

Minutes*

**Senate Committee on Finance and Planning
April 7, 1992**

Present: Burton Shapiro (chair), Avner Ben-Ner, David Biesboer, Mark Davison, William Gerberich, Karen Geronime, Thomas Hoffmann, Craig Kissock, Jeff von Munkwitz-Smith, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks

Guests: Dean Abrahamson, Senior Vice President Robert Erickson, Marya Hornbacher (Daily), Charles Huizenga, Assistant Vice President Susan Markham, Roger Paschke, Burt Sundquist

The meeting was devoted to a discussion of the steam contracts.

Discussion opened with the fact that two motions had been prepared for making a recommendation to the Board of Regents, one by Mr. von-Munkwitz-Smith and one by Professor Kissock and Ms. Simmons. Opening comments by Ms. Simmons included appreciation for the willingness of Committee members to put in time and analyze all of the data regarding steam prior to the meeting. The stamina and concern of all was acknowledged.

Discussion then moved to the benefits that Arkla as the chosen vendor could bring to the University, especially regarding the potential it has for assisting the University in its future long-term cooling needs.

It was noted that if Foster-Wheeler were chosen and was asked to burn only natural gas rather than coal, that might make it a toss-up as to which vendor was the one of choice. Further discussion revealed, however, that even with gas, the Foster-Wheeler choice would still not free up the river bank for reclamation.

The motion by Mr. von-Munkwitz-Smith was discussed, and Committee members suggested that it focus on wider concerns than just environmental ones, especially since the Committee is involved in matters of finance. It was suggested that Arkla, with Option B (cogeneration), be recommended because it provided the least expensive choice once the new data from the Steam Advisory Committee were examined and used as a basis for a recommendation.

Mr. Paschke said that Foster-Wheeler could substitute gas for coal because they have provided for fuel flexibility, but the main burner is for coal; if they were directed by the University to burn natural gas, there would be expensive capital costs that would drive up the net present value of the Foster-Wheeler proposal simply because the base or reference case is for coal. This would tax the debt capacity of the University because the cost of a redesigned boiler would be borne by the University.

Mr. Paschke also said that the Arkla Option B package just barely fits with the University's debt

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capacity under his current debt analysis of costs associated with the proposal. The administration does not believe that the Arkla Option B package is economically viable. The changes contemplated by the Public Utilities Commission regarding NSP's standby charges, higher operating and maintenance costs needed by Arkla, and the lack of clarity about a connection system between the campuses for an electric chiller loop were further reasons given why the administration cannot support the Arkla Option B.

Senior Vice President Erickson said that the Regents can decide to simply select a vendor and then negotiate an option (fuel, cogeneration, etc.) during the next several months. Vendors have currently provided their best and final offers and did, in fact, include cogeneration in one way or another as a response to comments by the Steam Advisory Committee. The Regents will be making a decision based on the reference contracts, realizing that there will be a time period during which they can select a steam option from the provider they choose.

It was pointed out that given a favorable ruling by the PUC, an \$11 million credit would result for both vendors.

One Committee member cited the example of what a homeowner can do when she buys a house--she examines the deal with an eye for what future things can be added to that house.

Steam Advisory Committee members then argued that environmental externality costs can be quantified and then weighed as consequences--and this calculation is absent from the evaluation conducted by the administration. This method of assigning values to certain emissions is being practiced by other states and is increasingly being used by state regulatory bodies.

One Committee member suggested that the University is becoming a land-, water-, and air-grant university and it should, therefore, be concerned about what pollutants it puts into the atmosphere and the impact they have on the campuses, the Twin Cities, the state, and the world at large. The University may need to say that it is willing to dump a certain amount of pollution beyond its own boundaries.

It was suggested that the Committee recommend a vendor and tell the Regents or the administration that it wants gas as the fuel, wants to reclaim the riverbank, and wants to acquire steam at the lowest cost.

Much of the discussion focussed on the difficulty of expressing subjective opinions in quantifiable format; the additional data furnished by the Steam Advisory Committee were scrutinized for its numerical evaluation of emissions and pollution effects.

Discussion then turned to the motion. It was moved and seconded to delete a clause referring to future unforeseen regulatory costs and procedures. It was suggested that the University also needs to make an intellectual statement about cogeneration and its commitment to the environment. One Committee member said that the Committee should make the motion as a recommendation to the administration and not forward it to the Board of Regents.

The Committee unanimously adopted the following resolution:

"The University of Minnesota Senate Committee on Finance and Planning recognizes:

- 1) **the University's commitment to environmental responsibility;**
- 2) **the opportunity to reclaim the Mississippi river bank area for enhanced enjoyment by all state residents;**
- 3) **that further conservation efforts and the prospect of a central chiller loop for the University's cooling needs makes cogeneration a sound option; and**
- 4) **that to achieve these goals might require the University to incur additional costs.**

In light of the foregoing, the Committee finds the ARKLA contract, with the cogeneration option, the preferable option for steam service."

The meeting adjourned at 5:15.

-- Mary Sue Simmons

University of Minnesota