



INTEROFFICE MEMO
EUGENE WATER & ELECTRIC BOARD
Employee, Community and Customer Service Division
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TO: Commissioners Brown, Cunningham, Farmer, Cassidy & Ernst

FROM: Mike Logan, Key Accounts Program Manager

DATE: March 17, 2010

RE: De-Commissioning Fund: Essential Component of Steam Transition Plan

Issue

Staff has now secured and leveraged all available funding sources as called for under the Steam Utility Transition Plan and is expecting to come up short of what is needed in order to transition customers to an energy efficient alternative before we shut down the steam system in June, 2012. Staff is now looking to the Board to provide the last funding component to ensure all steam customers are given the same opportunity to convert their steam systems.

Background

The following is a summary of the estimated costs and the sources of funds for converting all 58 buildings to an energy efficient alternative fuel source:

Funding Strategy:	(000's)	Notes:
Customer Conversion Costs	\$18,000	-3m square feet @ \$5 - \$6 per ft ²
Asbestos Abatement	\$1,000	
Right of Way Mitigation	\$150	
Natural Gas Line Extensions	\$200	EWEB HQ, long runs to small bldgs
Funds Needed:	\$19,350	
ODOE SELP Qualified Loans	(\$13,500)	Assumes ODOE funds 75% of bldgs
EMS Loan Funds	(\$250)	Heat Pumps and Electric Efficiency
City of Portland Grant Funds Expected (Loans)	(\$1,500)	If award is reduced proportionately
City of Portland Grant Funds Expected (Grants)	(\$600)	If award is reduced proportionately
Projected Funding Shortfall	\$3,500	
Sources:		
Existing Operating Reserve	(\$1,600)	
2009 Surplus Contribution Margin*	(\$1,900)	
Net Funds Position:	---	

*2009 Surplus Contribution Margin is expected to total approximately \$4.5 million.
These estimates are preliminary and are subject to change.

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Note that the above considers unofficial reports of the City of Portland's pending federal funding we've been working to secure a portion of with the City of Eugene. Those reports suggest an award is pending, but will be significantly less than the original \$75m requested. The number we have heard is closer to \$40m, which if steam funding were adjusted downward on a pro-rata basis, we could expect somewhere in the range of \$2.1m for steam conversion grants and loans. We expected to hear from the USDOE / City of Portland by March 15, and as of the drafting of this backgrounder, still have not heard the official announcement.

In addition to the above, EWEB is providing engineering site assessments for each steam customer's building, which each building owner can use to initiate a loan application with the Oregon Department of Energy. EWEB is paying for the \$265,259 engineering services contract.

The last funding source not included above is a small amount of potential funding available via the Energy Trust of Oregon. ETO has pledged to do whatever they would normally do under their existing programs for high efficiency natural gas conversions, which is limited to the incremental efficiency above building code requirements. They also may provide additional funding for engineering design as may be necessary for the larger, more complex facilities where natural gas is identified.

While the scope and capacity of funding at ODOE loans allows for asbestos abatement, structural changes and building shell measures as part of an energy efficiency project, there are no avenues to address these critical and costly mitigation needs within buildings that are not SELP-eligible.

Staff now estimates that approximately \$3m - \$4m will be needed beyond the sources above and is seeking a "steam de-commissioning fund" to address this void.

Discussion

A steam de-commissioning fund is necessary to assist building owners who do not qualify for ODOE loans (such as the three churches connected to the steam system), fall short of ODOE's credit qualifications, technical requirements or other SELP program eligibility requirements. To ensure customers received comparable and equitable transition assistance, loan terms and interest rates needed to arrive at loan payments that are offset by steam savings, as is the case with SELP loans. Otherwise, conversion projects will not proceed as planned, and the system will be shut down without having successfully converted all of the buildings.

Funds are also needed to address PeaceHealth's Hilyard Street facilities, not included in the current building site assessment and to provide comparable transition assistance to PeaceHealth that is available to all other steam customers that have benefitted from PeaceHealth's steam purchase contract extension that made the three year transition period possible.

In addition, funds are needed for asbestos mitigation, building shell measures and more extensive structural modifications beyond the scope of those programs we are working with. At least two locations have EWEB steam distribution lines that are located outside the public right of way and extend through buildings. The cost to remove these lines and mitigate for asbestos are expected to be significant.

Finally, funds need to be set aside to pay for the removal and mitigation in public right-of-way areas to allow for new development and construction when encountering inactive steam lines.

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Without a steam de-commissioning fund, it is likely that several buildings will be left with insufficient financial means to convert their system. On the ODOE eligibility side, this includes those buildings such as the First United Methodist Church, the First Christian Church and St. Mary's Episcopal Church. On the complexity side, this includes The Shedd Institute and several others that may require more extensive conversion efforts to accomplish the transition.

Establishing a de-commissioning fund would ensure that Steam Transition Plan will be more inclusive and equitable to our downtown businesses and help maximize the number of buildings successfully transitioned off the system before the targeted system shut down in June, 2012. Such a fund would be consistent with the "reasonable financial assistance" and energy efficiency considerations included in Board Resolution No. 0826 and Strategic Direction No. 18.

Recommendation

Staff is recommending the creation of a de-commissioning fund to address the cases described above. In considering how staff would proceed, the non-power operating reserve is an appropriate source of funds for this purpose.

Requested Board Action

No formal action from the Board is requested at this time. A resolution will be prepared for Board consideration following the March 23 Board planning session.