose As described above, EPCOR believes that removing routing from the bid process by having predetermined the route that will be included in the Facility Application for approval by the AUC will reduce the risk incorporated into the bid, resulting in an overall better allocation of risk and lower overall costs. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding the process steps in the EPC Alternative. | | |
| Stakeholder | Stakeholder Comment | |
| | <input type="checkbox"/> Support <input checked="" type="checkbox"/> Oppose In addition to the general comments above, EPCOR would view this alternative as | |



Stakeholder Comment and AESO Replies Matrix

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| | similar to the process today where the incumbent TFO bids out capital expenditures above \$50,000 as per AESO Rule 9.1.5.2. EPCOR also seeks clarification as to the contract form. Does the AESO envision a standard form contract or individually negotiated contracts on case by case basis? | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding the advantages, as well as any other advantages and disadvantages the stakeholder believes are appropriate for the EPC Alternative. | | |
| Stakeholder | Stakeholder Comment | |
| | <input type="checkbox"/> Support <input type="checkbox"/> Oppose As in the Own alternative above, EPCOR sees the uncertainty of project specifics and seeking regulatory approvals for the line route after submitting a bid as adding risk to the project, and therefore requiring addition of a risk premium. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments regarding additional issues for consideration applicable to the Own and EPC Alternatives, as well as identification of any other issues that will need consideration. | | |
| Stakeholder | Stakeholder Comment | |



Stakeholder Comment and AESO Replies Matrix

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| | <p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p> <p>3.1 -1) For successful TFO bidders who do so on the basis of including the asset in rate base, EPCOR suggests that the role of the AUC is much as it is on non-CTI projects. In addition, and for successful non-TFO bidders or contractual agreement, the AUC may be required to verify AESO properly followed the approved Process upon complaint or objection of an interested party.</p> <p>3.1 - 2) EPCOR’s view is that after approving the Process, no further AUC approvals are required. The AESO would be the body responsible for approving the winning bid. The AUC may be required to determine whether the Process was followed appropriately, and the AESO decision of the successful bidder was appropriate if requested to due so by an interested party.</p> <p>3.1 - 3) To protect against default EPCOR would expect normal commercial terms to be included in any contract. This would include Letters of Credit or guarantees by financially stable corporations.</p> | |
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| | <p>3.1 - 4) EPCOR’s view is that the principles governing interaffiliate relationships currently in place are appropriate for between TFOs and unregulated affiliates planning to participate in the AESO Process. The AUC would continue with its current responsibility of ensuring that regulated assets and resources are not used at rate-payer expense</p> | |
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| Discussion Paper | | |
| <p>The AESO is seeking stakeholder comments regarding additional issues for consideration applicable to the Own Alternative, as well as identification of any other issues that will need consideration.</p> | | |
| Stakeholder | Stakeholder Comment | |
| | <p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p> <p>3.2 - 1) For successful bidders, EPCOR suggests that reporting requirements be similar to those presently used to measure TFO performance but would add metrics against operational performance metrics associated with demonstration of continuing financial strength – credit rating and acceptable financial ratios.</p> <p>3.2 - 2) EPCOR suggests that arrangements and interconnection</p> | |



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| | <p>agreements as are currently in place between TFOs are appropriate for successful bidders.</p> <p>3.2 - 3) For contracted facilities, EPCOR suggests that the facility could be re-auctioned. Successful bidders would assume ownership of the assets, along with the responsibility to rebuild, maintain and operate them.</p> <p>For facilities awarded to TFOs and included in rate base, the facility should stay with the TFO in rate base.</p> <p>3.2 - 4) EPCOR is of the view that the best/ most economic treatment of force majeure is as exists with regulated assets – backstopped by the rate-payer. This allows for the spreading of the risk over the system versus being accepted by a single asset in that system. If the entire risk was to be accepted by the owner of the single asset they would require a risk premium at time of bidding that would reduce the attractiveness of the competitive bidding process.</p> <p>3.2 - 5) EPCOR is of the view that a successful bidder should have the ability to</p> | |
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| | assign rights and obligations, with AESO approval, if the assignee meets the same qualifications as set in the original bidding process. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments on the inclusion of the proposed structure for the Request for Qualifications (RFQ), as well as any other information the stakeholder believes should be included. | | |
| Stakeholder | Stakeholder Comment | |
| | <input type="checkbox"/> Support <input type="checkbox"/> Oppose EPCOR believes that key commercial terms and a risk matrix detailing the individual risks to be accepted by each of the parties should be included in the RFQ. | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments on the inclusion of the information required by potential bidders to substantiate their qualifications to an RFQ, as well as any other information the stakeholder believes should be included. | | |
| Stakeholder | Stakeholder Comment | |
| | <input type="checkbox"/> Support <input type="checkbox"/> Oppose | |
| Discussion Paper | | |
| The AESO is seeking stakeholder comments on the potentially required amendments to relevant regulations, as well as any other | | |



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| amendments the stakeholder believes will be necessary. | | |
| Stakeholder | Stakeholder Comment | |
| | <input type="checkbox"/> Support <input type="checkbox"/> Oppose It is premature at this point to detail amendments that may be required to legislation and regulations. In EPCOR's view this review would be more appropriate once a decision has been made regarding what the Process is to be. | |
| Discussion Paper | | |
| The AESO is seeking any other stakeholder comments on the Discussion Paper concerning the AESO's proposed competitive procurement process. | | |
| Stakeholder | Stakeholder Comment | |
| | | |