

Theme-based Response to Stakeholder Comments

The following comments are provided based on common themes raised in stakeholder responses to the Competitive Process Recommendation Paper issued June 1, 2011:

1.1 Route Adjustments

The AESO will retain the current structure for the Route Adjustment calculation with the +/- 5% 'dead band' where there will be no adjustment to the Project costs. The 10% cap on all Route Adjustments applicable to differentials beyond the dead band, will remain and applies to cost increases only. As pertaining to potential route changes, this percentage of adjustment is consistent with present practices at the Proposal to Proposal Service stage of costing methodology. For cost decreases beyond -5%, the cost savings will reduce the Project costs. There will be no floor on downward adjustments to the Project costs.

The dead band and the cap are intended to discourage gaming and incent Proponents to submit realistic bids which will minimize route adjustments. Increasing the cap or paying a 1:1 adjustment for all route adjustments would result in a model similar to the existing cost of service model and would not fulfill the AESO's mandate to develop a Competitive Process. Additionally, eliminating the floor on cost decreases ensures that all benefits flow to rate payers beyond the lower limit of the dead band.

2.1 Alternative Bids:

The AESO will require a compliant bid; the AESO continues to consider the practicality of Proponents submitting an alternative bid in light of evaluation issues. However, Proponents may suggest innovative proposals as part of their submissions/discussions with the AESO during the RFQ/RFP stage which may demonstrate reduced costs. At this stage of development, it is important that any bid serve the public interest in terms of balancing reduced cost and best value.

3.1 Financing Details

3.1.1. Structure of NPV and Evaluation Considerations

The [90%] scoring in the evaluation related to the NPV costing will be based on the following costs and the timing of these costs: Development Fee, construction costs, O&M costs and major maintenance costs. These costs will be discounted at the Alberta Long Term Borrowing Rate as determined by Alberta Finance and Enterprise [the 30 year bond rate for Alberta]. The NPV value from the Preferred Route and the Alternative Route will be averaged to determine the score. In addition, the NPV value may take into consideration other sensitivities as determined by the AESO.

The rationale for the [90%] scoring of NPV value in the evaluation is a reflection that the construction, O&M and major maintenance costs have the greatest impact on the Project costs as they are the largest component of costs [in real terms]. In addition, there will be greater certainty of these costs at the RFP stage.

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The [10%] scoring of the proposed financing in the evaluation related to the “reasonableness” of the financing will be based on the debt to equity ratio, the return on equity, the indicative cost of debt (including interest, financing fees and other related costs), the structure of the financing, the NPV of the Proponent’s bid costs with the cost of financing included, and the exposure risk to the AESO, from any proposed refinancing.

The rationale for the [10%] scoring of the proposed financing in the evaluation is that there is no certainty of the financing costs at the RFP stage as the actual financing cost and structure can only be finalized after the route selection and various other adjustments. At the RFP stage, the AESO is effectively evaluating various aspects of the financing package to determine the extent to which the Proponent has demonstrated the ability to develop an efficient and cost effective financing structure based on existing market conditions.

During the term of the Project Agreement, the cost of the first refinancing (including any transaction costs) of any outstanding portions of the debt that have terms shorter than 40 years will flow through to the AESO.

The rationale for passing through the cost or benefit of the first refinancing is due to the limited capacity in the Canadian debt market to provide fixed priced long term debt financing in excess of 30 years for projects of significant monetary value.

The debt adjustment relates only to the pricing of the debt which must be obtained under the same commercial terms, i.e., no changes to the commercial agreement, and financing structure as outlined in the Financial Model in the proposal, unless the Preferred Proponent can demonstrate that changing the financing structure will result in lower financing costs. For any response to the RFQ, there is no minimum credit rating required. Any credit rating for a Respondent or a company forming part of a Respondent will be examined. If the Respondent does not have a credit rating, the AESO will review the Respondent’s financial viability and strength based on the financial information available.

