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CRN

Cooperative Research Network


Welcome!

Opportunities with Military Bases: Renewables, Utility Privatization, and Micro-grids Web Conference.

April 24, 2014



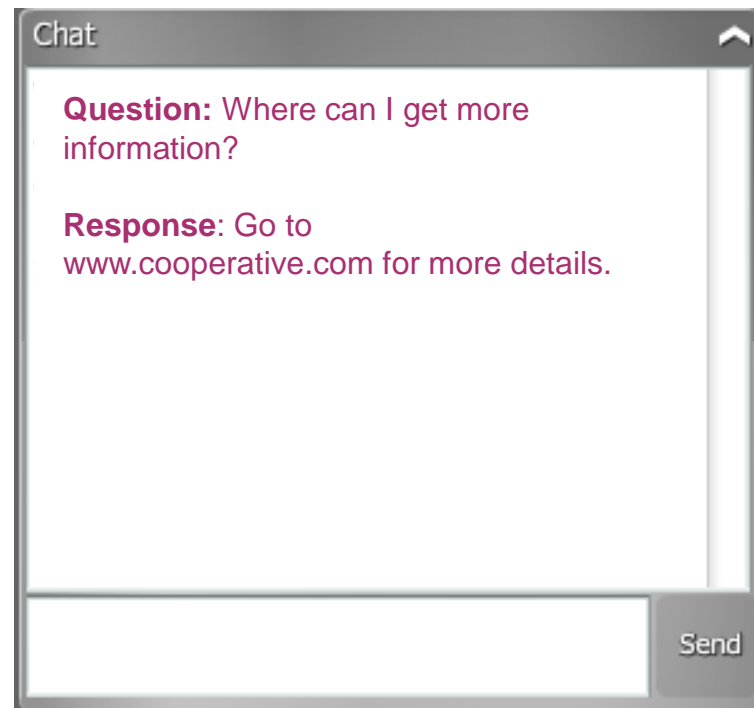
**National Rural Electric
Cooperative Association**

A Touchstone Energy® Cooperative 

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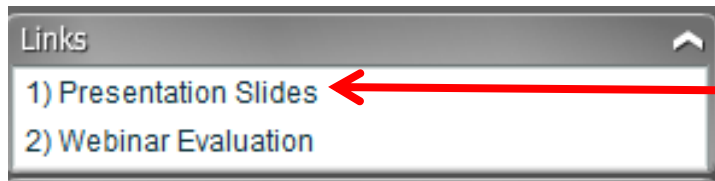
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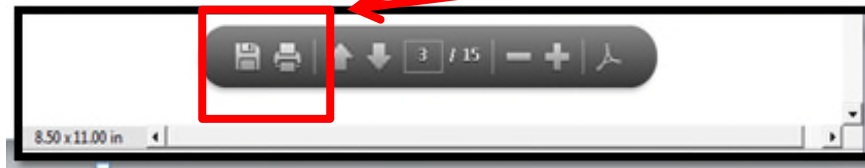
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Agenda

- Bob Tritt and Justin Ganderson of McKenna Long & Aldridge will discuss the challenges and benefits in securing contracts to work with military bases.
- Discuss tips for tracking, eligibility, and contract acquisition strategies.
- Nivin Eloghary of CoBank will provide a walkthrough of the financing process and discuss some of the benefits in these opportunities.
- Lou-Ann Phillips and Mike Wasson of Canoochee EC, will talk about their experiences with military grid Privatization.
- Eston Glover of Pennyrile will talk about their work on a Utility Services Energy Contract.

