

DEVELOPING LOCAL GOVERNMENT MICROGRIDS

PROCUREMENT CHALLENGES



Because a TC microgrid involves a government agency, most states and cities require a public procurement process. In today's environment, a transparent process is important to ensure public support; otherwise a worthy project may not succeed.

OVERVIEW

Project development elements include:

- Specification Development
- Construction Management
- System Operation Contracts
- Energy Supply Agreements
- Public Communications



Contracts with third parties are often needed for these services, as very few government agencies possess the necessary skills for these often complex projects. These contracts need to be negotiated by experts who understand the energy supply industry, can develop risk mitigation strategies, and can assure that these strategies are reflected in agreements between the parties.

There are three general approaches to how a TC Microgrid and similar DER projects can be built, financed, and operated.

ENERGY SUPPLY CONTRACT

The first is an energy supply contract where a third party takes the responsibility to design, finance, build, operate, own, and maintain the project. For most governments, a competitive process is used to select a developer. The agency then becomes an offtaker that enters into an energy services agreement to pay for the power supply. Other offtakers that are part of the resilience aspect may enter into separate agreements with the developer or have agreements with the lead agency to pay for supply.

Challenges:

- Investor/Developer Financial Capacity and Technical Capability
- Agency Financial Capacity and Technical Expertise
 - To develop, review, and execute complex RFPs and/or contracts
 - To avoid “asymmetric information” dynamic between developer and agency
 - To understand potentially complex risks:
 - >Contracts that don't adequately address future circumstances:
 - e.g., energy market changes, technological innovations, ownership changes, etc.

ENERGY SUPPLY CONTRACT		
	3 rd Party	Agency
Design	☒	☐
Build	☒	☐
Operate	☒	☐
Finance	☒	☐
Own	☒	☐
Offtake	☐	☒

Energy Supply Contract

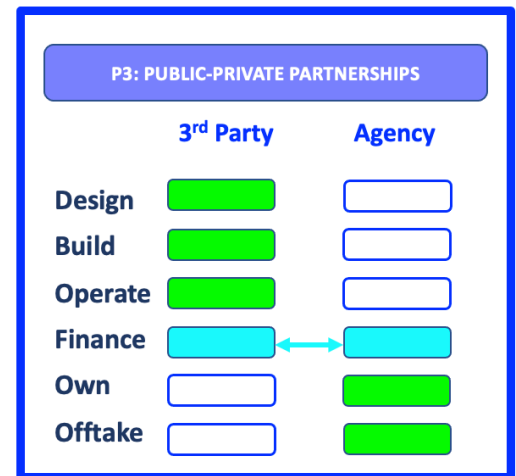
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P3: PUBLIC-PRIVATE PARTNERSHIPS

The second is a public-private partnership (aka, P3). Under these projects, the government agency is the owner of the project. The agency enters into an agreement with a developer/contractor to design, build, and operate the facility for the agency. Often involving less procurement rigor than energy supply agreements, the developer takes on more risk under a P3, which reduces the government owner's risks. Advocates suggest this added risk warrants a more flexible procurement, contracting, and operating process. These projects may be self-funded or funded by the developer as part of the contract.

Challenges:

- Unanticipated events that negatively impact payment guarantees or other liabilities
- Performance shortfalls resulting from projection based on variable, hard-to-measure or unprovable standards
- Contracts that do not require strong project management oversight by the owner
- Contracts that do not require an efficient and equitable dispute resolution process
- A partnership that shares both risks and rewards



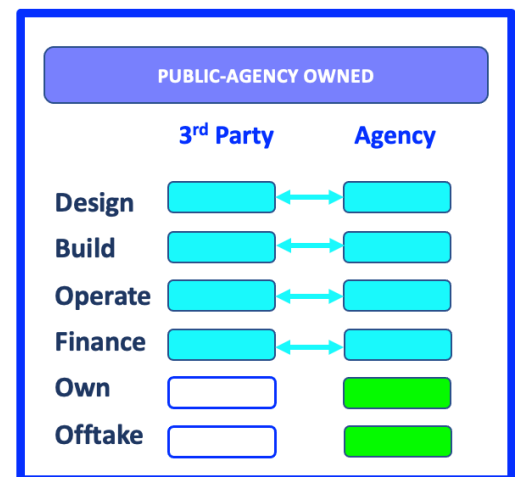
P3: Public-Private Partnerships

PUBLIC-AGENCY OWNED

The third approach is where the public agency takes the responsibility to own, develop, and finance a project. This may occur when a government utility serves as the EDC. In some cases, the agency may operate and maintain the project with its own employees or contract that to a third party. Those projects are more typical design, bid, and build public construction projects than energy-supply agreements.

Challenges:

- Local government experience in specialized energy procurement issues
 - Potential to be outmaneuvered by a developer
- Sufficiently comprehensive and detailed RFPs
- Sufficient time to negotiate the contract
 - Avoid pressure to act fast
- Sufficient number of project "exit ramps" to permit a project to be modified, suspended, or abandoned, if necessary
 - Expectations for project phasing clearly spelled out in RFP and contract



Public-Agency Owned

