

US CONTRACT OPERATIONS

ESG unseats CH2M from Hinesville public works contract after 32 years

Long-serving incumbents in the US contract operations market are coming under increasing pressure when it comes to renewing deals on a competitive basis. A Georgia-based firm founded by two CH2M employees is one of their most feared competitors.

ESG Operations has wrested a major \$6 million-a-year public works contract in Georgia away from CH2M, ending a long-term operational partnership with the City of Hinesville which CH2M's OMI subsidiary first negotiated in 1984.

Although the final contract terms are still subject to negotiation, ESG is understood to have been ranked most highly as far as technical bids were concerned, while its financial offer was marginally more competitive than the incumbent's.

"I think the city saw a substantial difference in what we were offering in terms of technical ability – we've got over 500 employees just in Georgia, so that's a pretty significant level of technical support that we can offer the city," commented John Eddlemon, a partner at ESG.

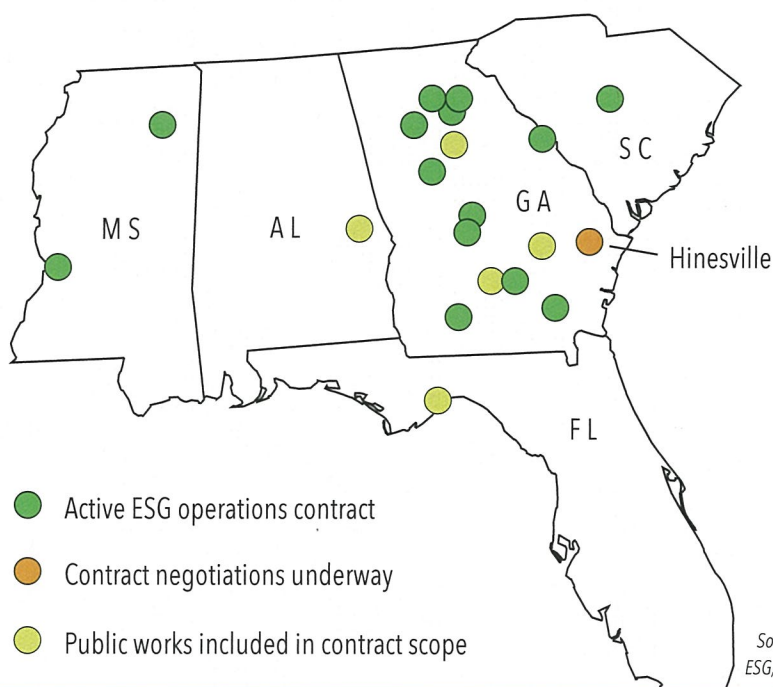
As well as the operation of water and wastewater infrastructure, the scope of the labour-only Hinesville contract covers public works functions including street and sidewalk maintenance, parks, garbage pickup, and vehicular maintenance. In that sense, it fits well with ESG's existing footprint in the Southeastern US, where the firm runs similar contracts in Florida, Alabama, and elsewhere in Georgia (see map).

"We have around 700 employees, and more than half of them I now consider to be outside of our core water and wastewater business," Eddlemon explained. "All of our work is done in-house. A lot of other companies sub-contract out these specialised services, and we don't think we can control quality and deliver the same service if we're not doing it ourselves."

Somewhat perversely, it is this commitment to service quality and local presence that has limited the group's expansion beyond its core franchise area in the Southeast. It moved into South Carolina at the start of 2016 by securing a contract to operate three wastewater treatment plants for investor-owned utility Ni Pacolet Millen Utilities, but failed to secure a foothold in Kentucky in June, when the Mountain Water District voted to take its existing contract in-house on expiry, despite ESG having been recommended as the company of

AS EASY AS ESG

ESG Solutions has built up a comprehensive portfolio of O&M contracts in the Southeastern US, often at the expense of more established incumbents. It has shied away from extending its reach further afield.



choice to take it over.

"You've got to be very careful how you grow – I can't go to Connecticut or to Texas and deliver the same quality of service that I can right now in the Southeast," Eddlemon explained. "We've tried to take the professional engineering approach that we learned from designing and building systems [at CH2M Hill] and apply that to an operations company, and I think that's where we've been able to differentiate ourselves."

As a pure-play contract operator, ESG is also comfortable putting its reputation on the line with every contract it signs, offering each client a termination for convenience clause with no exit fee.

"We've got to provide value to our clients every day, and if we don't, we don't deserve to be there," Eddlemon told GWI.

"We've never lost a job on a recompetes, and we've never been terminated."

After founding ESG back in 2002, ex-CH2M Hill duo Clay Sykes and Dan Grosse secured their first major win by taking the water and public works contract in Vidalia, GA, away from their former employer. Since then, the firm has built up a significant portfolio of contracts – frequently unseating much larger incumbents. Knowledge of older contracts (Sykes was responsible for delivering OMI's expanded contract in Hinesville in the 1990s) often helps, but Eddlemon points to a series of competitively bid victories as evidence of the firm's growing reputation.

Recent contract wins are likely to take ESG's annual revenue base to around \$65 million by the end of this year. ■