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

1. Maintain Ownership
2. Lease Facilities
3. Sell Facilities

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?
End of Agreement Term

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

Ownership?
End of Agreement Term

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

Ownership?

Remaining useful service life?
End of Agreement Term

What happens to the facility at the 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**

<table>
<thead>
<tr>
<th>Bidder A</th>
<th>Up-front Lease Payment</th>
<th>Return of Capital</th>
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</thead>
<tbody>
<tr>
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## Case Study: Hospital in Texas

<table>
<thead>
<tr>
<th>Plant Operator</th>
<th>Up-front Lease Payment</th>
<th>Home Office Overhead</th>
<th>Personnel Salaries/ Benefits</th>
<th>Maintenance and Facility Support</th>
<th>Return of Capital</th>
<th>Perf. Incentive Fee</th>
<th>Total Cost (Year 1)</th>
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<tbody>
<tr>
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Proposed O&M Only:
Case Study: Conclusions

Bidder A

Less expensive

Bidder B

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

Access to Campus Facilities

Scheduled Utility Service Interruptions

Response to Service Interruptions

Contingencies and Catastrophes
What happens if the contract is terminated for cause?

terminated for convenience?

Schedule of cost