



# 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 16, 2008

RE: CORRECTED BOARD COVER MEMO: Steam Utility Transition Policy – SD18

In last week's Board packet, you received a memo from me that contained an erroneous calculation that understated the estimated payback periods for most of the values included in one of the columns. The error occurred as we were consolidating the information into building categories from another spreadsheet. All of the other values on the original table were correct and remain the same. We now have corrected the error and are providing you with revised values, which are now included in the column titled "Payback" below.

My apologies for any confusion this may have caused.

*What are the estimated customer costs for conversion in specific building categories?*

## MEDIUM CONVERSION COST SCENARIO: FROM STEAM TO NATURAL GAS (BY BUSINESS TYPE)

BUSINESS TYPE (1)	Annual Steam Cost	Est. Conversion Cost (2)	Payback (yrs.)
Hospital (5)	\$ 1,186,400	\$ 4,255,856	7.2
Lodging/Housing (11)	\$ 730,000	\$ 2,632,308	7.2
Government (5)	\$ 411,000	\$ 2,452,698	11.9
Office (14)	\$ 189,000	\$ 2,239,715	23.7
City of Eugene (8)	\$ 328,400	\$ 1,576,735	9.6
EWEB (all facilities)	\$ 202,000	\$ 1,099,179	5.4
EWEB (HQ Bldg. only)	\$ 100,600	\$ 436,000	9.2
Church (4)	\$ 28,000	\$ 630,500	20.0
Assembly (4)	\$ 37,552	\$ 582,000	31.0
Bank (2)	\$ 140,700	\$ 537,380	7.6
Retail (11)	\$ 90,000	\$ 164,488	3.7
College (1)	\$ 80,000	\$ 140,757	3.5
Restaurant (5)	\$ 31,600	\$ 85,675	5.4
Warehouse (1)	\$ 12,000	\$ 80,636	13.4
Health & Fitness (1)	\$ 1,700	\$ 55,775	65.6

*Notes: (1) Number indicates how many steam meters for business type; (2) Scenario based on medium cost of conversion @ \$4.85 sq/ft. (Note: Low cost is \$ 2.40 sq/ft and high cost is \$7.30 sq/ft)*

RESOLUTION NO. 0826

EUGENE WATER & ELECTRIC BOARD  
SD18 - STEAM UTILITY TRANSITION POLICY

WHEREAS, the Eugene Water & Electric Board (EWEB) is a municipal utility whose electric utility assets include a district heating steam utility, which provides steam service to customers located in the city of Eugene's downtown area.

WHEREAS, the current economic operating environment for the steam utility is becoming too costly for EWEB to continue to operate in the future, due primarily to a significant reduction in customer steam sales compounded by rising steam production costs.

WHEREAS, the steam utility distribution infrastructure is in need of significant capital investments, that would require an extensive and costly excavation with social and environmental implications.

WHEREAS, the reduced revenue and rising costs for the steam utility in the foreseeable future are expected to result in significant operating losses and would require the electric utility to absorb those losses.

WHEREAS, steam utility customers have requested assistance and a reasonable time period from which to accomplish a transition to another fuel source before EWEB stops delivering steam.

NOW, THEREFORE BE IT RESOLVED that the Eugene Water & Electric Board does hereby resolve as follows:

The Board adopts Strategic Direction No. 18 and authorizes, delegates and directs the General Manager to develop a Steam Utility Transition Plan to ultimately work toward shutting down the steam system.

DATED this 16<sup>th</sup> day of September 2008.

THE CITY OF EUGENE, OREGON  
Acting by and through the  
Eugene Water & Electric Board

\_\_\_\_\_  
I, KRISTA K. HINCE, the duly appointed, qualified and acting Assistance Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the of the Resolution adopted by the Board in its September 16, 2008 Regular Board Meeting.

\_\_\_\_\_  
Assistant Secretary

**Policy Number:** SD18  
**Policy Type:** Strategic Direction  
**Policy Title:** Steam Utility Transition Policy  
**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 Board directs the General Manager to ensure a managed transition out of the steam business in a socially responsive, environmentally and financially responsible manner, while balancing all considerations listed below to the fullest extent possible, including steam customers, the downtown community, the community at large and EWEB's electric utility interests.

### **Considerations**

- **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.