# Public Private Partnerships

*Alaska Rural Energy Conference 2016*

*Moderator*
*Gwen Holdmann, Director, Alaska Center for Energy and Power*

# What are Public Private Partnerships?

- **PPP** is an arrangement where private parties participate in or provide support for the provision of public infrastructure

- **PPP is Not** the procurement of an asset, but the payment of a stream of services under specified terms and conditions

ACEP
Alaska Center for Energy and Power

# Why Public Private Partnerships?

- Financial need – budget deficit, large debt
- Aging or deteriorating infrastructure
- Growing demand on public sector services
- Search for greater efficiency and creativity
- Introduce competition
- Lack of domestic experience or skills

# Barriers to private Investment in small communities

- High risk makes securing private funding difficult
- Economies of scale (small projects with small consumer base)
- Remoteness/distance
- Credit worthiness/ability to take on more debt
- Human capacity
- Long-term anchor customers
- The true cost of utility service not reflected in the rates (subsidies)
- Complex land ownership
- Lack of collateral limits lender recourse

# Varying models of PPPs

## Model 1:

- The public entity transfers land, property, or facility to private sector
- Private sector builds or renovates facility
- Public sector sets standard of service
- Private sector provide service for set term
- Private sector transfer ownership at end of term

# Example: Guam Power Authority

# Varying models of PPPs

## Model 2:

- Public sector defines service over long-term
- No payments made until asset is delivered as promised
- Private sector assumes risks associated with design and construction
- Private sector allowed to own and run facility for profit
- Private sector may have access to incentives or tax credits not available to public partner

# Example: Guam Power Authority

*Image of courtesy NRG*

ACEP
Alaska Center for Energy and Power

# Good Practices using PPPs

Ensure that:

- Private sector partner has the required capacity
- Ensure public sector interests are factored in
- Rate payers are guaranteed value for money
- Private sector partner(s) has proper motivation

# Benefits of PPPs

- Mitigates and properly allocates risks
- Provide incentives for operation & maintenance
- Ensures value for money
- Attract the right skills and management expertise
- Promotes innovation
- Reduce financial burden on utility and rate payers

# Pitfalls of PPPs

- Depends on EGAP principle (Everything Goes According to Plan)
- The process of creating a PPP is much more demanding than a traditional procurement process. This is normally underestimated.

# Barriers to private Investment in small communities

- High risk makes securing private funding difficult
- Economies of scale (small projects with small consumer base)
- Remoteness/distance
- Credit worthiness/ability to take on more debt
- Human capacity
- Long-term anchor customers
- The true cost of utility service not reflected in the rates (subsidies)
- Complex land ownership
- Lack of collateral limits lender recourse

# Streamlining PPP Processes

- Use public money to fund highest risk portion of project (ex: resource assessment)
- Plan long term (ex: SDA – Specification, Design and Assessment)
- ‘Package’ project once properly vetted to reduce transaction costs
- Develop an RFP
- Monitor performance and O&M

# Panelists

- Jason McEvers (Capstone Solutions)
- Rob Bensin (BSDC)
- John Handeland (NJUS)