While many in industry assume that months of virtual silence indicates that the U.S. Department of Defense’s (DoD) commercial-scale energy initiatives have been subjected to drastic sequestration measures, the opposite actually seems to be true. New announcements, presentations, and strategies from each of the armed services are providing insight into new renewable energy power purchase agreement (PPA) contracting opportunities of all shapes, sizes, and processes. Furthermore, some of the services have begun to express interest in utilizing contracting vehicles such as Utility Energy Service Contracts (UESCs) more broadly, as well as deploying other technologies beyond renewables, such as natural gas and small nuclear reactors. This update provides a high-level overview of what’s recently been announced, some of the strategic efforts underway, and what is likely to be formally released by the contracting entities to facilitate procurement of commercial-scale energy for the DoD in the months to come.

Army: EITF

Renewable Energy Service Agreement Performance Work Statement

On April 1, 2013, the United States Army Energy Initiatives Task Force (EITF) released a Renewable Energy Service Agreement Performance Work Statement (PWS) in the form of a Request for Information (RFI). A webinar was hosted by EITF on April 11, 2013, noting industry that comments are due by May 29, 2013. EITF is seeking to formalize the core, consistent PPA language it hopes to utilize for Requests for Proposals (RFPs) issued through the Multiple Award Task Order Contract (MATOC), as well as on a one-off basis. In the PWS, companies should determine their ability to integrate new requirements and assess those requirements’ impact on potential project financeability, including microgrid/islanding capabilities, cybersecurity requirements, and physical security requirements for an installation.

WSGR Insights and Recommendations: While many in industry usually view RFIs as a time-consuming task that presents little immediate value, it is important for industry representatives to look at this effort more broadly. First and foremost, one of the main reasons that the PWS RFI took a significant amount of time to release is because this is one of the few instances in which the DoD has offered industry an opportunity to broadly comment and provide feedback on a contracting vehicle in advance of an award, in order to ensure that the document is fair, standardized, and as technologically relevant as possible. Accordingly, the PWS provides industry a one-time opportunity to influence how EITF will contract projects over the next several years and aids EITF in developing a document that internal EITF officers, additional DoD contracting entities, and awardees across every technology area can negotiate in a more efficient manner. Of course, financing structures likely will vary significantly across project technologies and sites, making a full-form RFP difficult to structure. The PWS, however, can serve as a useful point of reference in dialogue between the DoD and the financial community on respective requirements to develop projects on military facilities utilizing traditional project finance structures.

MATOC Updates

Senior Army officials publicly announced earlier this month that the long-awaited MATOC announcements will be made shortly. One caveat, however, is that the U.S. Army Corps of Engineers (USACE) will be staggering the awards. Awards will be made on a technology-by-technology basis, but the order of release remains undetermined.

WSGR Insights and Recommendations: Although initial MATOC announcements will be following shortly, this does not mean there will be a dramatic change to EITF contracting via the MATOC on a comprehensive basis. Instead, the EITF will continue to release upcoming RFIs on a one-off basis through the remainder of 2013. However, this does present an opportunity for MATOC awardees to provide EITF with base-level projects for USACE to contract through the MATOC. With regard to order of announcements, industry’s general presumption is that EITF and USACE will announce awards in order of the amount of applications received for a given technology, beginning with geothermal.

Non-MATOC RFIs and Additional Updates

Current Landscape: With Fort Detrick's 10-20 MW solar PV and Fort Drum’s 15-28 MW biomass responses due earlier this month, the

1 Available at http://www.armyeitf.com/index.php/opportunities/request-for-information.
2 Comments can be submitted at https://www.fbo.gov/index?id=85e56e7fe1b1d60d067d7c031b90fa22ee6.

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Defense Logistics Agency Energy (DLA-E) contracting office has proven effective in providing the Army with base-level RFP support. With a portfolio including the power-generation RFPs, various Energy Savings Performance Contracts (ESPCs) and UESCs, and current Renewable Energy Credit purchases, DLA-E has developed extensively upon its diverse array of energy contracting experience. Furthermore, as the Huntsville, Alabama, USACE team develops the MATOC project framework, their ability to contract opportunities will be expanded after all technology area awardees are announced.