McKenna Long
& Aldridge^{LLP}



Military Base Energy: The Opportunity for Co-Ops

Robert E. Tritt & Justin Ganderson
McKenna Long & Aldridge LLP

April 24, 2014

mckennalong.com



Topics for Today

- Opportunities for Co-Ops
- Benefits to Co-Ops
- Learning of the Opportunities
- Selection Process
- Negotiation of Transaction
- Doing Business with the Federal Government



The Opportunity

- Renewable Generation
- Utilities Privatization
- Microgrids
- Traditional Sale of Electric Energy is beyond scope of this presentation



Renewable Energy

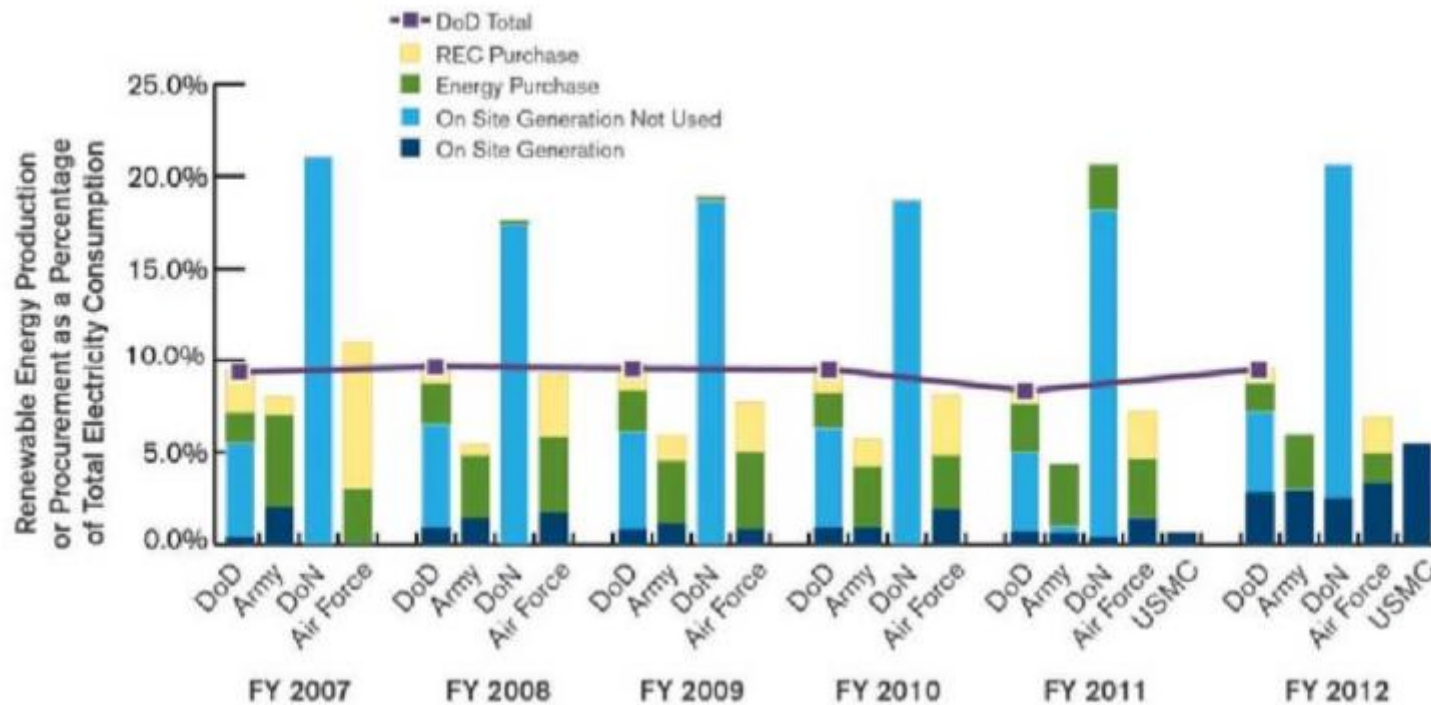
REQUIREMENTS:

- EPACT 2005 Renewable Mandate for Electric Energy
 - 3% 2007-2009
 - 5% 2010-2012
 - 7.5% 2013 and beyond
- DoD must produce or procure not less than 25% of the electric energy it consumes by 2025 [10 USC § 2911(e)]
- White House Announcement – 1 GW each
 - Air Force by 2016
 - Navy/Marines by 2020
 - Army by 2025
- Navy/Marine Goal – 50% onshore renewable energy by 2020



DoD Progress Towards 10 USC § 2911(e)

Figure 4-2: 10 U.S.C §2911(e) Renewable Energy Goal



Source: Department of Defense Annual Energy Management Report Fiscal Year 2012



Same Goal – Different Approaches

Navy/Marines:

- First to embrace long term Power Purchase Agreements
- Navy projects buy energy from private sector from projects built on navy land.

