INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD
Employee, Community and Customer Service Division

Rely on us.

TO: Commissioners Simpson, Farmer, Brown, Menegat and Cassidy

FROM: Mike Logan, Key Accounts Program Manager August 26, 2008

RE: Steam Utility Transition Plan - Background Information & Draft Policy

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Issue Statement

On September 2, 2008 staff will provide Commissioners with context to discuss the following issues in order to formulate a policy around the decommissioning of the Steam Utility:

- What is the proposed timeframe for the Steam Utility decommissioning process?
- What impacts will this have for steam customers and the community?
- What are the mitigating environmental impacts associated with shutting down the steam utility and how can risk be mitigated?
- What financial assistance can EWEB offer to steam customers?
- What considerations can EWEB use to balance steam rates and continued operations with electric utility cost considerations?
- Staff's proposed Board policy.

Background

In January 2008, the Board identified and adopted the General Manager's goal to develop a long-range plan to position the Steam Utility for shut down. The anticipated and continued erosion of EWEB's steam customer base along with a dramatic increase in natural gas fuel costs are fundamental to why such a plan is needed. Current steam prices already exceed other fuel alternatives for customers, and while natural gas prices have eased in recent weeks, post-October wholesale gas prices can be expected to be in the ~$10-$11 range per million British Thermal Units (MBTU), or about 40% - 60% above our current wholesale contract price of ~$7.00 / MBTU.

Another key issue is the aging steam distribution system, with distribution losses making it more difficult to deliver steam efficiently to our customers. Capital investments of the magnitude required to increase overall distribution efficiency would be substantial and are not included in the 5-Year Electric Capital Plan.

The plan will consider all aspects of operation and decommissioning as well as future needs and interests of existing steam customers. Staff seeks policy discussion and input from the Board at the September 2, 2008 Board meeting and policy approval at the September 16, 2008 Board meeting in order to complete the Steam Utility Transition Plan.

To ensure customer communication and participation, a survey was sent out to steam customers. Nearly half of the customer group responded with information about their facilities and capital plans. In addition to the survey, smaller group discussions were hosted and additional correspondence was received from individual steam customers.

On August 18, 2008, a letter was also sent out to steam customers notifying them of next steps in developing a transition plan. The compiled results of the survey were also shared with steam customers, including the following:

Key Statistics as Reported by Respondents:

- Average square footage of building: 36,682 (30 out of 37 buildings reported square footage information, totaling 1,100,483 square feet)
- Average % of square footage served by steam: 86 percent••
- Average age of buildings: 60 years••
- Average number of floors: 3
- Average age of heating system: 39 years
- Primary space heating: Steam (34), Natural Gas (1); Others – no response or "unknown"
- Secondary space heating: Electric (9); No secondary system identified (24)
- Domestic hot water: Steam (17); Electric (16)
- Condition of heating system: Good (12); Adequate (12); Poor (7)
- Own Building: Yes (28); No (9)
- Tenant Occupied: Yes (23); No (14)

Range of Building Age: 21 – 30 yrs (3); 31 – 50 yrs (11); 51 – 70 yrs (6); 71 – 99 yrs (7); 100+ yrs (3)

Sample of comments we received:

- Trying to plan in a way that anticipates future decisions
- Beginning to understand what's needed and planning our actions for our heating
- system around the time EWEB makes decisions about the future of the steam system.
- Waiting to see what happens with steam before making any decisions
- Heating system pipes are corroded and need replacement
- Have installed a series of energy – efficient upgrades, reducing both electrical and steam energy use
- Completing a study on all steam heated facilities to determine potential costs to an alternative fuel / heat source.
- No immediate plans and the budget process is not positive with respect to capital issues.
- Capital budgets are tight.
- Looking at a new system in the next five years.• •Looking to replace our system. Not sure about the type of system until we check out what works best for the building.
- It would take approximately five years to be in a financial position to do the work.
- Looking for a good solution for our building to convert to another system.
- Recent estimate of $65,000 to convert our system. We do not have funding available.

Policy Discussion

Staff has developed a work schedule for 2008 that leads to a Steam Utility Transition Plan by December 16, 2008 and identifies actions to be taken to ensure a workable decommissioning strategy that is responsive to Board priorities and community interest.

