



Filing Receipt

Filing Date - 2023-10-13 01:21:41 PM

Control Number - 54999

Item Number - 22

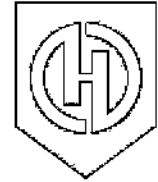


COMMENTS TO THE PUBLIC UTILITY COMMISSION OF TEXAS

Project No. 54999
September 21, 2023, Texas Energy Fund Workshop

October 13, 2023





COMMENTS ON PROJECT 54999 | TEXAS ENERGY FUND

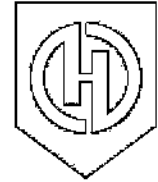
I. BACKGROUND

HORNE is a professional services firm founded on the cornerstone of public accounting. As a top 25 accounting firm, our CPA heritage aligns with our program management and construction management services. Engineering News-Record recently recognized our expertise and success by naming us to their 2023 Top 50 Firms, where we received 11th in program management and 17th in construction management/program management-for-fee firms nationwide. HORNE operates across the United States and territories and has six Texas office locations.

II. KEY RECOMMENDATIONS

In review of Project 54999, we observe a desire from the Public Utility Commission of Texas (PUC) to receive input in two key areas: (1) rulemaking and technical requirements that welcome target applicant participation, and (2) program administration best practice that yields timely selection and a positive applicant experience. Participants of the September 21 workshop provided multiple recommendations related to technical requirements and interpretation of terms under the code; we therefore focus our response on process and program functionality to address the workshop agenda items listed below:

- **Grants for Facilities Outside of the ERCOT Power Region – PURA § 34.0103**
 - What program functionality is necessary to administer grant awards under this program?
 - What features should be included in applications, grant agreements, grant monitoring, and grant close out?
- **Loans for Facilities Inside the ERCOT Power Region – PURA § 34.0104**
 - What program functionality is necessary to administer this program?
 - What application guidance will potential applicants require?
 - How should the PUC disburse loan funds? How might the PUC implement phased disbursement of loan funds?
 - What type of system should the PUC implement to facilitate borrower communication with the PUC for any necessary reporting?



- **The Texas Backup Power Package Program – PURA § 34.0201 – .0205**

- What program functionality is necessary to administer this program?
 - What application guidance will potential applicants require?

As experts in operationalizing public infrastructure programs, we submit this comment with a focus on program administration elements and a summary application intake and review workflow of similarly situated large-scale infrastructure loan and grant programs from other jurisdictions. For the purpose of this submission, as rulemaking is underway within the commission, process recommendations are presented under one example model with flexibility to manage a flow of multiple program application types.

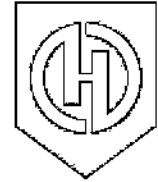
It is our experience that successful program administration targets the following goals in program administration:

- Deliver a positive applicant experience.
- Complete a fair selection process accounting for technical and financial feasibility.
- Systematize project delivery oversight and loan servicing processes.

DELIVER A POSITIVE APPLICANT EXPERIENCE

Applicant experience will be defined by interaction with the public website, availability and understandability of program guidance and instructional resources, user experience with web-based portals for application submission, and program staff responsiveness. As the administering entity, the PUC has an opportunity to prepare applicants with an understanding of the intake process and eligibility requirements, correspondence timeframes, and most importantly, the long-term obligation they assume as a participant of the program.

Once program rules are published, nuanced questions are expected to ensue from the various project sponsors based on unique considerations such as ownership structuring and technical specifications. However, there are many common questions that can be anticipated and proactively addressed through program guidance, frequently asked questions (FAQs), and strategic delivery of training. While some information may seem inherent in program rules or guidelines, we have found great success in the additional push of information aids such as one-page information bulletins and single-topic training delivered in a series of capsules. Releasing



information in single-topic snippets creates easy-reference materials that can be accessed in real-time at release or referenced during project application assembly. All information should be housed on the public website, accessible by date of release, topic, or by program intake or implementation process phase. Initial outreach at the onset of the intake period, should at a minimum, further clarify rules to clearly explain:

- Dates and timeframes of program activity with an emphasis on application deadlines.
- Clear points of contact for program personnel, preferred methods for contact, and operational hours.
- The types of applicant entities that are and are not eligible, per program.
- The types of projects and site characteristics that are and are not eligible, per program.
- Eligible and ineligible costs, by program, including soft costs such as interest and fees, capital costs, and other. Guidance should clarify what costs may be accrued prior to the determination of eligibility and underwriting.
- Required program documentation with succinct explanation of the expected industry standard or minimum requirements for each document type.
- Overview or sample of standard agreement requirements, by program, supporting the applicant to prepare for funding commitments.