Branch	Base	Tech	MW	Developer	Status
Navy	China Lake	Solar PV	13.8	SunPower	Operational
USMC	Miramar	Landfill Gas	3.2	Fortistar	Operational
USMC	Barstow	Solar PV	1.2	SunDurance	Operational
USMC	29 Palms	Solar PV	1.2	Baker Electric	Operational



Same Goal – Different Approaches

Air Force: Focus on Enhanced Use Leasing Model

- EUL Model: Land leased to private sector but energy sold off base to utility
- With exception of Nellis AFB and Davis Monthan, AFB has primarily looked to EUL model:
 - Clear AFB
 - Edwards AFB
 - Hollomon AFB
 - Joint Base McGuire-Dix-Lakehurst
 - Ramey Solar Observatory
 - Travis AFB
- But announcements expected on series of Power Purchase Agreements for 176 MW of energy.



Same Goal – Different Approaches

Army: Broadest Based Effort

- Organized Energy Initiatives Task Force (EITF)
- Promulgated \$7 Billion Corps of Engineers MATOC
 - Geothermal
 - Solar
 - Wind
 - Biomass
- 79 Companies Awarded MATOCS; No task orders awarded yet
- Announced 178 MW of new projects in next 4 months with 100 MW of additional projects to follow.



Same Goal – Different Approaches

But increasingly all services, particularly Army projects, are not going to private sector developers, but to utilities; services driven by regulatory limitations

- Fort Bliss – El Paso Electric
- Schofield Barracks – Hawaiian Electric
- Fort Stewart – Georgia Power
- Luke AFB – Arizona Public Service
- Fort Huachuca, AZ – Tucson Electric

“For some of our installations, working with the utility is the best arrangement for cost effective renewable energy....”

Amanda Simpson, Executive Director, Army EITF, April 2014.



Renewable Energy

Is this an opportunity for your Co-Op?

- Is there a military base in your vicinity?
- Is renewable energy viable from a cost perspective?
- Can you (or do you) sell energy to the base at retail?
- Are others restricted by law or regulations from selling energy to the base?

Suggestion: Contact base or services. Do not wait for RFP.