In the following paragraphs, staff is providing more context for policy guidance sought for Steam Utility Transition plan for facility decommissioning

Steam Utility Transition Plan – Work Schedule

Key 2008 Direction Confirmed:	**September**	**October**	**November**	**December**
Preliminary Steam Utility decommissioning policy discussion with Board. § Fund for environmental mitigation. § Targeting higher cost service points for earlier departure, pursue contracts with Peaceheath, UO intertie § Technical assistance /limited equipment loans for customers for steam system transition. § Balance steam rates and continued operations with electric utility cost consideration.	09/02			
Board finalizes Steam Utility Transition Policy.	09/16			
Board policy drives development of Steam Utility Transition Plan.	09/16	> > > >	> > > > >	12/16
Draft Steam Utility Transition Plan reviewed by Board. Customer input & communication period.		10/07		
Board Approves Steam Utility Transition Plan.				12/16

<u>Policy Discussion Topic #1:</u> Fund for Environmental Mitigation

<u>Facilities located in public right-of-way:</u> Establish an environmental mitigation steam reserve in anticipation of downtown developments which may require existing steam facilities to be addressed and de-commissioned, applying funds as required for each specific development when needed. The fund would be replenished as needed, through EWEB's existing reserve process and policies. The initial reserve fund amount is a Board consideration, and staff believes a fund of $100,000 would represent a proactive intent on the Board's part to mitigate environmental impacts.

<u>Facilities contained within EWEB's Headquarter's complex:</u> Facility de-commissioning would be assessed and mitigated separately, as part of the de-commissioning of the electric and steam production facilities. A separate environmental mitigation fund would not be established for this purpose, but would be included in the project scope, design and de-commissioning process developed for those facilities.

<u>Policy Discussion Topic #2:</u> Financial Assistance for Customers

Where needed, limited amounts for loans would be offered to assist customers. Loans would be applied to one of the following two purposes: (1) technical assistance in cases of larger, complex facilities where engineering analysis and recommendations may be required or; (2) heating system equipment in cases of smaller, less complex facilities where engineering analysis may not be required. In assembling the transition assistance, staff believes that small loans (~$5,000 - $10,000) would help

get customers started on the transition process, while we work with other agencies to leverage available programs and services. Our own energy management programs would also be "packaged" in cases where customers choose electric as their fuel source to ensure added load to our electric system is as efficient as possible. Greenpower and solar options would be pursued for all customers, to the fullest extent possible.

Staff has been following the developments of some of our larger steam customers over the year, and several are making definitive plans to transition off of the system, having already completed the engineering studies and are pursuing financing alternatives on their own working with private entities. Offering this assistance would help move other customers along, without over-committing us or too generous to those who already acted, and may perceive our suggested approach to be unfair.

Policy Discussion Topic #3: ***Electric Utility Cost Considerations***

While it is desired to create an operating environment to allow for a managed transition period for steam customers to secure an alternative fuel, the steam generation facility is an electric utility asset and costs will continue to be born by electric customers. That said, losses incurred by the steam operations are expected to be significant in the years ahead, and suggests that a shorter (e.g. 2-3 years) rather than longer transition period (e.g. 3-5 years) be allowed for steam customers to transition to another fuel source.

This third policy area is perhaps the most crucial in order for staff to achieve a "managed transition" via a Steam Utility Transition Plan that is responsive to what we have heard from our customers: Customers have said they need time and assistance in making the transition to another fuel. To that end, staff is working with the University of Oregon and Peacehealth on a parallel path. Our success in securing a longer-term contract (3 – 5 years) with Peacehealth is essential for a steam load sufficient for us to consider a longer transition period, barring no other unforeseen circumstances (e.g. greater than expected revenue loss for accelerated customer departure).

At the UO, staff is seeking to retain the intertie between our two systems, which has come into question with the Oregon Research Institute's construction of a new facility, requiring the intertie to be re-located. One estimate of the relocation cost is $200,000. Without the intertie, the UO loses backup capability for their campus facilities and EWEB loses an opportunity to pursue an alternative steam generation arrangement with the UO during the transition period.

In any case, the electric utility will be crucial during the transition period, as escalating fuel prices and an eroding customer load are expected to result in significant operating losses the longer the transition period continues.

Other Considerations:

On August 22, a private company called "MidTech Energy" made a proposal at the Eugene Chamber of Commerce for EWEB's steam system at a regular meeting of the Local Government Affairs Council ("LGAC") meeting, which three staff and two commissioners attended. The proposal, made verbally, implied selling the steam plant to this company, who would convert the facility to a bio fuel operation. They proposed someone (EWEB?) apply for grant funds to study this alternative, and cited a successful operation in St. Paul, Minnesota that had successfully switched to bio fuel.

Staff has had follow up contact with MidTech representatives and will keep the Board informed as we learn more.

The Board should also note that the question of the future steam plant operations has come up with the Citizen's Advisory Team appointed to develop recommendations for the Riverfront Property site. The question asked specifically pertained to how the two processes…the steam plant future operations and the CAT process…would be linked, if at all, and what the implications would be for the CAT as it moves forward.

