Competitive Development and New Business Models
ELECTRIC TRANSMISSION 301:
New Models for Transmission Development Competitive Procurement

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Different Jurisdictions Have Used Different Methods To Build Needed Transmission

- The Classic Approach in U.S./Canada:
  - Direct assignment of projects according to utility service territory (e.g., AltaLink in Southern Alberta)
  - Business model: recover cost of service plus allowed equity return under a deemed capital structure

- Merchant Projects:
  - Undertaken by a developer who has a vision of a specific opportunity (e.g., Cross-Sound Cable)

- Competitive Processes:
  - Well established in parts of Latin America
  - A more recent approach in U.K. and U.S./Canada
  - Run by system operators (ISOs) and regulators (utility commissions), to achieve specific objectives
Examples of Competitive Procurements
Latin America Leads the Way

• Brazil (successful long-term model)
  • Competitive procurement implemented in late 1990s by Federal Government
    • Why? Response to power shortages that affected major cities
    • Process run by federal regulator (ANEEL)
  • Experience:
    • 29 auctions have awarded >190 projects to Brazilian and international companies (e.g., Spanish, Colombian, Chinese), valued at over 53 billion Reals or US$25 billion
  • Business model:
    • Winner determined based on lowest bid for annual revenue amount, which is indexed to inflation for a 30-year concession
Examples of Competitive Procurements
Latin America Leads the Way

• Chile (successful model)
  • Current competitive procurement running since 2005
    • Why? Chilean government wants competition in Chile’s energy sector as it has all been privatized since 1980, and to enhance its underdeveloped grid
    • Process run by CDEC (system operator) for each region
  • Experience:
    • 8 auctions have awarded 14 projects to Chilean and international companies (e.g., Spanish engineering, procurement and construction firms), valued at US$1.5 billion
  • Business Model:
    • Winner determined based on lowest bid for an annual revenue amount, which is indexed to both the US dollar and inflation for a 20-year concession
Examples of Competitive Procurements
U.K., U.S. and Canada are Experimenting

• U.K. (OFTO1, OFTO 2)
  • Competitive procurement implemented in 2009 for offshore wind projects in North and Irish Seas
    • Why? Implemented to competitively bid the subsea transmission required for offshore wind development
    • Process run by OFGEM (Office of Gas and Electricity Markets)
  • Experience:
    • 13 projects awarded through single auction mainly to small U.K. companies and financiers as of January 2014
  • Business Model:
    • 4 stage process; compliance check, non-financial deliverability, financial deliverability, revenue and assumptions
      • Winning bidder selected based on revenue streams bid (60%) and quality of assumptions (40%)
Examples of Competitive Procurements
U.K., U.S. and Canada are Experimenting

- U.S. (experience differs market by market):
  - TX PUC ran CREZ (Competitive renewable Energy Zones), in 2008 as an assignment process (not competitive procurement):
    - Most qualified participants were awarded project(s)
  - More recently, FERC Order 1000 encouraged RTOs and ISOs to define competitive procurement processes
  - Competitive procurement “test driven” in 2013 in some RTOs:
    - CA ISO for Gates-Gregg and Sycamore-Penasquitos Winners: PG&E, SDG&E
    - PJM for 1) Artificial Island NJ constraints and 2) PJM-wide optimization
    - Business model: traditional cost-of-service regulatory treatment
  - New competitive processes expected in MISO and SPP in 2015
Examples of Competitive Procurements
U.K., U.S. and Canada are Experimenting

- Canada (a few “islands” of new competitive experience in two leading provinces):
  - Ontario - competitive procurement for East-West Tie project situated north of Lake Superior (400 km, double circuit, 240 kV):
    - Why? test incumbent on cost/schedule, introduce “new blood” into only transmission market
    - Business Model: winner becomes a cost-of-service regulated TFO under the jurisdiction of the Ontario Energy Board (OEB)
    - Process developed/run by regulator, OEB
      - Required qualified transmitters to pre-qualify and register >12 months in advance
      - Provided ~6 months for bid development
      - Winner (Upper Canada Transmission) announced in 8/2013
Examples of Competitive Procurements
U.K., U.S. and Canada are Experimenting

• Canada (a few “islands” of new competitive experience in two leading provinces):

  • Alberta – starting competitive procurement with Fort McMurray West (500 km, single circuit, 500 kV); Fort McMurray East to follow:
    • Why? Seek to improve on incumbent cost/schedule performance, drive cost down
    • Business Model: based on P3 model, 35-year fixed-price contract with adjustors, pre-Permit & License risk poses unique challenges atypical of most P3 projects (e.g., highways)
    • Process developed/run by Alberta Electric System Operator (AESO), approved by Alberta Utility Commission (AUC):
      • RFQ process (July through January 2014), selected five consortia to develop proposals
      • RFP process (January through year-end 2014) to develop, submit and select winning proposal
Conclusions

• Competitive procurement is new to U.S. and Canada, but a “way of life” in other jurisdictions (e.g., Brazil)

• Approach in U.S. and Canada highly fragmented:
  • By RTO, ISO or regulator; by project or new routine process
  • Alberta Canada using a competitive procurement model more like Latin America (i.e., fixed price bids versus cost-of-service)
  • Implications: every opportunity can differ greatly, demands careful attention by companies wishing to compete

• Upcoming competitive procurement processes in U.S. (e.g., MISO, SPP), offer possibility for further refinement of approach as RTO and company experience/comfort-level with competition grows