



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> Period of Consultation: <u>2010-MM-DD</u> through <u>2010-MM-DD</u> Comments From: <u>Office of the Utilities Consumer Advocate</u> Date [yyyy/mm/dd]: <u>2011-04-28</u>	Contact: <u>Kevin Phillips</u> Phone: <u>(403) 830-2751</u> E-mail: <u>kevinphillips@shaw.ca</u>
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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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	<p>The UCA agrees with the principle of placing risk with the party most able to mitigate the risk. Consumers are not in a position to mitigate the risks associated with the EPC functions and the UCA agrees with AESO's objective of changing the paradigm of how risk is managed.</p>	
	<p>The UCA also agrees with the AESO assessment that competition will result in bidders accepting risk at the same time as minimizing their bid price. In addition to the international examples provided in Appendix G, Alberta's experience with the PPA auction serves as a local example of entities willing to offer competitive prices while accepting significant risk. The process to develop the PPA contract relied on expert advice to assess the response of potential bidders to the risks which is different from this process where potential bidders are stakeholders with the opportunity to influence the contract terms and resulting risk allocation.</p> <p>In this process, potential bidders are providing the AESO with a sense of how they may respond to specific risk allocations and this is helpful but these stakeholders are also very capable of adapting to the economic environment as demonstrated by the strong responses experienced in the jurisdictions reviewed in Appendix G. The UCA recognizes the significance of this juncture in the development of Alberta's transmission system and encourages the AESO to trust the competitive market to manage risk with adaptability and creativity to produce efficiencies for consumers.</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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	<p>It appears that the AESO has generally captured the nature and timing of upfront costs incurred by bidders and the UCA expects that the AESO will be able to provide information to bidders that will to some extent mitigate some risk. Some information, such as geotechnical and environmental, will be required by all bidders and the AESO should consider commissioning studies from independent third parties to include in the bid package. The cost of these studies would represent a contribution by customers towards the procurement of transmission development. No warranties could be offered by the AESO but bidders would have a solid foundation of information from which they could make their own decisions to incur costs for additional studies or not. Bid packages provided to qualified bidders should include the most current information available to the AESO in respect of anticipated loading and future customer and system connections.</p> <p>The UCA supports Option 1 for cost recovery to reinforce the principle of predictable pricing and belief in the ability of bidders to manage risks over the life of the project. If the AESO determines that some portion of upfront costs for all bidders should be shared between bidders and customers, then each bid will have to clearly indentify the volume of upfront costs incurred. Upfront costs incurred by the successful bidder would be included in its fixed price bid for the life of the project but those of unsuccessful bidders would need to be quantifiable for cost sharing to occur. The UCA does not currently have a view to the reasonable portion of upfront costs to be shared but does recognize that the AESO tariff mechanism could facilitate such a cost recovery.</p> <p>AESO has proposed the use of indices to adjust operating and maintenance costs over the life of the contract with an initial period</p>	



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	<p>identified as 20 years for Option 1 and 10 years for Option 2. Annual escalation factors tied to labour and industrial material indices are common in long term contracts and are generally viewed as reasonable in cost of service regulatory reviews. Where a 10 year review period is suggested in Option 2 the question at the end of the initial term would be what the actual costs have been and whether the indices have been reflective of cost changes over the period. UCA would question whether reviews at 10 year increments would undermine the long term nature of the contract.</p> <p>The overall contract term remains in discussion. The UCA notes the Objectives and Principles listed in section 3.2 and in particular the Process Goals that seek to perpetuate the expected levels of reliability and service that are currently the obligations of TFO's in Alberta. The current obligation of TFO's to serve customers reliably and safely does not have an end date and the expectation is that assets will be replaced in perpetuity. These basic tenets are difficult to mirror in contractual relationships but it is reasonable to expect that the initial contract life would reflect in some fashion the expected physical life of the primary assets being constructed. If that is 35 or 40 years then the expectation is set for both parties to the contract and the expectation of customers will continue that this essential service will remain a utility type obligation even with the revised process for procurement. A long term contract of this nature would necessarily contain provisions for asset transfers through sale or default.</p> <p>Performance expectations are changing continually for the Alberta Interconnected Electric System as physical and market connections with adjacent jurisdictions create changing requirements. The UCA believes it is reasonable to expect that the Alberta Reliability Standards will</p>	
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	continue to evolve and the owner/operator of the competitively procured facilities must remain in step with the AES. The UCA does not currently have a view as to the contractual mechanisms necessary to ensure viability for the owner and quality service for customers.	
Arrangements Arising out of Implementation of the Process		
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.		
Stakeholder	Stakeholder Comment	AESO Replies
	No further comment	
Fort McMurray Project Components Subject to Bid		
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.		
Stakeholder	Stakeholder Comment	AESO Replies
	The UCA does not have a position on this issue at this time.	
Draft Recommendation Paper - Other Comments		
Do stakeholders have any other comments regarding the Draft Recommendation Paper?		
Stakeholder	Stakeholder Comment	AESO Replies
	The Draft Recommendation Paper does not describe where in the Process a comparison would be made between a benchmarked TFO cost of ownership and the costs of a contract with a successful bidder from the Process. The AESO has indicated that benchmarking will form part of its preparation for the introduction of Competitive Procurement. The UCA believes a discussion of the analysis and the application of the findings in the Process should be included in the Recommendation Paper. The UCA see this as the most meaningful way to demonstrate the value Competitive Procurement is bringing to Alberta electric consumers.	



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