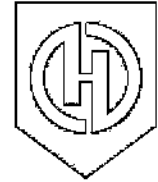
Outreach during the intake period should also offer clarity in the process. Instructional bulletins and/or capsule training can guide applicants on how to access resources, where to submit formal documentation, and how to receive technical support for central systems set up for application collection. Process and communication expectations should not be overlooked in this effort. Many programs have experienced timeline extensions due to untimely applicant response or insufficient return of information. To avoid this common pitfall, the PUC should standardize time frames for applicant response to request a standard 15 to 30 days response time for information requested during review cycles and should release documentation guides and checklists where practicable. Providing up-front, transparent guidance on what documentation will be required at later phases in the review could cut down response times substantially as documents can be prepared in advance when they are known requirements.

A sample outreach strategy is depicted in the graphic below. All materials are presumed to be tailored to the audience, strategically timed for release, and iteratively reviewed for relevance to the current state of operations.



Outreach strategies should also address **stakeholder transparency** through reporting and dashboards that inform the public and interested parties of the program status, timelines, and next steps.

In addition to robust application outreach, it is recommended that the PUC implement a **phased intake and award process** in which a pre-application technical assistance phase is incorporated into the program design. This process deviates from a standard notice of funding approach due to the engagement-limiting nature of that process. Instead, launching an application-based program in phases that permit meaningful project-based guidance will yield a strong pool of applicants, and serves to bridge the gap between application and implementation. Implementing this phased process **reduces applicant burden** in that it prevents applicants from investing time and resources on application information, studies, and preliminary financing on projects that are not in line with eligibility criteria. This phased design is further explained in the *Sample Workflow* section of this comment.



COMPLETE A FAIR SELECTION PROCESS ACCOUNTING FOR TECHNICAL AND FINANCIAL FEASIBILITY

Throughout the review process, it will be important to manage applicant expectations about time so that all parties are in sync for project planning purposes.

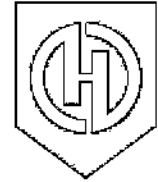
The project selection process should be governed by clear and consistent criteria made public through transparent communication (rulemaking and program guidelines). All aspects of the selection process, including the criteria, timelines, and evaluation methods, can be communicated to applicants through program guidance, public website resources, and outreach. Transparency helps candidates understand what is expected and how decisions will be made.

Clearly defined selection criteria, such as qualifications, project design, and experience, should be established and consistently applied to all applicants. These criteria should be related to the specific requirements of the program, and any minimum standards or program priorities should be defined at sufficient level of detail to avoid ambiguity.

Application reviewers should be impartial, unbiased, and free from conflicts of interest. A fair application selection process is one that is designed and executed with a strong commitment to impartiality and transparency. It ensures that all applicants have an equal opportunity to compete for the opportunity in question. Applications that are assessed on established criteria lead to a stronger project pipeline while establishing trust in the public process.

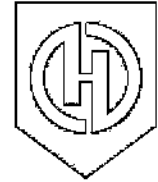
We recommend establishing a process that follows standardized procedures for reviewing, shortlisting, interviewing, and making decisions. Based on our review of existing energy infrastructure loan and grant programs, we recommend the PUC consider a phased intake and award, initiated by a project sponsor expression of interest maturing to a comprehensive application submittal after a pre-Application technical assistance step. An overview of this process is visually depicted in the next section of this paper to reflect the flow of information between the following phases:

- i. **Initial Project Sheet and Expression of Interest** – the PUC should open the program for all interested applicants by releasing a standardized electronic Project Sheet and Expression of Interest. Information gathered will be at a conceptual level to gather basic entity ownership structure and operating



history, basic project information including the type of facility, location of the facility, nature of operations, and planned enhancements or construction.