What's New: This April, EITF awarded a sole source contract to El Paso Electric for Fort Bliss’s 20 MW solar PV project. Accordingly, El Paso Electric will now seek bids from entities that it deems qualified from its August 2012 Request for Sources Sought.

What's Next: While it is commonly known that the Schofield Barracks 50MW biodiesel project will be one of the upcoming Army projects, the contracting structure for that project has been largely unclear. It is now evident that the project will be an Enhanced Use Lease (EUL), with Hawaii Electric Company (HECO) issuing proposals for a prime engineering, procurement, and construction (EPC) firm. EITF officials also formally announced this quarter that they plan to announce a competitive opportunity for Fort Irwin’s 20 MW solar PV project.

Additional Updates: In addition to the updates above, EITF officials have begun mentioning that they encourage base-level energy managers to continue to evaluate projects in the 1-4MW range independently from EITF since EITF and the Department of Energy’s Federal Energy Management Program are both developing guiding documents that would enable military posts to do so at the local level. Moreover, EITF is also considering how it can work with utilities to replicate the Georgia Power-owned natural gas plant project on Robins Air Force Base through its UESC authority. Last, in addition to opportunities EITF has unveiled publicly to date, there is a significant pipeline of opportunities (~400 MW) already in the works.

WSGR Insights and Recommendations: While EITF seems to be sporadically releasing one-off opportunities while waiting on MATOC awards and announcements, it also has been underlaying necessary contracting, project planning, and financing infrastructure. Over the course of the last 18 months, EITF has made significant strides organizing a pipeline of projects and evaluating as many contracting entities and resources as it can to position the Army to successfully meet its 1GW goal.

In addition to the strong pipeline of opportunities already in motion, EITF consistently has been open and responsive to both industry feedback and suggestions regarding alternative contracting structures and new projects. This program’s public encouragement of base-level contracting and working with utilities directly to replicate the Robins Air Force Base project illustrates this fact, as these are both alternative contracting structures WSGR and partners in industry have suggested to help ensure the program is in a position to help the Army meet its 1GW goals.

Accordingly, companies should not feel as though they should shy away from this pipeline of opportunity that will continue to unfold over the next decade due to the initial hurdles EITF had to overcome. Instead, each company should position itself for a long-term opportunity and strategically approach the opportunity set in motion by EITF in a manner that complements its existing goals and objectives.

Navy: NAVFAC

As the Navy continues to develop its contracting mechanisms and facility opportunities, the regional Naval Facilities Engineering Command (NAVFAC) offices have released RFIs that signal potential development opportunities in line with Navy Energy Office goals.

NAVFAC Southwest and NAVFAC Midwest both have released RFIs recently to provide renewable energy generation for multiple facility loads. While this market research is intended to provide NAVFAC guidance on which technologies will best serve their regional or cluster generation goals, individual facility RFIs have provided more granular data on technologies of interest. The Naval Station in Newport, Rhode Island, saw an RFI for an up-to-9MW wind project and Walter Reed in Bethesda, Maryland, saw an RFI for 10 MW of combined heat and power, both commercial-scale, first-of-a-kind projects for DoD installations contracted at this level. Individual RFIs, especially the NAVFAC Southwest RFI, provide an opportunity for industry to suggest larger projects that can help the Navy meet its regional goals more expeditiously than it would through one-off projects.

In addition to the efforts set forth above on a regional and one-off basis, Navy officials actively are engaging the financial community to develop financeable documentation that can help spur the development of commercial-scale renewable energy installations, akin to the EITF’s draft PWS.

Furthermore, the Navy is evaluating a handful of upcoming projects, including a 5MW geothermal project at the Navy Air Station (NAS) in Fallon, Nevada; a 9MW wind project at the Naval Station in Newport, Rhode Island; a 3-5MW solar PV project at Marine Corps Air Station in Yuma, Arizona; and large PV projects at Goldwater Range in Arizona and NAS Lemoore, California.