SR1 and SR2 are separate submissions. The SR2 submission will contain the Financial Model with both the technical and financial information. Details of the Financial Model requirements will be provided in the RFP. The Financial Model will be used to calculate the adjustments in accordance with the adjustment mechanisms. The updated Financial Model after Financial Close will be attached as an Appendix to the Project Agreement. Any subsequent cost adjustment resulting in payment changes will be calculated based on this model.

3.1.2. Security Requirements and Credit Ratings

The AESO does not intend to request duplicate security and would expect that the security package required by the project finance lenders would also be acceptable to the AESO. The security outlined in the Recommendation Paper is similar to the security requirements of project finance lenders on P3 projects where risks are shared. Similar security would be required if the debt is corporately financed.

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The credit rating of the lead team member of the Proponent will be one of many factors that will be considered by project finance lenders in determining the security package required and the pricing of the debt. The credit rating of the lead team member of the Proponent will be a key consideration if the financing is being corporately financed based on the balance sheet strength of the lead team member of the Proponent.

The values of the Proponent Letter of Credit and the Preferred Proponent Letter of Credit will be determined at a later date but prior to the issuance of the RFQ.

4.1 Risk Considerations

The Project Development Agreement and the Project Agreement will contain relief measures for events which are genuinely beyond the control of the Preferred Proponent and the Successful Proponent and delay the In-Service Date. The Project Development Agreement will provide for benchmarks or indices to adjust for changes to identified commodity, foreign exchange and labour costs. The AESO believes that after the Project Development Agreement has concluded and the AUC FA approval has been obtained, the Successful Proponent will be in the best position to manage these costs.

The Project Agreement will provide for separate benchmarks or indices to adjust for changes to certain construction costs and O&M costs.

5.1 O&M Contract Extension

The Project Agreement will contain a benchmarking at the 20 year point. Credit agreements with project lenders will need to incorporate this concept. Five [5] years prior to the end of the Project Agreement, an asset condition test will be conducted by the AESO to determine if the Project has been maintained so as to ensure viability to attain its specified useful life. During negotiations related to life extension of the assets, AESO and the Successful Proponent will negotiate all aspects of the payment for extension.

Decommissioning costs will not be included as part of the submitted NPV calculations. At year 35, and in concert with the asset condition tests, negotiations for subsequent decommissioning may commence.

All Payments will be based on meeting the required availability and performance specifications with deductions for failure to meet these.

6.1 Evaluation Process Guidelines

To ensure a fair and competitive process, the AESO will establish the evaluation criteria and evaluation process and advise participants of same in the RFQ and the RFP, as appropriate. The development of the evaluation criteria, the execution of the evaluation process and the Process documents themselves will be internally consistent and applied in an unbiased manner.

The AESO will ensure the evaluation team, i.e., each of the members of the selection panels, is appropriately skilled and qualified, will have no conflicts of interest and will be properly trained through formal training sessions prior to the commencement of the evaluation sessions.

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The evaluation team will conduct itself as follows during the review of the RFQ and RFP submissions:

- Evaluators will familiarize themselves with the entire evaluation process regardless of any specialized evaluation role that they may have
- Evaluators may validate the accuracy of the information provided either through reference checks or through publicly available documentation
- All evaluators will be using their professional judgment. The evaluation criteria is not intended to be a mechanical exercise
- Evaluators will have the ability to seek clarification from Respondents or Proponents in order to properly evaluate the submissions
- The timeframe for responses to clarifications will be minimized as no new information will be introduced
- The scores or ratings from each respective panel should be unanimous. Where not possible, it is envisaged that a majority vote will decide
- Each panel member will be required to confirm their decision in writing and the evaluation team is required to confirm its decision in writing
- The evaluation team chair will be responsible for providing the evaluation decision in writing to the AESO CEO for furtherance to the AESO Board

7.1 Fairness Advisor

The AESO is considering the retention of a Fairness Advisor through a competitive process. The Advisor will be appointed by, and will report directly to, the AESO Board and will remain independent. The Advisor will observe the conduct of the Process, consider whether the Process is compliant with the Process documentation, and provide a report to the Board regarding the fairness of the Process. The Advisor will be retained prior to the issuance of the RFQ.