- ii. **Initial Project Screening** – Based on the information provided in the Project Sheet and Expression of Interest, the Program will maximize review resources by conducting a threshold review of entities and projects eliminating any that do not meet threshold requirements from proceeding any further in the program. Applicants will be screened for eligibility and compliance in terms of entity type and history, project type, and project site location.
- iii. **Pre-Application Technical Assistance** – Phase three is the application readiness consultation & technical assistance. Based on the known parameters of the applicant and project, PUC Program staff conducts meaningful conversations around program participation parameters specific to the project. It is during this time that knowledgeable program staff deliver on predetermined and collaboratively trained conversations to provide clear and detailed guidelines for applicant-required action. During this time, PUC staff will provide an:
 - a. Overview of the application process to explain time frames and required documentation for their chosen program and project type.
 - b. Explanation of the technical requirements to clarify what design specifications must be included in order to qualify for funding.
 - c. Explanation of required documentation to clearly establish expectations for submittal of industry standard studies, financial plans, or other evidence of operability and deliverability for the sponsored project.
 - d. Explanation of program obligations to clearly address the participation requirements for site ownership and maintenance, project design and operability, and reporting and compliance.
- iv. **Evaluation of Project Concept** – At phase four of the process, the applicant will submit a comprehensive and completed program application supported by all evidence of project feasibility including but not limited to:
 - a. Alignment with program goals
 - b. Business model and project structure
 - c. Preliminary environmental and permit plan
 - d. Interconnection plan



e. Risk analysis and mitigation plan

Projects meeting all requirements will be determined pre-qualified for the program and shall proceed forward through the additional phases until final selection and grant or loan approval. When a program is oversubscribed, a priority or scoring evaluation may be necessary to maximize program impact in the selection process. Applicants that pass the evaluation of project concept will need to prepare final implementation plans based on the agreed upon project concept.

- v. **Feasibility Analysis** – At phase five, pre-qualified applicants will deliver supporting documentation and a detailed Implementation Plan for managing the project through the repayment term and possibly beyond. At feasibility analysis the program conducts an in-depth final review to include:
- a. Creditworthiness and underwriting
 - b. Project finance letter of commitment
 - c. Long-term operations and maintenance plan
 - d. Final regulatory compliance
- i. **Award & Loan Closing** – Review and negotiation of the loan terms. At this final phase of intake and review, the parties will finalize the award size and terms of the agreement. The project will be evaluated for any significant increases in development cost or changes to project commitments that may impact feasibility. The program team will verify compliance with the 25% Fund balance requirement, conduct a final check for non-duplicative awards, and set the terms for the debt covenant. This phase will conclude with a loan closing, loan recipient escrow deposit, loan disbursement (either in whole or at scheduled performance milestones), at which point the project will transition over to implementation.

