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

• 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 ServiceESCO

• 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!