

UNIVERSITY OF IOWA UTILITY P3

BY DOUG SMITH



With a dynamic mixture of architectural styles ranging from the Old Capitol Building, built in 1842, to modern-day award-winning structures such as the Visual Arts Building, the University of Iowa (UI) has always been thoughtful about energy usage in all of its buildings. The university's utilities play a pivotal role in providing electricity, heating, and cooling to the fast-paced 1,700-acre campus. Not only do the utilities support more than 373 major buildings, including patient, research, and lab facilities, it also provides critical services to the UI Hospitals and Clinics.

The UI utilities include the main coal-burning steam powerplant, built in 1929, a chilled water plant, providing air conditioning and temperature control, a water plant which purifies and distributes 900 million gallons of water annually, and the Oakdale Utility Power Plant, a tri-generation plant providing electricity, heat, and cooling for facilities such

“**The university's utilities play a pivotal role in providing electricity, heating, and cooling to the fast-paced 1,700-acre campus.**”

Rod Lehnertz
Senior Vice President of
Finance and Operations,
Photo by Miles Thompson



“We were open to the idea that a P3 could provide some additional funding for us to help bridge the gap, but also excel in those areas of student success and research.”

as the Hygienic Lab, Data Center, and the Environmental Management Facility.

UI partners with MidAmerican Energy, who provides electrical power to the campus. This partner supplies renewable energy and is steeped in sustainable practices. One of those practices is offering a rebate program. If the university completes a project that exceeds the Iowa Energy Code and shows payback on the material, there is an opportunity to receive rebates through MidAmerican Energy. UI has collected millions of dollars through this program, which have been re-invested into new energy projects.

UI's sustainability values are seen throughout campus. Most recently, in 2018, the Catlett Hall achieved gold-level LEED certification. Before that, in 2013, the 1999-built College of Public Health became a LEED-certified platinum building. There has been a continued concerted effort to engage designers and consultants who lead by example in the energy efficiency and sustainability space.

OPPORTUNITY THROUGH A P3

In response to a 2018 letter from Governor Kim Reynolds calling for Iowa universities to “create predictability” in tuition, UI leaders began to seriously explore a P3 energy project.

When looking at a P3, the university's objective was to engage with a private company that would be responsible for the operations of the campus utilities. They wanted the company—as the plant operator—to continue to explore new sources of renewable fuels, creating sustainable, lower-cost fuel options.

Following the decision to explore a P3 utility project began a rigorous 10-month competitive bidding process, which involved university shared governance members and academic leadership. The process led to the selection of ENGIE and Meridiam.

Under the P3, UI will maintain ownership of its utility system while entering into a professional services agreement with ENGIE and Meridiam, who will perform all operations with respect to steam, cooling, water, and electricity. This agreement will provide UI with an upfront payment that the university will place into an endowment. The annual proceeds realized from the endowment will be invested in the core missions of the university.

INTERVIEW

To learn more about this project Energy Services Media (ESM) interviewed Rod Lehnertz, the University of Iowa Senior Vice President of Finance and Operations.

ESM: What sparked interest in a utility system P3?

Lehnertz: The story relates to how higher education is financed. In the last ten years, the University of Iowa has seen a decrease in state funding support by more than \$50 million annually. Higher education funding from states has been a national issue. We serve more students, have more programs, and have more course work for students than we did ten years ago.

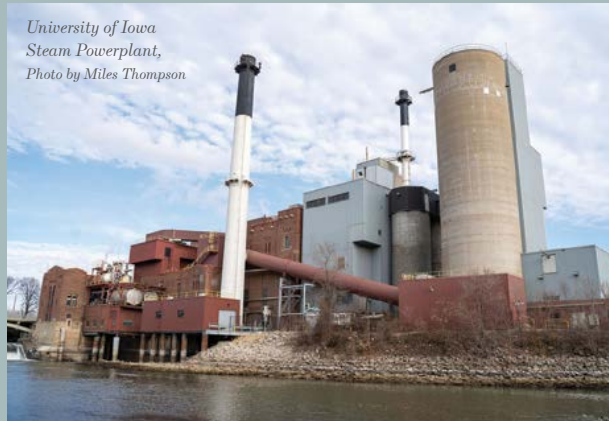
The Governor of Iowa, Kim Reynolds, wrote a letter in 2018 to the Board of Regents, encouraging universities to consider new and innovative ways to make up the gap. Upon receipt of that letter, we took it seriously, and we knew what Ohio State had done. We were open to the idea that a P3 could provide some additional funding for us to help bridge the gap, but also excel in those areas of student success and research.

We have been very proud of our utility and energy management department. Our system we have on campus has been something that we have worked hard to refine. We explore biofuels and other measures that make us notable throughout the nation.

