



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

September 30, 2008

RE: Steam Utility Transition Plan Outline – Discussion Draft

At the September 16 regular Board meeting, the Board adopted Strategic Direction No. 18, called the “Steam Utility Transition Policy.” In accordance with that policy, staff has drafted an outline for a “Steam Utility Transition Plan” that the project team will be discussing with the Board at the October 7 work session. The outline is attached to this memo.

In terms of process, staff is seeking comments from the Board on our attached discussion draft. While we won’t be seeking action from the Board at this time, staff is seeking to reach a comfort level with the Board to a sufficient degree that we have adequately addressed the considerations listed in SD-18 to move ahead with the public input phase for communicating, further developing and refining the plan. That public input period begins on October 8, and extends through December 16, when staff is scheduled to present the final draft version of the plan for Board approval.

The first opportunity that we have been invited to discuss our evolving approach is Friday, October 10 at the Eugene Chamber.

We are looking forward to discussing the attached discussion draft with the Board on October 7.

Steam Utility Transition Plan:

A Managed Approach for Discontinuing Steam
Operations While Mitigating Impacts to EWEB's
Downtown District Heating Customers

Discussion Draft

September 30, 2008

Prepared by:
Steam Utility Planning Team

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Summary of Approach:

Context, Strategies and Policy Considerations

CONTEXT FOR THIS PLAN: The Board adopted Resolution No. 0826, pertaining to Strategic Direction 18 (called the “Steam Utility Transition Policy”) on September 16, 2008. The resolution directs the General Manager to develop a “Steam Utility Transition Plan” outlining an approach to shut down and decommission the Steam Utility while incorporating specific considerations in developing the plan. This document is a preliminary discussion draft for the approach staff intends to actively seek public input and further refine during a 60-day public comment period commencing on October 8, 2008.

In short, this plan is being developed in anticipation of the following operating scenario for the Steam Utility over the next four years, that assumes a significantly reduced sales volume due to an eroding customer base, beginning with our largest customer (PeaceHealth). Their move to a new location is expected to result in a 60 percent reduction in their steam consumption, beginning in 2009:

Preliminary Estimate of Steam Cash Flows: 2009 – 12					
(in thousands)					
	2009	2010	2011	2012	TOTAL
Receipts	\$3,700	\$3,300	\$2,400	\$1,700	\$11,100
Costs	(\$3,700)	(\$3,500)	(\$3,100)	(\$2,700)	\$13,000
Cash Deficits	(\$0)	(\$200)	(\$700)	(\$1,000)	(\$1,900)
No. of steam customers at beginning of year	78	75	69	58	
Full cost recovery / KLb	\$30.40	\$32.60	\$35.40	\$57.40	

BOARD REVIEW / ACTION: The implementation of the Steam Utility Transition Plan would commence following the adoption of a Board resolution authorizing the General Manager to implement the plan, which staff expects to present to the Board on December 16, 2008. The plan would be effective until the last customers are transitioned off the system, and no later than June 30, 2013.

MAINTAINING STEAM SYSTEM OPERATIONS: Continuing to operate the steam system in an expected challenging economic environment over the next 2-5 years will be difficult. The strategy to try to accomplish a transition period to allow for a “softer landing” for steam customers is not without risk, and could result in a shorter than desired transition period for EWEB and many of EWEB’s downtown district heating customers if the operating conditions for the steam utility are worse than expected, such as:

1. **Insufficient steam load / customer base in order to operate steam boilers.**
2. **Price elasticity impacts are greater than expected for steam customers.**
3. **Insufficient staff to continue to operate the plant and meet customer needs.**
4. **Natural gas hedging cannot adequately mitigate fuel price volatility.**
5. **More than expected system repairs are required to keep the plant operating.**
6. **Re-configuring steam generation to smaller boiler cannot be accomplished.**
7. **EWEB / UO Intertie is not a viable option.**

In addition, the availability of capital in the lending markets for customers to access to switch to an alternative fuel may be hard to come by given current economic conditions. Property owners who may not pay their facility steam bills may not be sufficiently motivated to act and may defer action until they absolutely have to, which could further impede EWEB's customer transition efforts.

