

# ENERGY PROJECT DEVELOPMENT “MUST HAVE’S” from THE GET-GO



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# **ENERGY PROJECT DEVELOPMENT “MUST HAVE’S” from THE GET-GO**

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## INTRODUCTION

A case could easily be made that development “must have’s” in the list below are applicable to all business development opportunities. However, having primarily dealt in the energy industry, I write about fundamental “must have’s” from the perspective of developing, constructing, testing, and operating power plants, pipelines, transmission lines, pumping stations, compressor stations, gathering facilities, storage facilities, etc.

Typically, energy projects are multifaceted and complex. For this reason, project managers should be involved early on in the project development planning process. This just seems like common sense. Yet, “sometimes project managers are given little opportunity to determine what the project will really take by way of resources, budgets, and timelines. Other times, they are asked to calculate what’s needed, but then their estimates are ignored.”<sup>1</sup>

All five of the components below are fundamental to the effort of energy project development, whatever the project may be. Too often, projects grow legs quickly due to external events and forces. For example, there may be a change(s) in management and the new powers that be become enamored of a project idea due to power plays, long-standing friendships, politics, policy or regulatory changes, new regions opening up that look highly promising at first blush, promised subsidies, etc. These types of starts can feel exciting and even be highly energized, however, it is imperative that the project(s) chosen for development out of the project funnel have the following elements of support:

- Clear Goals.**
- Clear Strategies.**
- Strong Team.**
- Clear Market View.**
- Collective Buy-In and Commitment.**

***These Are The Top 5 Components Essential to Successful Energy Project Development!***

**1. Clear corporate/sponsor goals.**

The following questions need to be asked and answered with thought and care . . .

*What is our core business?* If you asked all levels of management, colleagues you're working with, affiliate business units, and developers within the same company this simple question, you will get different answers. And, especially in a large company, individual business units may not understand, or even know, that the company is building, or trying to build an additional line of business or business unit. So then, it follows that if you can't define what already exists (the core business), how in the world can employees be clear about goals? They can't. For example, there was a period of time in the late 1990's through the early 2000's when diverse companies were contemplating and taking steps to build power generating businesses, which were not part of their core businesses. In some cases, power generating facilities were built, but soon after disposed of, sold down, or left without rights to sell power output. Were they interested in building power generating stations in strategic locations? Or, were they interested in the operation of generation assets to be supported by internal trading capability? Or, were they trying to build a trading business with the operation of generation assets as a support to enable hedging? Once a company understands exactly who they are, and how they are perceived in the marketplace, they can take steps to clarify where they want to go, which leads to the next set of questions.

*What are we trying to achieve?* Growth? New entry into the marketplace? New product entry into an existing and/or known marketplace? Expansion of existing operations? If it is growth we're after, a growth strategy has to be clearly defined, well communicated and understood, adhered to, and aligned across a company.

Development opportunities sometimes evolve out of analysis around operational efficiency, technological improvements, or improvements in processes or procedures. It's important to search for creative solutions, which "add value." Analysis should include a look at the scale of benefit vs. cost of implementation.

*How do we think we're going to get there?* Deliberate actions with consistency of purpose? Bigger, bolder moves? Focus on building businesses vs. doing projects?

*Why are we seeking this out?* What drives us? What are our motives?

*Who is going to act as champion for the project?* Any serious project development needs a champion, who will provide leadership and political support<sup>2</sup> . . . who will help drive and guide the project to a successful conclusion. Most often this is NOT the project manager, even though good project managers drive the process, direct, guide, implement, and are held responsible and accountable for progress and ultimate success, or failure.

You can't have clarity about the goals unless investigative, early developmental work is performed thoroughly and with forethought and all of the elements connected with the project

are fully evaluated, i.e., who are the stakeholders, why are they interested, what is each wanting out of the project, what environmental considerations are needed, what's the political climate, do the economics work and how are they affected under different scenarios, what's being envisioned operationally speaking, etc. Close attention to up-front due diligence tasks will reduce back-end project development costs.

The first five of Stephen Covey's "Seven Habits of Highly Effective People", which are summarized below, coincide beautifully with project development, especially in relation to my first "must have" of clarifying goals . . . be proactive, begin with the end in mind, put first things first, think win-win, and seek first to understand, then to be understood.

