

Contract Considerations for Utility Privatization

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Disclosure

Disclosure of Expertise

Goal is to start a balanced discussion about a very important topic to our industry.



Privatization is...

Not **right** for everyone.

Not **wrong** for everyone.

This Presentation...

...will **NOT** focus on pros and cons of privatization.

Rather, the intent is to focus on the **KEY ISSUES** to be negotiated and clearly defined before entering into a contract.



Term of Agreement & Facility Ownership

Options

1

**Maintain
Ownership**



Third party operations
and maintenance
services only

2

**Lease
Facilities**

3

**Sell
Facilities**

Options



Requires careful delineation of
roles and responsibilities for
maintenance and asset renewals

Options

1

**Maintain
Ownership**

2

**Lease
Facilities**

3

**Sell
Facilities**



**Most responsibility and
risk transferred, least
control retained**

End of Agreement Term

What happens to the facility at the
end of the agreement term?

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Ownership?

End of Agreement Term

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Ownership?

Remaining useful service life?

End of Agreement Term

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end of the agreement term?

Ownership?

Remaining useful service life?

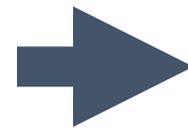
Can lease/sale/operation be rebid?



Pricing and Advance Lease Payments

Case Study: Hospital in Texas

RFP for lease, operation
and maintenance
40-year term



CENTRAL UTILITY PLANT

192 kpph steam
13,750 tons chilled water
17.5 MW emergency generation
Soft water + fire sprinkler water

Case Study: Hospital in Texas

Components of Cost



Personnel salaries and benefits



Maintenance costs



Facility support

Case Study: Hospital in Texas

Components of Cost



Performance Incentive Fees



Return of Capital (Lease Payment)

Performance **Incentives** / **Penalties**



Reliability



Safety



**Environmental Permit
Compliance**



Energy Efficiency



Maintenance

Advance Lease Payments

What is the **cost**?

Case Study: Hospital in Texas

	Up-front Lease Payment	Return of Capital
Bidder A	\$ 0	\$ 0
	\$ 80M	\$ 4,271,462
	\$ 100M	\$ 5,334,899
	\$ 120M	\$ 6,410,399

Case Study: Hospital in Texas

Plant Operator	Up-front Lease Payment	Home Office Overhead	Personnel Salaries/Benefits	Maintenance and Facility Support	Return of Capital	Perf. Incentive Fee	Total Cost (Year 1)
Bidder A	\$0	\$159K	\$1.03M	\$1.58M	\$0	\$308K	\$3.08M
	\$80M	\$159K	\$1.03M	\$1.58M	\$4.27M	\$782K	\$7.82M
	\$100M	\$159K	\$1.03M	\$1.58M	\$5.34M	\$901K	\$9.01M
	\$120M	\$159K	\$1.03M	\$1.58M	\$6.41M	\$1.02M	\$10.2M
Bidder B	\$0	Proposed O&M Only					
	\$80M	\$0	\$1.23M	\$1.66M	\$1.84M	\$3.55M	\$8.28M
	\$100M	\$0	\$1.23M	\$1.66M	\$2.31M	\$4.43M	\$9.63M
	\$120M	\$0	\$1.23M	\$1.66M	\$2.76M	\$5.33M	\$11.0M

Case Study: Conclusions

Bidder A



Less expensive

Bidder B



Willing to put larger portion of total compensation at risk, tied to performance incentives



