



## Stakeholder Comment and AESO Replies Matrix

### AESO Consultation – Competitive Process

March 31, 2011

The AESO is asking market participants and interested parties to provide comments on the related Draft Recommendation Paper.

Date of Request for Comment: <u>2011-03-31</u>	Contact: <u>Jennifer Tuck</u>
Period of Consultation: <u>2011-03-31</u> through <u>2011-04-28</u>	Phone: <u>416-970-3904</u>
Comments From: <u>NextEra Energy Canada, ULC</u>	E-mail: <u>Jennifer.tuck@nexteraenergy.com</u>
Date [yyyy/mm/dd]: <u>2011-04-28</u>	

#### Risk Sharing Options – Cost Recovery / Pricing Arrangements

The AESO seeks stakeholder comments on other risk sharing options the AESO may consider for the AESO Own model.



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NextEra Energy Canada, ULC	<p>NextEra Energy Canada submits that a competitive bid, cost of service model would be effective for Alberta transmission development. NextEra Energy Canada understands that AESO is looking for alternatives to the cost of service model; however unless the risk is appropriately balanced in the cost recovery/pricing arrangements, the ratepayer will ultimately pay for the risk premium that proponents will build into their bids.</p> <p>Even with the cost of development work being recoverable, the ability to provide a fixed-price bid (with or without a unit rate adder for route length) would inevitably lead to a significant risk premium from all bidders.</p> <p>NextEra Energy Canada believes that a competitive process is viable using traditional cost-of-service or performance-based regulation (PBR). AESO could consider using PBR where there are fixed price estimates for all components of the project but profits would depend on the</p>	



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	<p>extent to which the actual costs are less than the estimate. This is a flexible model that could be used to incent proponents to control their costs under a cost of service model. This would result in less risk to the ratepayer.</p> <p>Another model that AESO could consider is one proposed by the Ontario Energy Board (OEB). The OEB has proposed a two stage process that lends itself to giving both the regulator and the proponent greater certainty with respect to project costs.</p> <p>In the Ontario model, the process has effectively been divided into two parts; first the development of a given project, and second the construction, ownership and operation of the project. During the development phase, qualified bidders will prepare a bid to be submitted to the Regulator. Once the regulator selects a successful proponent or proponents, the developer can proceed with the certainty of being kept whole for development costs, which is a small part of the overall project cost. Upon the completion of the development stage, the proponent can</p>	
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	<p>request approval to continue with construction. At this point, there is certainty regarding the project’s route and more certainty of the expected project cost therefore a proponent could be better prepared to abide by a fixed price project budget.</p> <p>Through such a process, there are opportunities in which the regulator has the ability to terminate or proceed with the project given reliable figures for construction.</p> <p>If the AESO chooses to proceed with a fixed or predictable price model, by separating the development phase from the construction phase, NextEra Energy Canada believes that prospective developers would have better information on which to base a bid of the fixed price for construction and operation. While some level of risk premium would still be a possibility, it would be lessened by the greater degree of information available for establishing the bids.</p>	
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#### Risk Sharing Options – Cost Recovery / Pricing Arrangements

The AESO also seeks stakeholder comments on all aspects of its cost recovery / pricing scheme including:

- the implied allocation of risk under Option 1 and Option 2
- O&M escalation provisions including proposed indices
- Information the AESO could provide to assist with route estimation in advance of bid submissions
- Performance specifications
- Contract term



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NextEra Energy Canada, ULC	<p>NextEra Energy Canada believes that Option 1, which has fixed price development costs, will result in developers building risk premiums into the bid as there will not be enough information up front to mitigate the risk associated with so many unknown factors like the ultimate length of the line etc...</p> <p>While we appreciate that the AESO's intent is for the proponent to recover costs over the life of the project, this may not be possible if other project costs also rise above the fixed price for EPC. Ultimately, proponents will still be bidding in significant risk premiums, which inappropriately burdens Alberta ratepayers.</p> <p>Option 2, which has "reasonable" development costs paid upfront, doesn't really eliminate the need for a bidder to build risk premiums into a bid as the development costs are a small portion of the overall project costs. The bulk of the costs could still run over the fixed price the proponent bid in with during the RFP process and the length of time to recover these costs is shortened with a 10 year</p>	



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	<p>O&amp;M term.</p> <p>Additionally, Option 2 doesn't define "reasonable" development costs, which would likely induce proponents to bid in a risk premium for that.</p>	
<b>Arrangements Arising out of Implementation of the Process</b>		
<p>With regard to contractual arrangement arising from the Process, the AESO is seeking stakeholder identification of key project risks and commentary on ways of allocating the otherwise addressing these risks in a fair and equitable manner.</p>		
<b>Stakeholder</b>	<b>Stakeholder Comment</b>	<b>AESO Replies</b>
<b>Fort McMurray Project Components Subject to Bid</b>		
<p>The AESO seeks stakeholder comments, including advantages and disadvantages, on whether the stages of the project should be bid out as one project or whether each stage should be bid out separately.</p>		
<b>Stakeholder</b>	<b>Stakeholder Comment</b>	<b>Replies</b>
	<p>NextEra feels that the advantages of separately bidding out the components of the Fort McMurray project significantly outweigh the disadvantages.</p> <p>By bidding out the project as a whole, the AESO would narrow the field of potential proponents by financial capacity alone, thereby reducing the benefits afforded through a competitive process.</p>	



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	<p>With each component being bid out separately, the AESO would be able to spread both financial and execution risk among multiple proponents. In addition, the AESO and the AUC would be able to gauge the actual performance of a given successful proponent before executing additional, large contracts. If a successful bidder proves its execution and management capability through a smaller project, it might be viewed favorably in future procurement processes and the end result could be the same as if it would have won the entire project through a single bid.</p> <p>In the case of below-expectation performance of a proponent, the AESO would have the ability to select other proponents for subsequent project components, thereby providing an incentive to proponents to maximize performance on initial projects.</p> <p>In addition, the ability to access a larger pool of financing arrangements and instruments from different providers would provide the ratepayers of Alberta with a diversity of lenders.</p>	
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	<p>In summary, bidding as a single project would restrict the AESO to a single proponent. With multiple bids, the AESO may obtain the same result as a single bid process (i.e. the same proponent is sequentially selected for all project components) with a marginal increase in regulatory complexity, while providing hedges against poor performance and giving itself the ability to spread both financial and execution risk among more entities.</p>	
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Draft Recommendation Paper - Other Comments		
Do stakeholders have any other comments regarding the Draft Recommendation Paper?		
Stakeholder	Stakeholder Comment	
	<p>NextEra Energy Canada agrees with the AESO Own model for one entity to develop, construct own and operate each asset. NextEra Energy Canada proposes a cost of service model for the successful proponent of a given project (inclusive of development construction and operation) or a staged approach similar to the Ontario model. That is, if the successful proponent meets development performance objectives and milestones during the development phase, they be awarded construction and operation of the project under a cost-of-service or performance-based rate-regulated model.</p>	