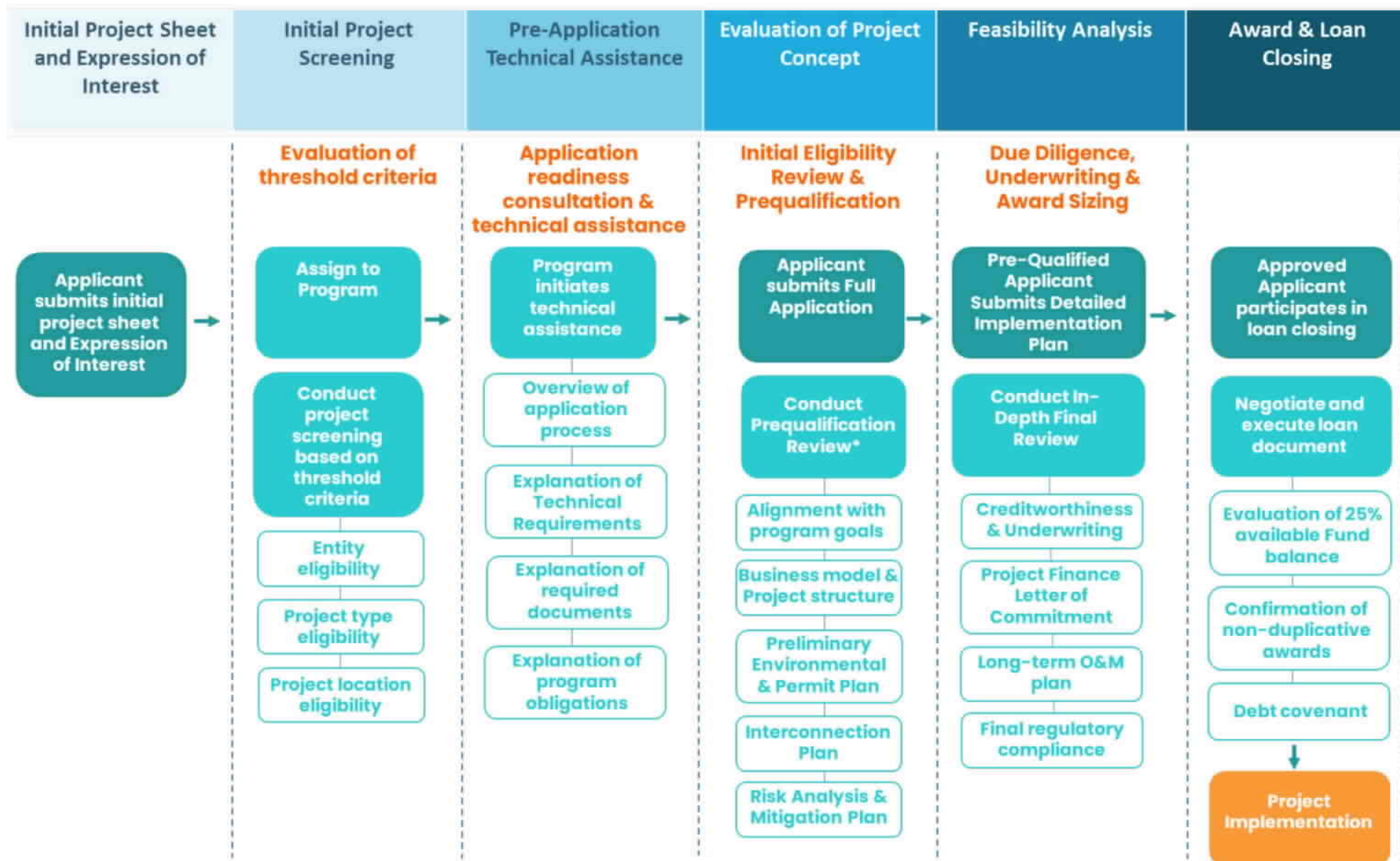
SYSTEMATIZE PROJECT DELIVERY OVERSIGHT AND LOAN SERVICING PROCESSES

Once approved, we recommend the project transition to a systematized process for project deployment, loan repayment and performance tracking.



III. SAMPLE WORKFLOW

Based on other large-scale electrical grid grant program implementation, we present a summary workflow for PUC evaluation. This workflow represents a loan agreement award approach most applicable to the Loans for Facilities Inside the ERCOT Power Region. We have chosen this example workflow as it represents the most complex award structure, which can be adapted for grant award scenarios.



***Note:** Selection priorities may be applied; especially in the event applications exceed 10,000 MW total or total grant allowance.

IV. CLOSING

In closing, we recommend that the PUC implement a phased approach to program administration that incorporates more participative discussions between the program and project sponsors throughout project application and vetting. The increase in communication can expedite problem-solving and facilitate in-depth understanding of project viability, gaining insight into thoughts and practices that might not be otherwise fully represented on paper without proper guiding discussions.

This model also leads to a reduction in risk on behalf of the PUC as a lender. Applicants are provided clarity in the process, allowing them to demonstrate ability to repay loan funds and operate grant supported infrastructure to provide dispatchable generating facilities and backup power sources that will strengthen the Texas electricity market.

CONTACT INFORMATION

MONICA MOTA, Director of Government Services
Monica.mota@horne.com

TERESA MORALES, Senior Manager
Teresa.morales@horne.com

LACY LYONS, Partner, Government Services
Lacy.lyons@horne.com