

Insourced or Outsourced Utilities It's still a business

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Moderator: Jim Sebesta, FVB Energy

Panelists and introductions:

Joan Kowal , Emory University

Juan Ontiveros, University of Texas at Austin

Erick VanMeter, University of Minnesota

David Woodson, University of British Columbia

Learning Objectives:

Gain insights into the trends around utility infrastructure business practices and the approaches our panelists find useful in looking at their utility as a business. ;

Understand the challenges of insourcing versus outsourcing and what information enables good decision making and being effective at running the utilities enterprise.

Understand the benefits of moving away from short term planning and annual budgeting for utility infrastructure systems.

Gain insights on methods for integrating utility management and funding with campus energy reduction and facility renewal programs to reduce total owning costs for physical assets.

PPPs and Public Infrastructure



Deferred Maintenance



What does your leadership see?



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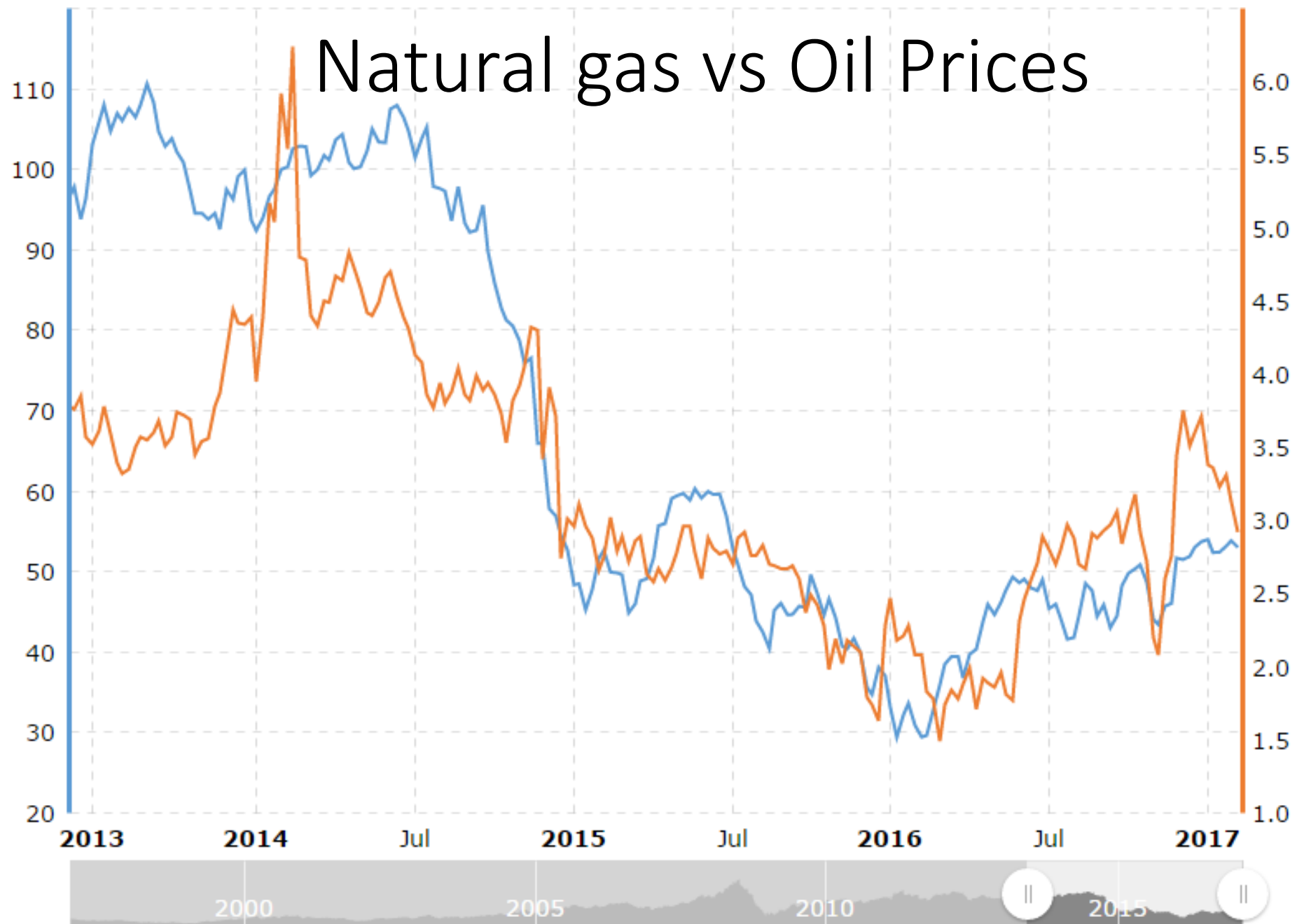