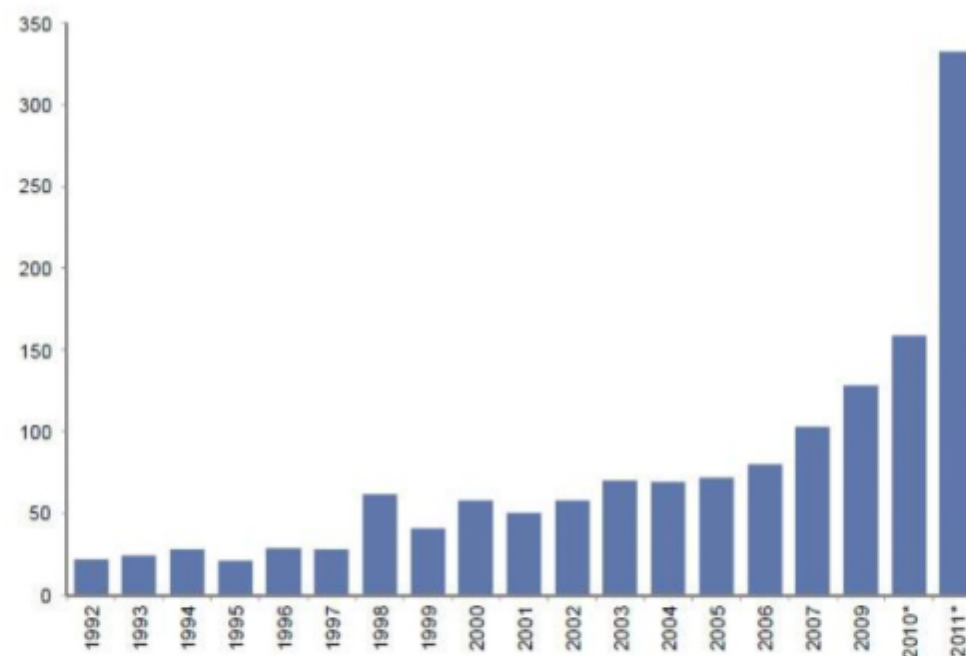
Shifting Focus

Do Renewable Energy Efforts Meet DoD Objectives

Meets Executive/Legislative Mandates	✓
Promotes Energy Security	?
Manages Cost	?



Power Disturbance Trend



Note: * NERC equivalent data estimated based on the trends seen in the Eaton Blackout tracker for number of outages affecting over 50,000 people.

Source: NERC, Eaton Blackout Tracker, Goldman Sachs Research estimates.

Figure 1. Major power disturbances in North America from 1992 to 2011



Cost/Security Conundrum

- Generally, renewable energy costs more.
- As long as dialogue is focused solely on Renewable Energy, it is a race to beat brown power cost.
- Shift of focus to sustaining/protecting mission, which is where additional costs can be justified.
- Means microgrids, combining renewable and (often) non renewable generation.



Microgrids and Combined Heat and Power Plants



Central Utility Plant – Phase 1, Fort Detrick, Maryland

- Non Intermittent Power Required
- Most efficient when sized to steam load
- Biomass/Landfill gas favored; Fuel oil/coal disfavored but many will be natural gas



Microgrids

- How does a Co-Op obtain a Microgrid opportunity:
- Best Answer: Utilities Privatization



Utilities Privatization

- Utilities Privatization Contract (10 USC § 2688)
 - Contractor provides utility services; operates and maintains systems
 - Potential for micro-grid applications
 - Contract term is up to 10 years *BUT* can be extended to 50 years
 - System is conveyed to contractor
 - FAR Part 15 negotiated procurement, but potential for sole source



Upcoming Utilities Privatization Projects Identified

- Announced Projects

State	Site	Year	Army/AF
KY	Blue Grass AD	FY13	Army
TX	Fort Hood	FY13	Army
LA	Barksdale	FY14	AF
MS	Keesler	FY15	AF
NM	Holloman	FY15	AF
VA	JBLE - Langley	FY15	AF
FL	Eglin	FY15	AF
FL	Cape/Patrick	FY17	AF
CA	Vandenberg	FY17	AF
TN	Arnold	FY17	AF
MT	Malmstrom	FY17	AF
GA	Moody	FY17	AF
GA	Robins	FY17	AF
CO	Schriever	FY17	AF

- But there could be opportunities not announced.



Upcoming Utilities Privatization Projects Identified (cont.)

- Announced Projects

State	Site	Year	Army/AF
KY	Fort Campbell		Army
WA	Joint Base Lewis-McChord		Army
HI	Oahu		Army
AL	Anniston AD		Army
SC	Fort Jackson		Army
NM	White Sands MR		Army
AR	Pine Bluff Arsenal		Army
PR	Fort Buchanan		Army
AL	Redstone Arsenal		Army
CA	Fort Hunter-Liggett (AR)		Army
AZ	Yuma PG		Army

- But there could be opportunities not announced.



Utilities Privatization

Is this an opportunity for your Co-Op?

- Is there a military base in vicinity?
- Has its electric distribution lines been privatized?
- Suggestions:
 - Contact the base directly.
 - Don't wait for RFP.



Benefits to Co-Op of Renewable Energy and Utilities Privatization

- Renewable Energy
 - Selling to world's largest customer increases revenue.
- Utilities Privatization
 - Increasing revenues and spreading costs through long term (50 year) contract to maintain and upgrade facilities.
 - Essential player in any microgrid.