- *Be Proactive.*

In being proactive, take responsibility for your attitudes and actions. Be a light, not a judge; a model, not a critic; feed opportunities and starve problems; keep promises - don't make excuses; focus upon your immediate circle of influence and not upon the larger circle of concern.

- *Begin With the End In Mind.*

It will serve a project manager very well to maintain daily clarity of the desired direction and destination because management tends to be more concerned with efficiency and speed. A good project manager will clarify values and priorities before determining goals. You don't want old habits, other people, and environmental conditions dictating what you do, how you do it and when.

- *Put First Things First.*

Devote less time to activities that are unimportant, even if they are urgent. Devote more time to activities that are important.

- *Think Win-Win.*

Often times, people approach interdependent relationships with an independent mentality. Seek out mutual benefit. At the very least, make a commitment to explore all options.

Stephen Covey teaches it. Chester Karrass does too. And, there are a multitude of online links, books, CDs, tapes, courses, seminars, etc. on negotiation techniques promoting that negotiators find win/win alternatives – yet, we just don't do it! In international development, long gone are the days of US global companies dictating how things would be done in the countries where they were doing business. Today we have a global economy and the participating governments of foreign countries want economic development, sustainable job

creation, technology transfer, social development, among other things. Finding a win/win solution takes effort . . . it might even be quite a difficult undertaking until a final solution is found and agreed. The bottom line is that we should seek to understand what the opposite party and other stakeholders need and want, and find out what it will take to satisfy those needs and wants. Put yourself in their shoes . . . they are far more apt to award an opportunity to a company willing to satisfy some of their needs, than they would to a company standing in opposition, or one that plays deaf to their perspectives, opinions, and requests.

- *Seek First to Understand, Then To Be Understood.*

Communication is the key to building win-win relationships and the essence of professionalism. Seek first to understand the other person or party. Once people are understood, they lower their defenses. Remember, we each see the world from our individual perspectives because perceptions come out of our personal experiences.

## **2. Clear corporate/sponsor strategies.**

When engaged in project development, those being called upon to develop and implement must share a clear understanding of which strategies the company or sponsor wishes to pursue, why, and whether they will consider alternative options or broader possibilities; and if not, why not? It is equally important and incumbent upon the company or sponsor to sometimes show flexibility and not maintain a choke-hold on possibilities, which can inadvertently increase the prospects of failure or produce a sub-optimal result. What is the end game? What are their thoughts on how to achieve the goal? What is the company striving to achieve? What timeframe do they have in mind?

Strategies should also be examined for pockets of weakness. Is the strategy integrated between corporate business units and the growth engine? Does it leverage and capitalize on capabilities? Should it be project focused or business focused? Does it respond to the market's needs?

If over time, point-of-view on strategy changes, it must be made known to the development leader and team. Strategies should be periodically reviewed and adjusted if the corporate or sponsor mindset changes, or if outside forces bring on re-evaluation.

## **3. Strong team.**

In a project under development, there needs to be the ability to match up development activities with goals and strategies. To do this, you must have solid, talented, capable people within a cohesive, dynamic, effective team. This means you have to first find, then attract, and hold on to excellent people who actually love the work, care about the outcome, and will work

well with one another in a team effort. This includes supporting one another when the going gets tough . . . because there is no doubt, there will be plenty of times when the going gets tough. This also includes having a strong team leader.

The sixth habit of Stephen Covey’s “Seven Habits of Highly Effective People” speaks of synergy . . . creative cooperation . . . teamwork. One of the keys to leading a successful team has to do with bringing different perspectives together in the spirit of mutual respect. It’s important to foster an atmosphere where unusual ideas, concepts, and innovation can be voiced, heard, and possibly even put into action. A nurturing environment is where people feel free to speak openly . . . to contribute ideas and solutions. This is where problems get solved and team cohesiveness grows, which is an absolute necessity to achieve that positive end result in an energy project.

**4. *Clear corporate/sponsor view of the market.***

All development should be market-driven. At this point, it seems there are many more questions than answers. But asking the right questions is crucial, and securing honest insightful answers goes a long way in successfully closing an energy project. So . . .

