



Request for Proposal

Title: Generation Investment in the Alberta
Electricity Market: An Investment Banking
Perspective

April 23, 2012

TERMS OF REFERENCE

PROPOSAL INVITATION

The Market Surveillance Administrator (MSA) is preparing a State of the Market report for release in summer 2012. The purpose of the report is to assess the state of competition within, and the efficiency of, the Alberta wholesale electricity markets comprising the Alberta power pool, the forward (financial) market and the market for ancillary services. The review will engage different perspectives and identify a range of market metrics and benchmarks.

The MSA has identified dynamic efficiency, that is, new investment in electricity generation as a key performance indicator for the Alberta market. One perspective on this would be to understand investor perceptions of the relative attractiveness of Alberta as a venue to build or acquire electricity generation facilities. Therefore, the MSA is seeking a qualified consultant with expertise in the financing of capital investment projects in the electricity generation sector to obtain a representative sample of views from lending institutions, incumbents and potential market entrants. The results of their work would be summarized in a published report.

BACKGROUND

The designers of the Alberta electricity market placed reliance on competition to 'regulate' the performance of the market with private capital bearing the risk of generating facility investment. The Alberta market is 'energy-only', that is, without a regulated and centrally administered resource adequacy and planning mechanism. One of the Purposes of the founding legislation, the *Electric Utilities Act* is:

“to continue a flexible framework so that decisions of the electric industry about the need for and investment in generation of electricity are guided by competitive market forces;”¹

Alberta's Independent System Operator, the Alberta Electricity System Operator (AESO), has a duty “to provide for the safe, reliable and economic operation of the interconnected electric system” so as to ensure that Alberta has sufficient electricity generation now and in the future. In 2011 the AESO commissioned The Brattle Group to

¹ Subsection 5(d). *Electric Utilities Act*.

evaluate whether Alberta's market design would continue to meet the challenge of resource adequacy in the coming years. The report titled "Evaluation of Market Fundamentals and Challenges to Long-Term System Adequacy in Alberta's Electricity Market" was released in April 2011.² It found that, while the Alberta market faced a number of challenges, the energy-only design should be able to support the challenging rate of generation additions it foresaw as necessary.

ABOUT THE MSA

The Market Surveillance Administrator is an independent enforcement agency established by legislation to protect and promote the fair, efficient and openly competitive operation of Alberta's wholesale electricity (and its retail electricity and natural gas) markets. The *Alberta Utilities Commission Act* bestows a broad mandate on the MSA including monitoring, investigation and enforcement of inappropriate conduct by market participants and the structure and performance of the electricity market.

PROJECT SCOPE & DELIVERABLES

The consultant would engage in a series of private interviews and consultations with relevant parties to survey their views of the relative attractiveness of Alberta as a place to invest in electricity generation facilities compared to other locations in North America. The relevant parties would include financial and lending institutions, prospective entrants (including venture capital entities and utilities currently without generation in Alberta) and incumbent utilities/generators. The survey would seek to:

- Identify, describe and prioritize Alberta's material advantages;
- Identify, describe and prioritize Alberta's material disadvantages;
- Assess the impact, if any, of the international economic downturn on potential generation investment in Alberta;
- Assess whether on balance Alberta is a relatively attractive generation investment location, for what time period(s) and for which type of generation (natural gas-fired, coal-fired, wind, water, other), and
- If Alberta is not viewed as an attractive investment location, identify the perceived barriers in order of importance.

The consultant would prepare a written report describing the findings of the survey and:

- Identifying the number and types of entities canvassed;

² <http://www.brattle.com/documents/UploadLibrary/Upload943.pdf>

- Organizing the comments by category/sector and distinguishing features, such as differences in risk tolerances, financial strategies and capabilities and core competencies.

To promote candour the identity of those participating will be confidential to the consultants.

The consultants are expected to use their professional judgment to seek the views of those with relatively informed knowledge of the subject area, that is, investment and financial criteria for the electricity generation sector and the characteristics of the Alberta market compared to other potential sites in North America.

The report will be a public document.

PROJECT TEAM

The successful consultant will work with the MSA to develop its report and other deliverables.

The project team will provide background information, guidance and direction. Richard Penn, Senior Advisor at the MSA is managing this project; however, the consultant's point of contact leading up to the awarding of the contract will be Richard Kendall-Smith.

Any responsibilities of the MSA beyond what is described in this section should be identified in the consultant's proposal.

PROJECT TIMING

The following anticipated timing and dates are subject to change:

DESCRIPTION	DATE
Release of RFP	April 23, 2012
Consultant's proposal	May 4, 2012
Evaluation of proposals	May 10, 2012
Award of contract	May 11, 2012
Contract start date	May 11, 2012
Submission of draft report to MSA	July 13, 2012
Submission of final report to MSA	July 27, 2012

Consultants are asked in their proposals to confirm that the above timetable is achievable and will result in a successfully developed contract for services.

PROPOSAL CONTENT REQUIREMENTS

All proposals must include the following:

1. Your understanding of our needs.
2. Proposed work plan and schedule.
3. Fees including disbursement and taxes.
4. Description of project lead and team members' experience in related projects.

PRICING

A total of \$80,000 (exclusive of taxes) has been allocated by the MSA for this project.

CONSULTANT SELECTION CRITERIA

The selection of a consultant will be based on the following criteria:

- Completeness and quality of proposal in addressing the Terms of Reference.
- Feasibility of the proposed methodology, process and timelines/schedule.
- Experience, knowledge and competency of the principal consultant(s) and identified project associates.
- Cost and value of services proposed.
- Resources and capabilities.

SUBMISSION DEADLINE

Friday, May 4, 2012

Attention: Richard Kendall-Smith

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