What To Expect When Contracting with the Federal Government

Today's Focus:

Utilities Privatization (UP)
Contracts and Renewable
Energy Services Contracts
(RESCs)*

- Both Federal Acquisition Regulation (FAR) Based



* For illustration purposes, focusing only on Army's Power Purchase Agreement



Can you do business with Federal Government?

- US Government *Only* Contracts with “responsible” companies (FAR Part 9)
 - Satisfactory performance record
 - Satisfactory record of integrity and business ethics
 - Adequate financial resources to perform the contract, or the ability to obtain them
 - Necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them
 - Necessary production, construction, and technical equipment and facilities, or the ability to obtain them



Compliance Obligations

Examples include:

- Standards of conduct / procedures and policies in place
- Occupational Safety / Drug-Free Workforce
- Labor laws
- Issues that arise in developing business and identifying opportunities
 - FAR 52.203-3: Gratuities
 - FAR 52.203-5: Covenant Against Contingent Fees
 - FAR 52.203-7: Anti-Kickback Procedures
 - FAR 52.203-16: Preventing Personal Conflicts of Interest



The Negotiation Process

- Utilities Privatization (UP) Contracts
 - Negotiated Procurements (FAR Part 15) / Full and Open Competition (FAR Part 6.1)
 - USG issues a formal request for proposal (“RFP”)
 - Best value competition; specific evaluation criteria
 - Offerors submit formal proposal submissions; likely engage in formal discussion with USG
 - USG evaluates final proposals; makes award
 - Sole Source Procurements (FAR Part 6.3)
 - Only one responsible source and no other supplies or services will satisfy agency’s requirements
 - Unusual and compelling circumstances
 - Bid Protests



The Negotiation Process (cont.)

- Renewable Energy Services Contracts
 - Subcontracting opportunities under MATOC ID/IQ
 - Prime contractor required to compete subcontract “to the maximum extent possible”
 - One-off opportunities (more likely)
 - Competition under FAR Part 41; must comply with FAR Part 6
 - Similar to FAR Part 15 competition
 - Potential for sole source
 - Bid protests



Understanding Your Contract, and Implications of Contracting with the USG

- **Contract Clauses** (examples)
 - Terminations for convenience and default
 - Changes
 - Stop work order
 - Disputes (under the Contracts Disputes Act)
 - Audit Rights
 - Utilization of Small Business / Small Business Subcontracting Plan



Understanding Your Contract, and Implications of Contracting with the USG (Cont.)

- Cost Accounting Standards
- Contracting Officer Authority
- FOIA
- Investigations / Subpoenas
- Budget Cuts and Appropriations Risk



General Issues/Matters – UP Contracts and RESCs

	UP Contracts	RESCs
Fixed Price	✓ - But economic price adjustment clause.	✓ - But must reimburse USG if minimum annual production requirements not met.
Transition Period and Plan	✓	✓
Joint Inventory and True-Up	✓	✗



General Issues/Matters – UP Contracts and RESCs (cont.)

	UP Contracts	RESCs
Land Access Issues (Easements, Rights of Access)	✓	✓
Environmental Issues	✓	✓
Initial Capital Upgrades (lump sum payment vs. rate base method)	✓	x
USG Option to Repurchase/Purchase System Upon Termination/Expiration	✓	✓



Summary

- Opportunities for Co-Ops
- Benefits to Co-Ops
- Learning of the Opportunities
- Selection Process
- Negotiation of Transaction
- Doing Business with the Federal Government



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Opportunities for Electric Cooperatives at DOD Installations

April 24, 2014

Proud Member of the Farm Credit System



CoBank Overview



- A broad-based cooperative financial services organization serving vital industries across rural America:
 - Energy
 - Communications
 - Water
 - Agribusiness

- Over \$98 billion in assets at December 31, 2013; AA- rated by both S&P and Fitch

- Cooperatively owned by 2,357 customers-owners

- Headquartered outside Denver, CO; regional offices and banking centers throughout the country

- Approximately 840 employees nationwide

- Member of the Farm Credit System, a Government Sponsored Enterprise with \$261 billion in assets at December 31, 2013