Does Leadership believe Facilities

- “If we fail to act soon, we will face an economic, social and political crisis that will threaten our free institutions.”
 - *Apr. 18, 1977 - President Carter Arguing for Conservation and Alternative Fuels*
- The US government knows that conventional oil is running out fast ... world oil reserves are being depleted three times as fast as they are being discovered...reserves are not being fully replaced....Oil production could peak next year... Just kiss your lifestyle goodbye “
 - *John Vidal Thursday 21 April 2005, Guardians Environmental Editor*

Does the cost of energy impact your business plan





You are a Utility –
but are you an
asset
or an
expense



P3 Today – What is leadership's view?

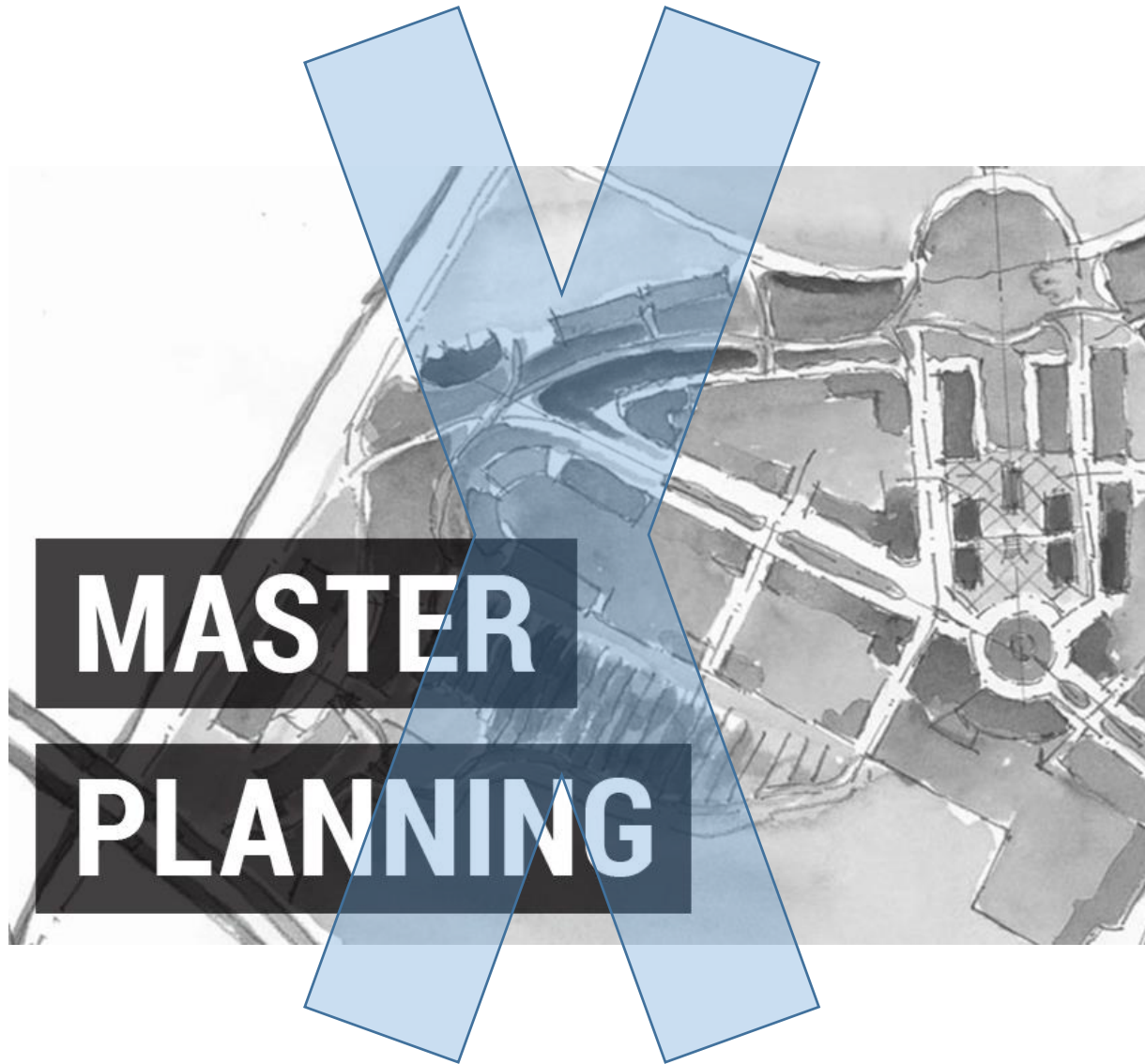
- The private party provides a public service or project and assumes substantial financial, technical and operational risk
- The cost of using the service borne by the users and not by the taxpayer.
- Capital investment is made by the private sector
- Government contributions may be no cost just the transfer of existing assets
- Harness expertise and efficiencies of private sector
- The public body does not incur any borrowing
- Higher financing costs offset by private sector efficiency and better risk allocation