Who makes up the market? Is everyone in agreement on how the market is defined? Who are our customers; what do they need and want; what price can the market sustain and can we deliver profitably at that price; what about reliability? What are the fundamental market drivers? In power plant development we would be talking about supply, demand, retirements, growth, fuel mix changes, transmission, regulatory issues, etc. on a region-by-region basis. What are the short and long-term views? Are we in it for the long-term? Power generating plants have a long economic life. Or, are we in it for the short-term? In this case, maybe we maximize profits early on, pay off the loan, and sell the plant for cash. How do we handle future and/or non-transparent pricing? In power plant development, the reality is that future power prices are not, and never will be, transparent . . . even when energy markets have matured . . . even when governments have subsidized prices to incentivize development. Why is something like this important? Because without that understanding those involved will be reacting to price fluctuations and riding an emotional roller coaster.

A thorough understanding of each component that makes up the whole is essential, or chances are that the wrong projects will be developed.

**5. *Collective stakeholder buy-in and commitment to development.***

Once goals and strategies have been clarified, a strong team assembled, and a clear view of the market developed, there needs to be total buy-in and commitment to the project development at hand.

In the past, I have seen major commercial long-life assets pay exorbitant prices for power, which stemmed from changes in the marketplace and lack of understanding on how the power business sells and trades electricity. This could have been avoided.

Time and again I've heard people say, "... if only we had built that co-gen three years ago." But three years ago the power price was low and economics did not support the construction of a co-gen facility inside the fence (to serve that facility, and maybe sell excess to the local utility or adjacent power user). Yet, far-sightedness and a long-term commitment to power might have served them well. It's always best when you know what you are going to pay for power in the future because you control a very important part of that facility's destiny. Whether prices go up or down doesn't matter. If you've locked in a price you can live with, the future is secure.

### **MISTAKES TO AVOID**

- *Involve project managers early in the project development planning process.*
- *Don't confuse one business unit's goals and strategies with another business unit's goals and strategies.* In other words, a company may have affiliate business units, but if they are actually separate businesses, treat them that way. Lumping businesses together because they seem as if they fit together can render them ineffective. Here's a hypothetical example . . . suppose an integrated energy company has a power generating and power trading business. If both are cast as one, one or the other could become ineffective. Why? Because trading, which has a short-term (hourly, daily, monthly) cycle could find itself waiting on power generation development, which has a long lead time and is typically a long-term business. If they were treated as separate businesses, power development could go ahead and develop power projects while the trading business could acquire assets and/or purchase rights to trade blocks of power.
- *Assess existing facilities on an asset-by-asset basis. Then, choose the most appropriate development vehicle for the asset being analyzed.* In power plant evaluation, that might mean green-field development, brown-field development, building an inside-the-fence co-gen facility, negotiating a tolling arrangement, acquisition, etc. Choices in appropriate development vehicles are likely to differ from region to region.
- *Avoid analysis paralysis.* Time is of the essence. There are windows of opportunity, but they don't last forever. Even if your company is not aspiring to be a first-mover, the reality of the situation is that there are other companies ready to take advantage of opportunities as they arise, and you are in competition with them.
- *Revisit goals and strategies on an ongoing and consistent basis and revise them as necessary.*
- *Perform risk identification and determine risk mitigation options early on and continuously.*
- *Create a culture where project participants are willing and able to speak up about the problems they see.*



**CONCLUSION**

Project development by its very nature is a process. There is no instant gratification. It’s a roller coaster ride taking you from the thrill of victory to the agony of defeat over and over again. In power project development I’ve come to call it “crisis du jour”. There is nothing neat and tidy about the process. There may be a day or two of respite, but generally project development is a daily exercise of sifting through the mumbo jumbo where the team leader and team are seeking to understand, taking actions, gaining insights, moving quickly or decisively, taking calculated risks, thinking on a strategic scale, and advocating positions that others might be unwilling or unable to advocate. For these reasons, there has to be strong personal commitment, the developer has to care, and it helps a lot to feel passionate about the development you are engaged in. The simple truth is: when you love what you do – as I do, you tend to be really good at it.

*Polestar Energy Consultants - We’re here to help!*  
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**SOURCES:**

<sup>1,2</sup> “Silence Fails – Why Most Major Corporate Projects Fail,” The Concours Group and VitalSmarts, 2006.

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