

# Municipal Utilities Ride To The Rescue Of Beleaguered Solar Projects

After investor-owned utilities meet state requirements, local authorities can take the reins.

■ Dino Barajas

As investor-owned utilities reach required levels of mandated state renewable portfolio standards, their willingness to offer additional power purchase agreements (PPAs) to renewable energy projects has subsided.

Additionally, corporate off-takers have also become more discerning in who they are willing to contract with for their renewable energy off-

take requirements. The combined pressures of having fewer PPAs in the market and increased demands imposed by potential off-takers has made the U.S. one of the most competitive renewable energy markets in the Americas.

The challenges in the market are compounded by a reduction in the size of contracted megawatts under available PPAs. This makes cost reductions from economies of scale that

much more difficult. Opportunities to secure PPAs of 200 MW or 300 MW under a single contract are scarce and hypercompetitive. Developers and investors are now being forced to look for opportunities to aggregate potential projects from a single energy off-taker in stages.

The large flux of renewable energy into power grid systems, which had been traditionally dominated by fossil fuel energy production, has also raised cost issues relating to grid stability and battery storage needs. These additional cost considerations will also make it more challenging for new projects to seem attractive from a cost perspective to energy off-takers, and may further erode the U.S. renewable energy market.



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Amid the chaos and confusion, one shining white knight has arisen in the renewable energy sector that can harness the various market forces and provide opportunities for renewable energy developers and their investors: the municipal utility.

## White hats

Municipal utilities are in the unique position of being able to utilize their purchasing power relating to energy off-take and use it to address the economic development needs of their constituents and communities. Unlike investor-owned utilities, which solely focus on profitability and their investors, municipal utilities can consider requiring factors relating to community economic development commitments in their selection criteria for new renewable energy providers. Municipal utilities have a “perfect storm” of factors that have magnified their purchasing power in a turbulent renewable energy market.



The Alamo series of projects being built by OCI Solar for CPS Energy of San Antonio is a model for how municipal utilities can shape the future of renewable energy in the U.S.

Photo courtesy of OCI Solar

Economic development can take many forms. In some cases, job creation and capital investment commitments can be the objective measures by which prospective renewable energy developers can be assessed. At a time when our national economy continues to stagnate and state budgets are strained, private-sector economic development programs are a method of leveraging the public sector's purchasing power and amplifying the benefits that green power brings to local communities.

Three to five years ago, when investor-owned utilities dominated the market with their annual requests for proposals (RFPs) for large-scale renewable energy projects, developers would not have been as motivated to acquiesce to the increased requirements of municipal utilities. Now, things have drastically changed. In an energy purchaser's market, the munis can demand that counterparties bring additional concrete - and auditable - benefits into the communities they serve. In exchange, the renewable energy development and investment community gains a strong creditworthy off-taker that is extremely attractive to project finance lenders and tax equity investors.

The benefits of local job creation and capital investment by renewable energy developers also help local politicians and energy policymakers "sell" the benefits of green energy to local constituents. Concerns about the higher costs of "green electrons" competing with lower-cost fossil fuels at a time of economic pressure must be addressed. The creation of "green energy" jobs and local capital investments relating to the renewable energy sector will also ensure that the local community is adapting to the nation's move toward technology sector jobs and away from fossil fuel dependence. These higher-paying jobs will provide long-term benefits to the community beyond the construction phase of the renewable energy project.

The key for municipal utilities will be creating a realistic economic development structure that provides a certain degree of flexibility to the

renewable energy developer and its investors, such that the types of jobs created can differ over time as the activities of the developer progress. Additionally, to the extent that a developer is provided with the option to select between greater job creation or capital investment interchangeably, project participants can adjust their compliance with the program requirements based on the unique characteristics of the local community in which they are trying to operate.

Job creation and capital investment requirements should also be calculated by taking into account the aggregate economic footprint of all project participants - including contractors and advisors. This would permit the benefits to ripple through numerous sectors and have a multiplying effect on the local economy.

### **Remember the Alamo**


The industry has already seen a success story utilizing the sliding scale economic development model with the City of San Antonio's Alamo projects. CPS Energy, San Antonio's municipal utility, successfully tendered an RFP for a 400 MW solar project that is to be built in stages as the developer, OCI Solar Power, achieves the required economic milestones.

The Alamo series of projects is the largest solar development currently being built in the U.S. and serves as a model of the potential that municipal utilities have in shaping the future of renewable energy development in the U.S. The aggregate construction costs for the investment are estimated to be \$1 billion, and the overall economic impact for San Antonio is estimated to be \$700 million annually. San Antonio's innovative development structure for the Alamo projects has catapulted it to the forefront of renewable energy development in the U.S. and has the potential to benefit the local San Antonio economy in an unprecedented manner.

The solar industry will be in a unique position to benefit from this type of structure given the ability of

solar developers to scale up their projects in smaller individual phases - as compared to wind projects - that are still economical. The ability to aggregate smaller projects into a larger overall off-take arrangement also preserves the purchasing power of the municipal utility and makes any RFPs issued by it attractive to developers and investors. Project finance lenders and tax equity investors may also prefer these smaller reproducible projects because each one will be a ring-fenced standalone project that can be easily financeable with lower overall costs across multiple financings.

Additionally, having municipal utilities take a leadership role in renewable energy development will also help state energy policymakers coordinate their efforts promoting renewable energy portfolio standards with local public utility customers. These coordinated efforts would also lead to increased benefits to the state's overall economic well-being and help coordinate public spending on a statewide level.

The critical decision for municipal utilities will be to flex their economic muscles while industry conditions magnify their purchasing power. Harnessing and applying the public sector's budget already earmarked for energy purchases and requiring additional public benefits as part of the purchased good is a responsible and intelligent way to stretch every public dollar while promoting increased green energy production. Once investor-owned utilities regain their past prominence in the renewable energy market, municipal utilities will lose the opportunity to create additional benefits for their communities as part of their procurement programs. 

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