



Eugene Water & Electric Board

500 East 4th Avenue
PO Box 10148
Eugene OR 97440-2148
(541) 484-2411
www.eweb.org

November 16, 2010

RE: UPDATE ON STEAM TRANSITION – Steam Rates Increased by 25.8 percent

On November 2, the Eugene Water & Electric Board Commissioners adopted resolution No. 1021 to raise steam rates by an average of 25.8 percent, which was necessary due to the continuing decline of revenues as more steam customers opt to leave the system in favor lower cost fuel alternatives (e.g. high efficiency heat pumps and natural gas systems).

Nineteen additional buildings have transitioned to an alternative fuel since the steam transition project was initiated in 2008. For some perspective on the magnitude of the eroding customer base and the subsequent impact on revenues, there were 124 steam customers in 1985 and now there are just 37 buildings remaining to absorb the Steam Utility operating costs. Those costs are rapidly rising.

The Steam Utility customer base and load continues to erode in anticipation of the June 1, 2012, targeted shutdown of the system. EWEB is urging you to take action on the engineering report the utility provided to you earlier this year. We have submitted each and every building report to the Oregon Department of Energy on your behalf to help expedite the process of converting your building electric heat pump or high-efficiency natural gas systems. Whichever alternative you choose, be assured it will significantly reduce your energy costs. Please consider the following:

1. Immediate savings are available to steam customers if they act now.

Fuel Comparison:	Average cost per square foot:
<i>Steam heat (with 25.8% increase, \$0.52 without)</i>	\$0.65
<i>High efficiency natural gas</i>	\$0.34
<i>Electric Heat Pump</i>	\$0.22

The gap between the affordable alternative fuels available and steam heat continues to accelerate. Customers have been urged to take advantage of the immediate, huge savings available by the other two available fuel mediums as shown in the chart above. Many systems pay back within 10 years, and some even within five years. Energy bills would be cut in half with natural gas, and by two-thirds with an electric heat pump. The delivery of the McKinstry reports to you has confirmed the potential savings offered by these alternative systems, with most of the 19 buildings (out of the total of 58 buildings) sufficiently motivated by the McKinstry reports alone to secure their own financing and not seek ODOE or EWEB loans.

2. Time is of the essence. The next 12 months are critical for steam customers. This is because EWEB’s contract with PeaceHealth expires at the end of December 2011. Without this large contract, steam system operating costs will be significantly higher than they are today. While the 25.8 percent steam rate increase is going to be tough to handle in this difficult economic environment, remaining steam customers should be prepared for even higher rates after the PeaceHealth contract expires at the end of 2011.

In addition, the state of Oregon’s Business Energy Tax Credit expires June 30, 2012. This is a key driver why the Steam Transition Plan targets June 1, 2012, as the system “shutdown” date. The tax credit is under review amidst all of the fiscal turmoil in state government, and very likely won’t be extended. The challenge is significant, as we

have to convert the remaining 37 steam buildings to alternative fuels between now and when the tax credit sunsets. While the progress by some is encouraging, there remains a large number of building owners who have not contact the state or EWEB. We need to start on the conversion process immediately given the rapidly approaching sunset for ODOE tax credits.

3. Steam system revenue losses continue to accelerate. The following scenario shows the impact of the loss of steam customers and what you can expect next fall. The cost of steam with the 25.8 percent steam price increase for 2011 is in the \$37 - \$39 /kLB range. Considering the challenging economic times are expected to continue, the prudent course for building owners is to act immediately on more affordable fuel choices:

Preliminary Estimate of Steam Cash Flows: 2009 - 2012				
(In Thousands)				
	2009	2010	2011	2012
Receipts	\$3,700	\$3,300	\$2,400	\$1,700
Costs	\$3,700	\$3,500	\$3,100	\$2,700
Cash Deficits	\$0	(\$200)	(\$700)	(\$1,000)
No. of steam customers @ beginning at of year	78	75	69	58
Full cost recovery / Klb.	\$30.40	\$32.60	\$35.40	\$57.40

The above estimate assumes the current condition with PeaceHealth revenues going into 2012. Backing out that revenue, assuming their contract is not extended would result in a steam rate of \$100.40 / kLB. It would be too risky to assume that the PeaceHealth contract would be extended, or that the electric utility would subsidize a steam rate freeze. We instead intend to work hard with every individual building owner between now and 2012 to get you transitioned off the system.

EWEB is standing by to assist you with low-interest loans with flexible terms and energy efficiency funding. Please contact Tom Williams (541.685.7160); Steve Mangan (541.685.7376); or Mike Logan (541.685.7108) as soon as possible. We are looking forward to working with you.

Sincerely,



Mike Logan
Key Accounts Program Manager

Save now!

Converting your building from steam heat to electric or natural gas can save you 60% or more on your heating bill.

Don't take our word for it. Listen to these two former steam customers and make up your own mind:

“The church’s first heating bill of 2010 using natural gas is 74 percent lower than the previous year when we used steam – and this is before the 25 percent steam rate increase!”

– From Lee Sutton, First United Methodist Church

“I just got my first natural gas bill of the heating season and I want to share my good news. It is one-third of what I paid using steam! With this natural gas bill, it’s very clear the savings will more than pay for the monthly loan payment. I wished I had switched years earlier.”

–From Jerry Pike, Wilder Apartments