Approach for a Managed Steam System Decommissioning Process: To mitigate the risk factors described above, a multi-faceted approach will be needed on several fronts, in order to achieve a managed transition for customers to an alternative fuel. The following are the key strategies that staff intends to pursue, and are outlined in more detail in the following sections:

1. Secure a 3-5 year contract with PeaceHealth
2. Assist customers with their transition to an alternative fuel
 - a. Focus on higher cost points of delivery for earlier departure, working from the system perimeter to the core downtown area
3. As customer load declines, re-align steam production with customer load requirements by pursuing two options¹:
 - a. Develop wholesale steam agreement and re-locate UO / EWEB intertie or;
 - b. Re-configure steam generation with smaller boiler

¹With customer load erosion expected to fall below the minimum load threshold needed to continue operating the larger No. 5 boiler, a steam production alternative is needed to offer a customer transition period beyond mid-2011. With the Oregon Research Institute's new building expected to break ground in early 2009, staff has been focusing on the UO / EWEB intertie, which will need to be coordinated and re-located when the ORI project breaks ground. The cost of either option could be offset with a successful sale of the No. 5 boiler, which is in good condition.

Without a smaller boiler or a UO intertie, the system shut down will likely occur mid-year, 2011.

Policy Considerations:

The following are the specific considerations that staff is incorporating into the Steam Utility Transition Plan in accordance with the Board's Steam Utility Transition Policy:

- **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 to assist customers with transitioning to another fuel source. Seek to leverage programs and services available within EWEB and with other public and private entities to apply toward a coordinated steam customer transition effort.
- **Environmental Stewardship:** Provide appropriate funding as needed for when future downtown developments require steam distribution lines located within public rights of way to be addressed, such as in cases where asbestos abatement actions need to be taken.

- **Reasonable Transition Period:** To allow more time for steam customers to transition to an alternative fuel, pursue strategies to make it more feasible to continue operating the steam utility throughout the desired transition period.
- **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 - 5 years is highly unlikely without a significant financial impact to the electric utility.
- **Social and Community Considerations:** Minimize the impacts to the downtown area by coordinating steam customer system conversion construction efforts to the fullest extent possible.
- **Encourage Energy Efficiency:** Encourage customers to make wise choices, both from an energy efficiency and environmental perspective.

The following is a summary outline of the approach staff intends to pursue to accomplish a managed transition in accordance with the above considerations. Attached is a more detailed outline of the plan.

Summary Outline: Major Task Areas Only

1. PeaceHealth

- Seek to re-negotiate a contract with PeaceHealth

2. Steam System Operations

- Re-configure steam production to align with eroding customer load (by 2011)
 - *Option 1: UO / EWEB Intertie*
 - *Option 2: Re-configure Boiler #5 to a smaller boiler*

3. Steam Customer Account Management

- Assign an EWEB representative to each steam customer
 - *Develop individual customer facility / system assessment*
 - *Develop an individual customer contact / transition consulting plan*
- Develop appropriate transition “package” for steam customers groups
 - *Customer Financial Assistance*
 - *Technical Assistance*
- Prepare Customer Impact Assessments: Typical Customer Profiles
 - *Choose real customers representative categories for discussion*
 - Residential, Small, Medium & Large Commercial

4. Steam System Financial Scenarios

- Develop estimates of potential steam system financial losses for 2010 – 13

5. Employees - Support, Retention & Communications

- Employee Engagement
- Workforce Planning, Employee Support & Retention
- Bargaining Unit Issues

6. Environmental

- Ensure environmental considerations are addressed to the fullest extent possible.