https://en.wikipedia.org/wiki/Public%E2%80%93private_partnership

Insourced vs Outsourced

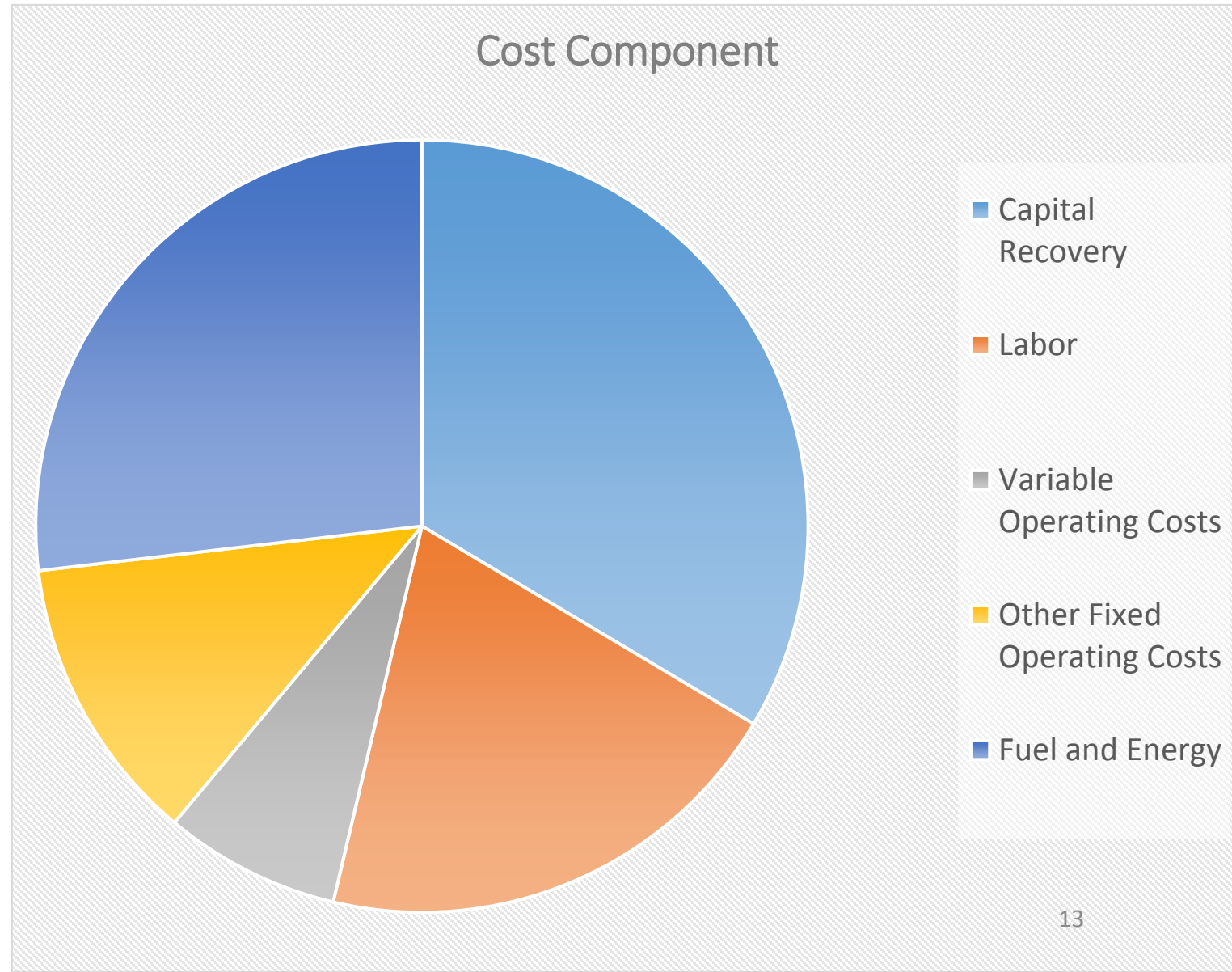
Listen to leadership's concerns

- Labor issues
- Confidence
- Over-building
- Disconnect from demand side management
- Volatility in funding needs
- Guarantees
- Regulatory
- Levelizing annual costs
- Levelizing annual costs
- Procurement inhibitors
- Trust
- Risk shifting
- Debt limitations
- Expertise
- Funding Mechanism
- Asset monetization



Business Acumen

- ROI/EBITDA/Profit
- Benchmarked (local utility)
- Full cost recovery
- Demand vs commodity
- Corporate overhead
- Shared Services
- Reliability
- Bonding / Financial instruments – cost of money
- Sensitivities / cause and effect



Understanding Infrastructure funding and business models

- Auxiliary Enterprise 501(c)3
- Quasi Auxiliary Enterprise – not a 501(c)3, but functions as one (bonds are issued by the institution and not the auxiliary)
- Self-funded through operating or capital funds (may compete with academic areas for capital dollars)
- Funded through capital campaigns/endowment proceeds
- Institutionally funded through other means such as internal loans
- Private Public Partnerships

Business Approach: Understand for forms

P-3 Concessionary Agreement

P-3 Energy Services Contract (ESCO Models)

P-3 Partnership – Build-Operate-Transfer Agreements (similar to various forms of lease agreements)

P-3 Partnership – Build-Own-Operate Agreements (Also can be considered as a sell infrastructure to monetize those assets)

Full Cost Recovery Revenue Enterprise Entity

Internal Operating Expense- Year to Year budgeting and Operation

Panel Input

- What are you doing to manage, operate and strategically plan your utility operations for the next 10 to 30 years?
- Universities look for ways to reduce costs associated with their utility infrastructure. How do you plan capital and maintenance budgets to try to levelize annual costs, internally finance capital renewal and reduce the sticker shock associated with capital renewal or expansion of the utility infrastructure?
- Is there something you are doing with your utility infrastructure that is innovative and beneficial in terms of the effectiveness of your internal utility operations for the stakeholders?

Utility Infrastructure- It is a Business

Discussion and Questions

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