PROJECT STATS

Upfront Payment to UI..... \$1.165 billion
 Total Contract Term 50 Years
 Total Funds to Endowment \$999 Million
 Annual Fixed Fee to Partner \$35 Million,
 after 5 years the annual rate
 increases at a rate of 1.5%

**Fixed Fee excludes: Utility expenses, plus costs for employees, maintenance and upgrades, and fuel*



University of Iowa
 Steam Powerplant,
 Photo by Miles Thompson

FINALIST BIDS

The University of Iowa and Board of Regents considered four finalist bids before choosing the ENGIE-Meridiam collaboration, which officials called the clear top choice.

ENGIE-Meridiam	Offering a \$1.165 billion upfront payment
Axium, Veolia	Offering a \$950 million payment
Plenary, Sacyr, Kiewit	Offering a \$882.8 million payment
Harrison Street, Ever-Green Energy, City Water	Offering a \$881.7 million payment

We aimed to enhance our current operation while generating new sources of funds that we could apply to student success.

ESM: Can you give me a snapshot of the project?

Lehnertz: Over the last year or more, we have been putting together a series of studies and working with Jones Day and Wells Fargo—both familiar with the Ohio State project and the P3 environment. Working with those experts allowed us to generate early plans of explorations.

We collaborate closely in the Big Ten, so we were able to reach out to Ohio State. They were welcoming of our questions, and we learned a lot from them. We began to build a process of evaluating what we could do to develop this program and what kind of financial models would work for the university.

We needed a good partner to help us eliminate risk. We also wanted to emphasize sustainability. We have been very proud of what we have done on our campus, and we intended to extend that. Over the next six months, we put together a model, and we began the process of attracting partners from around the world.

Our team of partners, along with our consultants, evaluated the RFQs, and we came to a process of finalists. The finalists put together their proposals for us, which we finished this fall. We came to a unanimous campus selection of ENGIE-Meridiam.

ESM: What is the scope of work?

Lehnertz: It is a full-system adoption by ENGIE, some specific and detailed operations of the plant may remain with the UI. We worked together on evaluating the best fit for UI in several areas, including fuel procurement. Unlike many university campuses, we have a water production facility where we treat water on our campus. It is potable water and provides water research opportunities. That is unique to UI, so that took a different arm of expertise. The scope extends beyond the utility system—to our competitive aquatic center competition pool water.

With that in mind, we have 120 employees in utilities and energy management. ENGIE has offered positions to all utility system employees. Any utility employees who choose not to move to ENGIE will retain a university position.

ESM: What separated ENGIE-Meridiam from the other bidders?

Lehnertz: They caught our attention with their model for removing all interests in coal and their social and

environmental attention to investment in utilities. Those were inspiring to us as we reviewed them, but they also spent just as much time talking about how they had treated employees at Ohio State and other places.

We visited Ohio State to see if all of those things were true. Our employees came back, saying, “We would love to work for the company.” I think the ENGIE team that is coming onto our campus will reassure many of those who have some concerns about the new program.

ESM: *What were some of the financial criteria that determined a P3 was the best option?*

Lehnertz: We knew we had to set some thresholds for a successful bid. Our current utility system is approximately a \$100 million operation on the campus, paid for by the customers of the campus. We reassured and committed that the university shall not suffer from this deal. We secured in our financial modeling that utility costs will go up only as they have historically, with natural cost escalations over time, and not because of the P3 deal.

We took a very conservative approach to the financial modeling. We knew if we could receive bids of a certain threshold, we would feel that risks had been mitigated from a financial perspective.

ESM: *Do you have any concerns about the P3?*

Lehnertz: The length of the contract, 50 years, does present a challenge due to the inevitable unknowns in energy and financial markets. This was a risk that was well considered in UI’s modeling and review of the initiative.

We have established a 501(c)(3) and an associated board that will manage the funds from this investment. We will work with financial advisors to make sure that the returns are good, and we will determine the payout to the university on an annual basis.

We picked a partner that gave us confidence against potential non-performance issues, but there are protections in the contract if UI needs to reassume operations.

We understand that the length of the contract is important to the vendor to establish the benefits making it viable for them.

To that end, we will use a university-wide shared governance process to vet the funding of initiatives that will improve our institution.

Lehnertz ends the interview emphasizing the importance of strong leadership.

Lehnertz: The University of Iowa President, Bruce Harreld, brought a much-needed entrepreneurial approach to university operations and the P3 agreement. He helped drive UI in the right direction. He was successfully aggressive in partnering with the right organizations to advance this P3, with the purpose to benefit the students and the institution.

As of February 2020, ENGIE is onboarding UI employees, and a new organization, University of Iowa Energy Collaborative, has formed to own, manage, and execute the P3 agreement. ✨

UNIVERSITY OF IOWA P3 LEADERSHIP TEAM



Bruce Harreld
President



Carroll Reasoner
*Vice President and
General Counsel*



Rod Lehnertz
*Senior Vice President,
Finance and Operations*



Terry Johnson
*University Chief Financial
Officer and Treasurer*