7. Communications and Public Involvement

- Apply APPA Public Participation model

8. Transition Period Implementation Review & Modification

- Continually assess customer transition progress and steam operations going forward

Steam Utility Transition Plan: Detailed Outline

DISCUSSION DRAFT (Sept 30, 2008)

Task Area #1: PeaceHealth

Lead: Steam Operations

Technical Support: Key Accounts

1. Seek to re-negotiate a contract with Peacehealth. Current four-year contract expires on December 31, 2008. Seek a three-year contract, with options to extend the term of the agreement for two optional one-year periods, as mutually agreed, with contract expiring no later than June, 2013.

Task Area #2: Steam System Operations

Lead: Steam Operations

Technical Support: Key Accounts

1. Re-configure steam production with customer load. As customer load declines, it will be necessary to re-align steam production to accommodate a lower customer load threshold at some point (~July, 2011) when No. 5 boiler capacity becomes too great for the existing customer load. Two options are being pursued:

Option 1: UO / EWEB Intertie:

- Confirm points where EWEB steam load and UO production would align such that EWEB loads and UO capacity would be optimal to allow for UO options.
 - Determine what role PeaceHealth's load would need to be – and if we could secure that from a system pressure standpoint via a contract
 - Determine manner in which customers would need to transition off our system in any UO production option (start from perimeter and work our way in to the core)
 - Develop a 3-5 year steam production concept for UO to serve in that capacity – determine mechanisms / agreements that need to be in place

Option 2: Re-configure Boiler #5 to a smaller boiler:

- Confirm points where EWEB customer steam load is approaching the point where smaller boiler would be required
 - Current point where customer steam load expected to fall below No. 5 boiler minimum load threshold (10,000 lbs per hour): July, 2011.
 - Obtain cost estimates for a smaller boiler
 - Assess potential market / estimated salvage value for No. 5 boiler, upon removal.

Task Area #3: Steam Customer Account Management

1. Assign an EWEB representative to each steam customer

Lead: Key Accounts

Technical Support: Energy Management Services

- Form “groups” of similarly situated customers
- Develop appropriate transition “packages” to fit customer groups
- Steam usage profiles, contact information – loads & key players for all accounts

- Individual customer facility / system assessments: Collect & compile what we know already and what we need to know:
 - Assess degree to which facilities are positioned to transition to an alternative fuel (e.g. condition of customer equipment, customer access to capital, owner / tenant / lease status, etc...)
- Develop an individual customer contact / transition consulting plan
 - Identify those customers who are the most costly to serve (work from perimeter to core of the system)
 - Assess their needs and begin working with them to prep for transition

2. Develop appropriate transition “package” for steam customers groups

Lead: Key Accounts

Technical Support: Energy Management Services

Customer Financial Assistance:

- Confirm legal opinion on loans to customers for this purpose
- Pursue both interest buy-down with private lenders and EWEB loan options
- Finalize terms - Zero interest and maximum loan amounts (\$5,000 - \$10,000)
- Develop customer loan agreement and documents
- Develop loan packages for customer facilities: technical assistance & capital
- Structure incentives to encourage sooner departure – Loan offers in year one (2009) – require customers to act by December 31, 2009
- Pursue state of Oregon Business Energy Tax Credit (BETC) Program
- Offer EMS efficiency incentives in parallel - package electric savings measures to fullest extent possible with transition loan / service package
- Pursue Oregon Energy Trust program incentives, where available

Technical Assistance:

- Coordinate requirements with ODOE from which to develop a standard exhibit for an engineering scope of work, specifying methodology and minimum efficiency improvements for BETC eligibility. Exhibit would serve as attachment to loan application for a customer facility’s engineering review.
- Seek to establish a referral network of qualified engineering consultants, HVAC contractors.
- Northwest Natural - confirm proximity to gas lines for each customer

Determine budget requirement and repayment plans:

- Estimate customer capital cost requirements (with / without other programs)
- Develop transition plan budget for loans / loan repayments

3. Prepare Customer Impact Assessments: Typical Customer Profiles

Lead: Key Accounts

Technical Support: Energy Management Services

Choose real customers representative of a group (but label them generically):

- Residential
- Small Commercial
- Medium Commercial
- Large Commercial

Develop generic examples from a steam customer's perspective:

