

By email

November 4, 2010

Alberta Electric System Operator
Attn Elizabeth Moore / Allison Mathews
2500, 330 – 5th Ave SW
Calgary AB T2P 0L4

Dear Ms. Moore:

Competitive Procurement Process for Critical Transmission Infrastructure

Brookfield is pleased to provide comments on AESO's consultation on competitive procurement process for critical transmission infrastructure based on our recent experiences in both Ontario and Texas.

Brookfield is a global asset management company focused on property, renewable power and infrastructure assets with over \$100 billion of assets under management. Brookfield has over 80 years of experience owning, operating and investing in electricity transmission. Today, we have approximately 8,800 kilometres of transmission lines in Ontario and Chile. And we are currently in the initial stages of developing a \$500 million transmission system in the State of Texas as part of their Competitive Renewable Energy Zones (CREZ) program with a 50% joint partner. Brookfield is proud to be a part of the Alberta economy through its subsidiaries Brookfield Properties and Brookfield Residential Properties Inc., the sixth largest residential properties company in North America headquartered in Calgary.

From our experiences in Texas and Ontario, we believe the best approach for expediting new transmission while protecting the interests of ratepayers is to treat the new transmission companies brought in to build, own and operate new transmission in exactly the same way as the existing Transmission Facility Owners, with the same rights and obligations. This allows the transmission system to be governed by a single common set of policies, regulations and rules, and minimizes the need for regulatory changes.

We would be pleased to meet with AESO staff to discuss our recent experiences, and of course to participate in the public consultation process.

If you have any questions, please feel free to contact me (jeff.rosenthal@brookfield.com / (416) 956-5145 or my colleague Peter Bettel (peter.bettel@brookfieldpower.com / (819) 775-8174.)

Sincerely,



Jeff Rosenthal
Chief Operating Officer
Canadian Transmission and Distribution



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>2010-09-17</u> Period of Consultation: <u>2010-09-17</u> through <u>2010-11-04</u> Comments From: BROOKFIELD Date [yyyy/mm/ddj]: <u>2010-11-03</u>	Contact: <u>Peter Bettle</u> Phone: <u>(819) 775-8014</u> E-mail: <u>peter.bettle@brookfieldpower.com</u>
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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	AESO Replies
No comment	<input type="checkbox"/> Support <input type="checkbox"/> Oppose



Stakeholder Comment and AESO Replies Matrix

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Terms of Reference – Out-of-Scope Section	
Do stakeholders agree with the out-of-scope section?	
Stakeholder No comment	Stakeholder Comment <input type="checkbox"/> Support <input type="checkbox"/> Oppose
AESO Replies	
Terms of Reference - Consultation Activities, Documents and Schedule Section	
Do stakeholders agree with the consultation activities, documents and schedule?	
Stakeholder No comment	Stakeholder Comment
Replies	
Terms of Reference - Other Comments	
Do stakeholders have any other comments regarding the Terms of Reference for the competitive procurement process documents?	
Stakeholder No comment	Stakeholder Comment <input 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
No comment	<input type="checkbox"/> Support <input type="checkbox"/> Oppose
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
<p>2f – We suggest that costs be allocated to those best able to cost effectively manage them rather than ‘fairly’. The question is whether the rate payers or shareholders should bear scope, schedule and cost risks related to the CTI projects.</p> <p>3 – We believe the issue is whether Alberta wishes to create (i) new TFOs; (ii) next generation TFOs, perhaps with different duties and responsibilities (and hence incentives and rate structures) than the existing TFOs; or (iii) introduce some new quasi-merchant concession model. If the direction is new TFOs, it is reasonable to extend current practices related to transmission development and construction rather than creating new contract protocols.</p> <p>As a principle, the incumbent TFOs should not</p>	<input type="checkbox"/> Support <input type="checkbox"/> Oppose



Stakeholder Comment and AESO Replies Matrix
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<p>be allowed to cross-subsidize participation in new CTI from their existing regulated businesses in order to allow a fair comparison among proponent proposals.</p>		
Discussion Paper		
<p>The AESO is seeking stakeholder comments regarding additional alternatives including associated advantages and disadvantages for the competitive procurement process.</p>		
<p>Stakeholder</p> <p>By extension of the Own Alternative, we recommend that the selected proponent be licensed as a TFO and as such have all the rights and obligations as the existing incumbents in the Province. This also avoids extensive changes to the underlying regulatory framework.</p>	<p>Stakeholder Comment</p>	
Discussion Paper		
<p>The AESO is seeking stakeholder comments regarding the process steps in the Own Alternative.</p>		
<p>Stakeholder</p> <p>Step 7 should be modified to require the selected proponent to apply for TFO status and then manage the development, construction and regulatory process as would any existing incumbent TFO. The ultimate relationship would be a common regulatory relationship between the new CTI-TFO and consumers/ratepayers/other TFO, rather than a commercial/contractual relationship exclusively between CTI-TFO and AESO.</p>	<p>Stakeholder Comment</p> <p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>	
Discussion Paper		