Commitment to Electric Cooperatives



- 540 distribution cooperatives are CoBank members
- 60 of 62 G&Ts are CoBank members
- Over 80 Energy Generation & Transmission project relationships
 - Configuration: Base load, Intermediate Load, Peaking
 - Fuels: Coal, Natural Gas, Renewables
 - Including biomass, hydro, landfill gas, solar, wind

CoBank Products & Services



Lending

- Term loans
- Revolvers
- Lines of credit
- Letters of credit



Capital Markets

- Syndications & participations
- Tax-exempt bond financing
- Private placements
- Equity sourcing



Leasing

- Vehicles
- Equipment
- Machinery
- Facilities

Typical Loan Process



- Application
 - Resolution (if necessary)
 - Confer with CoBank staff on front end

- Credit Analysis
 - Audited Financial Statements
 - Form 7s
 - Project Information

- Usually In-house Legal Documents

- Simple Funding Process
 - Easy access to committed funds

CoBank Patronage



➤ CoBank's Patronage Formula

- Based on a consistent, predictable formula: 1% of annual average loan volume (75% cash and 25% CoBank equity)
 - Refunds are distributed to customers in March, following 12/31 year-end
 - Represents a net effective rate reduction of $\approx 0.85\%$
- CoBank's member-owner board of directors is deeply committed to the cooperative principle of patronage and to distributions per the formula
- Over \$2.8 billion in total patronage paid over the past ten years

Summarized Privatization Structure



- Military Branch command makes determination to sell or “privatize” utility assets at a given installation
- A request for proposal is published
- Utility submits bid (Often, Military Branch narrows participating bidders to a short list and requests rebids)
- Bidder is selected and Military Branch & the utility then enter further negotiations
- Agreement to transfer is reached, sale is effected (usually Federal Government makes a loan to the utility for the purchase price), and utility begins O & M of the system
- Utility bills Military Branch for agreed O & M plus a line item for debt service
- New construction ordered may be reimbursed when accepted or may be Government or privately financed (at Military Branch option)

What is UESC



Features:

- Utility Energy Service Contract (UESC) is a financing vehicle for installation, operation and maintenance of energy efficiency measures at Federal Installations
- Energy savings pays for project usually over 10 years
- Utility is compensated for project oversight and O & M during contract
- Federal government is benefited by future energy savings and meeting required energy consumption reductions

Project Types (examples):

- Lighting
- Windows & Insulation
- Demand Reduction
- Newer, more efficient heating & cooling
- Renewables (biomass, wind, solar)
- Geothermal

Summarized UESC Structure



- A “Serving Utility” (any utility currently serving the installation as a provider) conducts an audit of the installation to access opportunities for further investigation
- Serving Utility, usually in collaboration with a contractor, identifies an Energy Conservation Measure (ECM) to Installation Contracting Officer
- Contracting Officer reviews and commissions Feasibility Study
- Feasibility Study is undertaken by the utility (and, usually, the contractor) and presented to Contracting Officer
- If accepted, contractor proceeds with ECM under supervision of the Utility
- Upon project completion, ECM is turned over to government and payment begins
- Utility manages and maintains project and is paid, usually over 10 years

Cooperative Cases



Eston Glover, CEO, Pennyrite RECC, Hopkinsville, KY and NRECA Director

- UESC Projects at Fort Campbell, KY

Lou Ann Phillips, CFO, Canoochee EMC, Reidsville, GA

- Operator of Privatized Electric System, Ft. Stewart, GA
- Operator of Privatized Electric System, Hunter Army Airfield, GA

CoBank Customers with DOD relationships



- Currently, 19 CoBank members have some sort of contractual relationship with the military installations.
- CoBank provides direct financing for 4 of these for military installation projects and expects to provide more upon contract awards to co-ops
- CoBank can provide short term (such as line of credit), long term loan funds and leasing as financing mechanisms
- Loan arrangements and structure can be tailored to individual circumstances
- Loan customers receive CoBank Patronage as an added benefit

Other Benefits



- Financially strong, dependable, cooperative bank
- Flexible credit and financial solutions
- Competitive rates
- Focused on the electric cooperative industry as part of our overall commitment to rural America

