

FEDERAL UTILITY PARTNERSHIP WORKING GROUP SEMINAR

May 7 - 8, 2014

Virginia Beach, VA

UESC Best Practices Subcontractor Selection

Presented by: Patricia Nardone



Main Approaches

- Utility brings ESCO partner to the table

– OR –

- Utility acts as GC and selects/manages primary or multiple subcontractors

Typical Drivers in Utility Subcontracting Approach

- Breadth and Depth of UESC Experience
- Technical Expertise
- Number of Resources
- Availability of and Ability to Spend Budget Dollars at Risk
- Risk Profile & Appetite for Risk
- Program Motivation – Customer Satisfaction or Financial Gain

Typical Drivers – Appetite for Risk

Not All Inclusive

- Financial
 - Audit fees (budget dollars at risk)
 - Price/margin stability (overall project financials)
 - Payment
- External community – Relationship & Reputation
 - Business community (local contractors)
 - Stakeholder perception (PSC, stockholders, etc.)
- Legal
 - Contractual obligations
 - Subcontractor performance
 - Environmental
- Other
 - Setting precedence
 - Technology



Typical Drivers – UESC Program Motivation

Customer Satisfaction

Versus

Financial Gain



Other Considerations

- Competitive selection required
 - Utility methodology not Government
- Small or minority subcontracting goals
 - GSA/BOA broad vs. project specific
- Special security or clearance requirements
- Volume of work expected to be performed
 - Base/Facility wide or multiple buildings at a time

Need to Know Upfront

- Customer and/or Contracting Officer level of involvement in selection
- What does Government want or need for their permanent files?
- If bonds will be required of all parties – Utility typically makes that call on their own subs

Not All Inclusive

Hiring a Full Service ESCO

Full Service ESCO

- **Select ESCO**
- ESCO develops project at full financial risk
- Can be higher cost structure – offset ideally thru economies of scale
- Project developed by ESCO with commitment for project to be done with them
- ESCO installs the project – typically responsible for PV



Hiring Subs Directly

- Audit fees – contract if possible
- Engineering firms
- Develop biddable scopes of work
- **Select installation subcontractors**
- Utility manages project installation more like a general contractor – responsible for or subcontracts PV



Hiring a Full Service ESCO

- Typically done prior to initial project development
- Should begin with a competitive selection process
 - Clearly define responsibilities to include payment or non-payment of initial audit fees
 - Elements of pricing to be clearly defined
- Section should include:
 - ESCO experience with customer and/or technologies
 - Elements of pricing clearly defined

Hiring a Full Service ESCO

Other Considerations:

- Customer or Utility territory
- Project on ongoing work?
- Timeframe for continued awards or renewed selection process
- Exclusivity
- Equipment/vendor neutrality
- ESCO affiliation

Hiring a Full Service ESCO

- Utility should always be at the table
- Review, be involved, & understand the project
 - Look closely at elements of ESCO pricing like project management, engineering, overheads & profit
 - Review documents for completeness
- Watch letting the contract look more like ESPC
 - Escalated savings in payment structure
 - Performance verification plans & language vs guarantee
 - Contract terms & conditions

Hiring Major Subcontractors Directly

- Initial audit typically done before subs selection
- Requires solid engineering and clean divisions of scopes of work before contractors are involved
- Involves much more oversight & involvement by the Utility
- Process typically includes Utility adding local subs and contractors to the mix
- Can bring the better price/value overall to the Government but is considered ***much*** higher risk for Utility

Need to Know

- Don't always get major breakouts
(i.e. sometimes only lump sum or material and labor totals for scope)
- Engineering is NOT typically compete
- Utility selects based on best value
(not lowest price – past experience, expertise, & price)

Results Expected - Either Process

- Open book pricing
- Final results of subcontractor selection
 - May be just sub and total dollar of bid
 - Some customers simply want final contractor selection info
 - Same info can typically be provided on 3rd party lender (selection process & results)
- Feedback on subcontractor performance

At the End of the Day

- Utility still responsible for the work contractually
 - Through the end of the performance provisions
- Utility handling of the project during the entire process will affect **relationship** and **reputation** regardless of subcontracting process
- Customers repeatedly express desire for Utility to be an active participant...

Don't just sit on the sidelines!