Other Agreement Provisions



System **Deficiencies**

Corrections

Upgrades

Renewals

Replacements



System **Deficiencies**



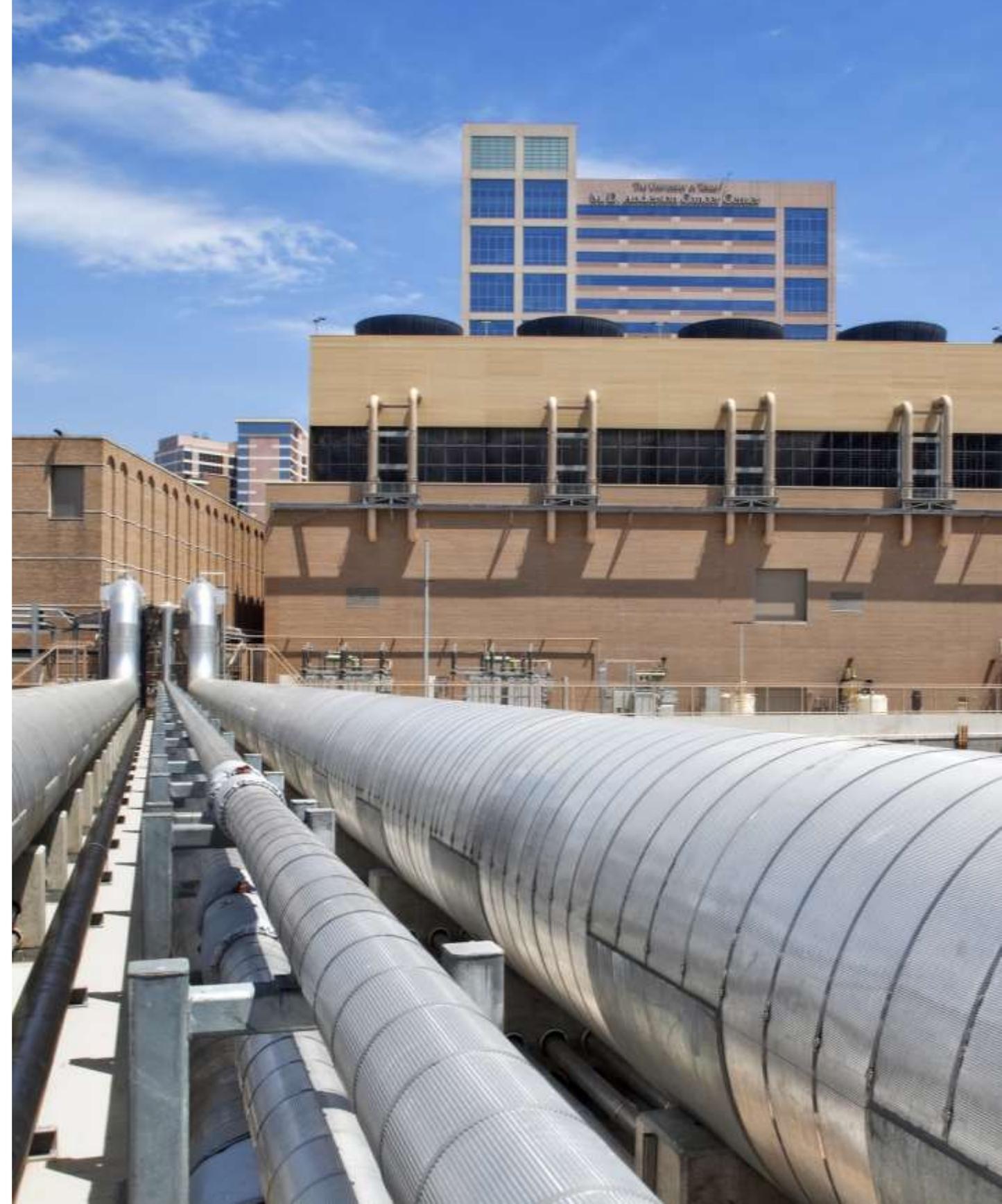
Who approves?



How are they funded?

Demarcation of Ownership

Point of demarcation of ownership (i.e. thermal and/or electric distribution infrastructure?)



Contract **Agreement Provisions**

Access to Campus Facilities

Scheduled Utility Service Interruptions

Response to Service Interruptions

Contingencies and Catastrophes

Contract **Agreement Provisions**

What happens if the contract is

terminated for **cause?**

terminated for **convenience?**

Schedule of cost

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