WSGR Insights and Recommendations: Currently, the Navy provides industry a significant opportunity to bring innovative solutions and project structures to the table. Industry representatives interested in working with the Navy (especially those looking to build larger projects or arrange innovative structures to sell power to the Navy) should take the opportunity during this information-gathering period to communicate with the Navy. Industry also should continue to stay apprised of upcoming Navy opportunities, as there are a number of projects currently being evaluated by teams that have experience deploying renewable energy projects.

Air Force: AFCEC

With the release of the Air Force Energy Strategic Plan this past March, the Air Force formally has consolidated its real estate EUL,
Utilities Privatization, Facility Energy, and other contracting entities under the banner of the Air Force Civil Engineer Center (AFCEC). Coordinated development efforts between federal officials at Tyndall Air Force Base in Florida and Lackland Air Force Base in Texas will allow for more efficient contracting of the high-value, large-scale opportunities industry can expect to see in the next year out of Edwards, JB McGuire-Dix-Lakehurst, and other Air Force bases (AFBs).

Following the industry day and draft release of the Joint Base McGuire-Dix-Lakehurst EUL opportunity, AFCEC is following up with a 10 MW solar PV EUL at Robins AFB in Georgia and an aggressive schedule of over a half dozen electrical utilities privatization contract solicitations over the rest of the fiscal year (FY) 2013. In addition to the solar development and utilities privatization efforts underway with the Air Force, AFCEC is preparing to announce an opportunity for a solar PV RFP at Otis Air Force Base in the coming months.

WSGR Insights and Recommendations: The Air Force will continue to maintain a leadership position in contracting EULs and utilities privatization efforts. While some opportunities for the Air Force to purchase power from projects may be released over a longer period of time, the majority of the opportunities in the near term likely will continue to fall within the areas of EULs and utilities privatization. However, the Air Force remains open to evaluating projects that industry representatives bring to the relevant contracting teams and likely will present opportunities for the purchase of power over the longer term.

Operational Energy Outlook

As the services develop their installation energy opportunities, a suite of opportunities exist for technology providers in operational energy solutions. The Army, Navy, and Air Force’s operational energy offices all have stringent energy efficiency, fuel reduction/conservation, and alternative energy in operational scenario requirements that contract through different mechanisms.

With awardees of the Defense Production Act (DPA) biofuels program expected to be announced shortly, the Navy still must meet a federal order to acquire and test 20,000 gallons of Alcohol-to-Fuel (ATF-5) by the beginning of FY 2014. DLA-E and NAVFAC both have recently issued solicitations for long-term, commercial-scale contracts for energy storage modules to power operating bases and shipboard propulsion in harbors, respectively. As microgrid and island requirements, hybrid energy systems beyond diesel generator sets, and more advanced energy manager systems integrate into stationary facility and installation capabilities, and fuel optimization, high-efficiency engines, and on-board generation integrate into transportation capabilities, industry should expect to see continued solicitations and integration of technologies from the services’ research and development pipelines.

WSGR Insights and Recommendations: Despite sequestration measures impacting operational budgets, significant opportunities exist for the procurement of commercially viable energy solutions of many shapes and sizes. Operational programs remain a key focus for flexibility efforts in implementing sequestration in future budget cycles. For small businesses with innovative commercial-ready solutions to access these opportunities, partnership with larger entities or utilizing demonstration channels to establish a relationship with the DoD is key.

Conclusion

In the near term, companies can expect to see MATOC awardees announced, some form structure and consistency from the Army on RFP releases, public releases from the Navy on its small- and large-scale project priorities and upcoming projects, and the high-value opportunities from AFEC and NAVFAC to see public release as their contracting offices complete their internal guidance and market due diligence. As the various contracting offices, service administrations, and base-level commanders require nuances and variable approaches to work with, companies should plan for an ongoing long-term effort and pursue parallel efforts that coincide with each individual company’s objectives across the services to maximize return.

For more information or assistance in developing a DoD strategy for your company, please contact Taite McDonald from the firm’s government initiatives practice (tmcdonald@wsgr.com), Todd Glass (tglass@wsgr.com), Chris Groobey (cgroobey@wsgr.com), or Peter Mostow (pmostow@wsgr.com).