Board Options/Recommendations:

There is no Board action being requested at this time. Given the information provided in this backgrounder and additional information per the request of Board members, staff is recommending that the Board engage in a discussion to consider the following policy issues:

1. Mitigation for environmental impacts.

2. Financial assistance for Steam customers.

3. Considerations for balancing steam rates and continued operations with electric utility costs.

Board action on a Steam Utility Transition Policy will be forthcoming on September 16, 2008.

DRAFT BOARD POLICY – SD 18: Steam Utility Transition Policy

Policy Number: **SD18**
Policy Type: **Strategic Direction**
Policy Title: **Steam Utility Transition Plan**
Date Approved: **September 16, 2008**

The purpose of this policy to provide guidance and immediate direction for the decommissioning of the Eugene Water & Electric Board Steam Utility. The recent increase in the cost of natural gas is being compounded by EWEB's largest steam customer's imminent reduction of their load, which will shift a greater portion of system operating costs to an eroding customer base. This situation is expected to push steam rates above what could be considered competitive in comparison with other fuel alternatives. In addition, EWEB's aging steam distribution system will need significant capital investments under any future operating scenario, which would put further upward pressure on rates. With the steam utility being an electric utility asset, the electric utility provides the funding for capital improvements and any operating losses. To that end, the Steam Utility Transition Plan follows a concentrated effort since 1990 to hold costs down for the 109 customers EWEB served at that time through aggressive cost reduction and plant efficiency improvements. The customer base has now eroded to 78, with several more planning to switch fuels, further contributing to a near term unfavorable operating environment.

The Steam Utility Transition Plan strives for a managed transition out of the steam business for EWEB, while providing steam customers with a reasonable time period and appropriate assistance to transition to another fuel source, and equally important, seeks to minimize the impacts to the electric utility.

Goal

To ensure a managed transition out of the steam business in a socially responsive, environmentally and financially responsible manner, while balancing all considerations to the fullest extent possible, including steam customers, the downtown community, the community at large and EWEB's electric utility interests.

Objectives

To accomplish this goal, EWEB has identified the following objectives:

- ***Public Involvement:*** Proactively engage customers, the community and appropriate stakeholders in a public process to develop the transition approach to shut down the steam system.

- ***Financial Assistance:*** Provide reasonable financial assistance in the form of limited, small loans to assist customers with transitioning to another fuel source. Seek to establish a referral network to leverage the programs and services available with public and private entities to apply toward customer transition.

- ***Environmental Stewardship:***
    - *Public Right-of-Way Areas:* Establish an environmental mitigation fund in anticipation of future downtown developments that may require steam distribution lines located within public rights of way need to be addressed, such as in cases where asbestos abatement actions need to be taken.

- *Facilities Located Within EWEB's Headquarters Complex:* EWEB's electric and steam generation facility de-commissioning will be assessed, mitigated and funded in an environmentally responsible manner under it's own approach, separate from the public right-of-way areas.

- ***Pursue efforts to provide for a reasonable period for steam customers to transition to another fuel:*** Where appropriate, seek to provide more time for the majority of steam customers by targeting higher cost points of delivery within EWEB's steam system for earlier departure. At the same time, pursue agreements such as a multi-year fixed price contract with Peacehealth and preserving the intertie connecting EWEB's and the University of Oregon's steam generation facilities to help manage system costs during the transition period.

- ***Balance steam rates and continued operations with electric utility cost considerations.*** Be cognizant that the steam utility is an electric utility asset, and that continuing to operate a transition period beyond 2-3 years is highly unlikely without a significant financial impact to the electric utility.

- ***Social considerations with respect to the downtown area businesses and the public it serves.*** Minimize the impacts to the downtown area by coordinating construction efforts to the fullest extent possible.

- ***Factor energy efficiency into any proactive effort to assist customers with transition to another alternative system.*** Encourage customers to make wise choices, both from an energy efficiency and environmental perspective.

Desired Outcomes

- Sufficient time is provided to allow all steam customers to successfully complete the transition to another fuel.

- Steam customers have access to the assistance needed to accomplish the transition.

- Financial impact to the electric utility is minimized during the transition period.

- Environmental impacts are minimized that are directly attributable to EWEB's decision to shut down the steam system.

- Downtown community remains a viable place to do business during and after the transition period.

- The public at large views the approach taken as a responsible, balanced and highly responsive to the community.

Roles & Responsibilities

Board's Role:

- Represent the interests of and advocate on behalf of EWEB's owners and customers.

- Provide policy direction to staff to help produce the desired outcomes.

Staff's Role:

- Actively engage steam customers and stakeholders throughout the development and implementation of the stream utility shut down process.

- Maintain flexibility in adjusting the approach, where needed.

- Develop the Steam Utility Transition Plan.

- Communicate periodically with the Board and provide updates on current status during the development and implementation of the transition process.