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Update on GRU's Proposal Process for UF's Invitation to Negotiate (B)

Background

On September 9, 2021, GRU's vision to serve as University of Florida's on-campus energy supplier was drawn into clearer focus when UF issued an Invitation to Negotiate ("ITN") for a Central Energy Plant Project. The ITN is divided into two phases, the first being a request for Statements of Qualifications ("SOQ") for the purpose of shortlisting respondents. Those respondents who are shortlisted will be invited to submit a proposal in response to the subsequently issued ITN Phase II.

This public procurement process gives GRU an excellent opportunity to showcase its industry experience in the design, financing, construction, operation, and maintenance of resilient and highly efficient facilities such as GRU's South Energy Center, which currently serves the UF Health South Campus, south of Archer Rd.

The Central Energy Plant project will provide a modern, efficient, and resilient source of electricity, chilled water and steam to meet the current and future campus needs. The University has prescribed, at a high level, the technology, specifications, and other requirements and will provide more detailed schematic plans and specifications for the facility to shortlisted firms. The facility will employ Combined Heat and Power (CHP) to meet the university's power and steam requirements. The CHP plant will provide resiliency, very high efficiency, and the lowest carbon footprint practicable for the application.

Further information on the ITN may be found at the following address:

<https://procurement.ufl.edu/wp-content/uploads/2021/10/UF-Energy-ITN-Phase-I-Addendum-Final.pdf>

The impetus for UF to engage in this public procurement process began in 2017 when UF created a process to replace the steam generation capacity that would disappear with the expiration of UF's contract with the current on-campus cogeneration facility. UF also desired to replace their adjacent backup boiler and chiller plant with more modern and efficient facilities. After performing extensive due diligence, UF has laid the framework of this public procurement process which they intend to:

- Support its chilled water and steam production critical to supplying air conditioning, heating, humidity control and other process needs for its network of 131 campus buildings;
- Leverage third-party industry expertise in the design, financing, construction, operation, and maintenance of the energy plant;
- Shift responsibility for on-going maintenance and technical enhancements to a third party; and,
- Raise capital from an up-front concession payment that could be used to fund deferred maintenance of campus infrastructure.

This work must be completed prior to the conclusion of the University's contract for steam in 2027. The university's steam is currently produced by an on-campus Duke Energy plant, which will be decommissioned at that time.

Fundamentally, UF's almost four-year vetting process has led them to trust market forces to deliver the best solution to their campus energy needs, under the most innovative District Energy structure currently being used in the marketplace - a public-private partnership, known as a P3.

Opportunity for GRU

As noted above, GRU already has designed, financed, constructed, operated, and maintained an energy facility, off-campus, dedicated to serving the entire energy needs of the UF Health South Campus. The South Energy Center has been a successful and financially beneficial enterprise for GRU. We envision a similar opportunity resulting from the UF on-campus procurement process. In particular, the potential on-campus relationship with UF could deliver the following synergies, opportunities and overall benefits to GRU:

- Leverage GRU's renewable resources and demand-side management platforms to continue to improve the community environmental footprint.
- Generate additional net revenues which could mitigate future electric rate increases and/or provide stability in general fund transfer capabilities.
- Integrate GRU's operational capabilities across the territory, allowing GRU to take advantage of economies of scale with its workforce, commodity, and O&M purchases.
- Expand on an established partnership platform to facilitate more collaboration between the City and UF.

Timeline

In order to qualify to bid on the project, all interested parties must submit a Statement of Qualifications (SOQ) **by November 10, 2021, at 2:00 PM**. GRU's qualifications will include the makeup of GRU's team of experts, such as 1) Financial Advisor, 2) Engineering and Procurement Contractor (EPC contractor), 3) Financial Partners, 4) Legal Counsel, , and 5) other in-house project team members.

After submission of the SOQ, UF will review the SOQ with an announcement of the short-listed proposers **to occur in December 2021**.

The draft Phase II of the Invitation to Negotiate (ITN) is planned to be issued in **January 2022**. That will be followed by the final ITN Phase II which is planned to be issued in **June 2022**.

The planned submission of a final proposal is projected for **September 2022**, with a selection on or about **October 2022**.

A public procurement of this size and magnitude will be very prescribed and deliberate. The further the process moves along, the more firm the dates will become. For now, the most important deadline is November 10,

2021. That's the date when GRU will have to submit its SOQ to determine if we will be short-listed as a proposer in the ITN process.