- Establish a base case (e.g. continued “as-is” scenario)
- Compare with electric heat pump @ appropriate COP / SEER alternative (capital and expected electric cost)
- Compare with a gas system @ 90% or appropriate efficient alternative (capital and expected gas cost)

Task Area #4: Steam System Financial Scenarios

Lead: Accounting

Technical Support: Steam Operations

- 1. Establish the basis for the “Continue “As Is” Scenario:** Use 2008 actual YTD / projected and the 2009 budget.
- 2. Develop estimates of potential steam system financial losses for 2010 – 13, using 2009 as a base case, and continued customer erosion.** Include assumptions for expect for fuel costs, O&M and any anticipated system repairs during the sought transition period. Capital should include anything immediately on the horizon we know we are going to have to do in order to continue operating.
- 3. Anticipate any possible “other” scenarios for comparative purposes**
Listen / respond to any further discussion requests from prospective buyers.

Task Area #5: Employees - Support, Retention & Communications

Lead: Human Resources

Technical Support: Steam Operations

- 1. Proactive Employee Communications, Support & Retention.** Take all proactive efforts to support, communicate and retain adequate steam utility staff during the steam utility transition effort, to ensure the best possible outcome for EWEB as an organization, our customers and our employees.

Employee Engagement

- Plan meetings to share information, hear thoughts, ideas and concerns prior to information being sent to the Board
- Emphasize proactive, empathetic / active listening, pointing to successful transition approach and effort already underway in anticipation of the AMI project
- Invite input and ideas to ensure the effectiveness of the transition process, and encourage retention of experienced staff for as long as possible throughout the steam customer transition process.

Workforce Planning, Employee Support & Retention

- Align with on-going efforts

Bargaining Unit Issues

- Review outline, with an eye toward identifying any potential issues with bargaining implications. Pursue, as needed.

Task Area #6: Environmental

Lead: Environmental Management

Technical Support: Steam Operations

1. Ensure environmental considerations are addressed to the fullest extent possible.

- Social / Environmental Assessment – Develop approach with Good Company
- Future downtown developments that encounter steam related mitigation needs
 - Establish environmental mitigation approach
 - Determine appropriate funding method (e.g. proactively set aside some seed money / establish good faith mitigation fund for contingencies)
- Steam production facilities: Determine what and when mitigation needs to occur
 - Identify considerations the CAT process should be aware of
- Identify other considerations, needs

Task Area #7: Communications and Public Involvement

Lead: Public Affairs

Technical Support: Key Accounts

1. Proactive Customer Communications: Use APPA Public Participation model in developing the Steam Utility Transition Plan. Communicate with all steam customers, compile and share information as the plan is being developed. Recruit customers to provide more in-depth input. Collaborate with customers on crucial elements of the plan in formal / informal sessions. Incorporate results of input the draft transition plan for public comment. Modify as appropriate as additional comments are submitted.

- Write letter to steam customers informing them of the Board's adoption of the SD-18.
- Follow up with customers who had taken extra effort to contact EWEB and submit specific suggestions on desired outcomes from the Steam Utility Transition process.
- Make staff available to attend customer meetings to share information.
- Organize a series of formal, informal steam customer meetings to share the key aspects of the Steam Utility Transition Plan.
- Prepare periodic communications for steam customers, as appropriate.
- Conduct follow up survey for assess the customer's perception of EWEB's responsiveness.

Task Area #8: Steam System Transition Plan – Implementation Review & Modification

Lead: Key Accounts

Technical Support: Assigned Task Area Leads

1. On-Going Implementation Review & Modification: Establish a process to track overall transition progress and assess near term steam system operating conditions:

1. Review customer transition status on a monthly basis, beginning June 1, 2009.
2. Assess steam operations, system load status and stay current on pending customer service disconnections.
3. Move up timeline for small boiler re-configuration process, if customer erosion is occurring faster than originally anticipated.
4. Provide quarterly update to the Board on customer transition status.