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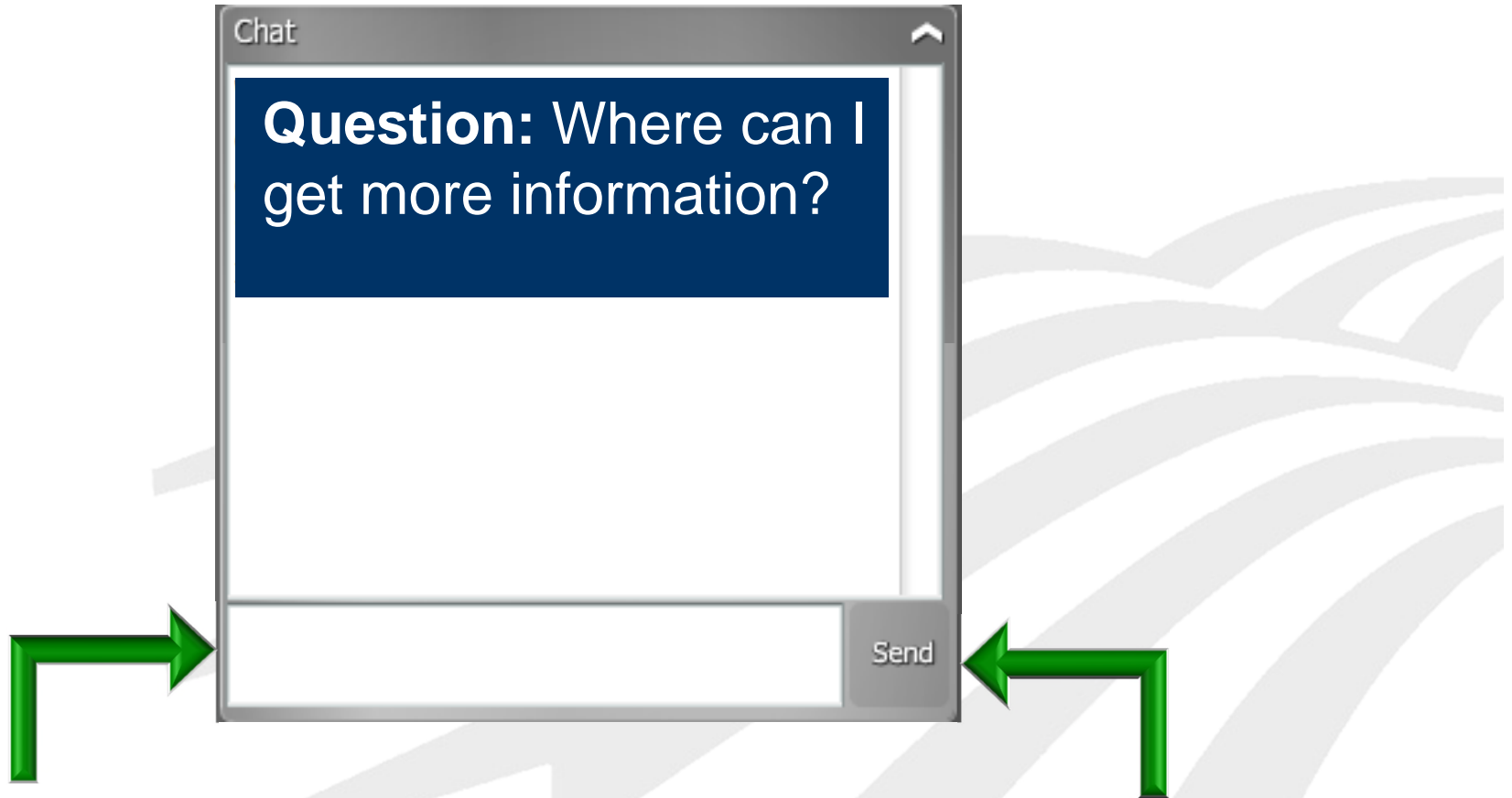


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