Next Considerations

To be considered for a valid submission under the SOQ, GRU needs Commission approval to enter into agreements with the following entities:

- **Finance Partner** - GRU has selected JP Morgan as its finance partner for the UF project. The City Commission will need to grant GRU's general manager the authority to enter into an agreement with JP Morgan in order to validate their inclusion on the SOQ. Under the agreement, JP Morgan will be entitled to a \$ 2.25 million fee under one condition - GRU will need to be the winning proposer. If GRU doesn't win the selection process, JP Morgan receives nothing.
- **Legal firms** - The City Attorney's office interviewed several law firms that could handle the size and scope of the future agreements surrounding the P3 partnership, such as Concession Agreements, EPC contracts, O&M agreements, financing and bond issuance, etc. After evaluating the qualifications of several firms, the City Attorney's office has selected Holland & Knight as outside counsel to assist in all aspects of the negotiations and bond issuance. Because the fees will exceed \$100,000 if GRU is shortlisted, the City Commission will need to grant the City Attorney's office authorization to enter into an agreement with outside counsel for legal fees in excess of \$100,000. GRU doesn't envision a major expense until and if GRU is selected as a short-listed proposer. If GRU is chosen as a short-listed proposer, legal fees are estimated between \$300,000 and \$600,000. These fees are estimates and do not include unanticipated legal issues.
- **Engineering Procurement and Construction ("EPC") Contractor** - GRU procurement solicited requests for qualification for EPC contractors through the Demandstar online market portal to team with GRU to construct the Central Energy Plant project, if GRU is successful in winning the UF bid. Three firms submitted conforming statements of qualifications and were invited to conduct oral discussions in accordance with the Consultants Competitive Negotiation Act (CCNA) F.S. 287.055 and City of Gainesville Procurement Policies. The three firms were ranked in the following order: 1) Frank Lill & Son; 2) Hatch; and 3) GAI Consulting. As a result, staff is recommending initiating contract negotiations with the top-ranked firm, Frank Lill & Son, as required by Florida statute. If staff is unable to negotiate an acceptable contract with the top ranked firm, negotiations will be made with the next firm in the order of ranking. A summary of the scoring for each firm is attached. Just like the JP Morgan agreement, the City Commission will need to grant GRU the authority to enter negotiations and execute a Teaming agreement and an EPC agreement with the top ranked EPC contractor. The EPC contractor will be paid in accordance with the time and material provision within the agreement. If GRU doesn't make the short-list of proposers, minimal expenses will be incurred, since work will not begin in earnest until GRU's acceptance as a short-listed proposer.

The next decision point for the City Commission is sometime in December, if GRU were to be short-listed. Today's request is just the first step in the entire process.

GRU has brought this project before the City Commission to gain its approval to submit a SOQ, along with granting the general manager the ability to enter into two agreements; an agreement with JP Morgan, and an agreement with a contractor for Engineering, Procurement and Construction (EPC), as well as to grant the City Attorney the authorization to retain outside counsel. The financial commitment behind these agreements are minimal until and unless GRU is chosen as a short-listed proposer. At this time, GRU estimates costs not to exceed \$200,000 through the SOQ submission date. Those pre-SOQ costs will come from savings or reprioritizing items within GRU's budget.

If GRU is short-listed, potential post-SOQ expenses will include the costs of the EPC Contractor, and our transaction and bond counsel. At this time, GRU considers those costs to be in the following range:

EPC Contractor - \$300,00 to \$450,000

Counsel - \$300,000 to \$600,00*

*excludes unanticipated legal issues.

GRU staff recommends that the City Commission:

1. Authorize the General Manager for Utilities to submit a Statement of Qualifications to the University of Florida for the Central Energy Plant Project
2. Authorize the General Manager to execute an agreement with JP Morgan to act as GRU's financial advisor in connection with the Invitation to Negotiate Central Energy Plant Project issued by UF. The agreement will be subject to the City Attorney's approval as to legal form and content.
3. Authorize the General Manager to negotiate and execute a Teaming Agreement, and other agreements for EPC services as may be required to support GRU's proposal to UF, to the highest ranked firm, Frank Lill and Son, subject to the City Attorney's approval as to legal form and content. In the event that an agreement cannot be negotiated with the highest ranked bidder, authorize the General Manager to negotiate and execute agreements with the second-highest ranked firm, subject to the City Attorney's approval as to legal form and content.
4. Authorize the City Attorney's office to retain Holland & Knight as outside counsel to assist GRU in responding to the Invitation to Negotiate and to negotiate agreements for and advise GRU as to UF's Central Energy Plant Project