Stakeholder Comment and AESO Replies Matrix

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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
<p>Some additional advantages of engaging new entrants include:</p> <ul style="list-style-type: none"> (i) New sources of capital and access to global supply chains (ii) Project discipline to ensure committed scope, schedule and costs aspects of the CTI are delivered (iii) incentivizing optimization of the whole-life cost of the new transmission facility, not just minimizing its initial cost; (iv) opportunity to transfer risks currently assumed by ratepayers onto the transmitter and its shareholders (v) opportunity to partner among the TFOs to provide more efficient O&M support post COD 	<p align="center">Stakeholder Comment</p> <p align="center"> <input type="checkbox"/> Support <input type="checkbox"/> Oppose </p>

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
<p>Three issues for further consideration include:</p> <ul style="list-style-type: none"> (i) In other jurisdictions (e.g. Texas), the selection of the proponent did not take 1 year (CREZ plan approved by PUCT July 2008, TSPs selected January 2009) and 	<p align="center">Stakeholder Comment</p> <p align="center"> <input type="checkbox"/> Support <input type="checkbox"/> Oppose </p>



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<p>there was commitment on both the proponent and agencies to expedite approvals to ensure timely completion of the projects. A similar process should be evaluated for Alberta</p> <p>(ii) Ensuring the 'bids' (offers) are sufficiently similar, especially when bidders are suggesting significant changes to the allocation of risks between ratepayers and the TFO, to allow for meaningful comparison while not limited creativity and innovation;</p> <p>(iii) ensuring that the process does not attempt to allocate risks to the CTI TFO that no TFO would be willing or able to bear at a reasonable cost.</p>	
<p>Discussion Paper</p>	
<p>The AESO is seeking stakeholder comments regarding the process steps in the EPC Alternative.</p>	
<p>Stakeholder</p> <p>There needs to be greater clarity over the process for transferring the asset from EPC Entity to Incumbent TSO, and how this would be treated for rate making purposes. In particular, two issues: (i) the returns being allowed to TFO shareholders must be sufficient to attract capital to buy the new facilities; and (ii) the regulatory treatment of the profit made by the EPC Entity over and above the book asset value of the transmission facilities transferred.</p>	<p>Stakeholder Comment</p> <p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>



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Discussion Paper	
<p>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.</p>	
<p>Stakeholder</p> <p>We are not in favour of the EPC alternative. There is no incentive to the EPC contractor to provide efficient pricing or margin control. The incumbent TFO/AESO will need to fully define in detail all technical aspects of the project to avoid many additional costs that will be incurred as extras due to "scope change". The EPC contractor has no vested interest in the rate case or prudence arguments as they will be made virtually whole and the TFO will have to absorb any regulatory disallowance. It is not clear what the regulatory treatment would be if the cost of a CTI (including overruns) was significantly different from its value (or worth). This will place additional cost pressure on the TFO post COD to operate and maintain the assets.</p>	<p>Stakeholder Comment</p> <p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>
Discussion Paper	
<p>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.</p>	
<p>Stakeholder</p> <p>In the Own option, the new TFO will be seamlessly responsible for:</p> <ul style="list-style-type: none"> - future expansion of the new CTI transmission facilities, e.g. connection of new load or generation 	<p>Stakeholder Comment</p> <p><input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>



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<ul style="list-style-type: none"> - treatment of future major capital injections to extend its life or expand capacity - end of life obligations and associated cost responsibilities 		
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>		
<p>Stakeholder</p> <p>Issue 3.2(1) – There may be some efficiencies from aligning the treatment of CTI and Incumbent TFOs, including possibly a relaxation of the existing geographic franchise model</p> <p>Issue 3.2(2) – There is significant experience across Canada and the US of multiple transmitters providing an integrated service under a single ISO. The AESO Rules may need to be modified to facilitate the integration of the new TFOs depending on how they are to be treated.</p> <p>Issue 3.2(3) – We don't see the need for a specific CTI contract. Once selected, the proponent (if a new entrant) applies for TFO status and this has all the obligations of the incumbent TFOs in the development, construction and regulatory approval requirements for the CTI.</p> <p>Issue 3.2(5) – The CTI TFO needs sufficient flexibility to optimize his business activities over the duration of the contract, which may involve refinancing and assignment of rights and</p>	<p>Stakeholder Comment</p> <p><input type="checkbox"/> Support</p> <p><input type="checkbox"/> Oppose</p>	



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<p>obligations. At the same time, it is imperative that the AESO/AUC ensures the CTI TFO is capable and committed to honouring its obligations to provide transmission capacity, i.e., it maintains the financial and technical capacity. This might be best discharged through licensing requirements.</p>		
Discussion Paper		
<p>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.</p>		
<p>Stakeholder An additional issue to include within the RFQ is a qualitative statement providing the rationale for the new facility; an indication of the circumstances that might lead to the procurement of the new facility being curtailed, postponed or cancelled, and the likelihood of such possibility.</p>	<p>Stakeholder Comment <input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>	
Discussion Paper		
<p>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.</p>		
<p>Stakeholder No comment</p>	<p>Stakeholder Comment <input type="checkbox"/> Support <input type="checkbox"/> Oppose</p>	
Discussion Paper		
<p>The AESO is seeking stakeholder comments on the potentially required amendments to relevant regulations, as well as any other amendments the stakeholder believes will be necessary.</p>		



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Stakeholder	Stakeholder Comment	
No comment	<input type="checkbox"/> Support <input type="checkbox"/> Oppose	
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	
No comment		