Big firms ponder a switch to oil heat

By Bruce Ramsey
P-I Reporter

The Earle M. Jorgensen Co. in Seattle hadn't burned fuel oil to reheat steel since 1976. But the two-thirds plunge in world oil prices has prompted the steel forge plant to convert its reheat burners from natural gas to oil.

"Oil is essentially half the price of gas," says John LaVillette, plant industrial manager. And at Jorgensen, energy costs are greater even than labor costs.

Jorgensen melts steel in electric furnaces and reheats the steel to make it malleable. The reheating accounts for half the Seattle plant's energy consumption, and is the process being converted, burner by burner, to oil.

The switch, says LaVillette, "is not really a choice. We need to use the energy source that's the most economical."

Other companies have found that the power to switch has given them the power to dicker.

For example, Seattle Steam Corp., which supplies steam for heating in downtown Seattle and on First Hill, had been using electricity supplied by Seattle City Light. Earlier this year, says Jim Young, vice president for marketing, Seattle Steam notified City Light that it was switching to residual fuel oil.

Interruptible power

"They came back and said, 'We can make a deal based on the price of oil,'" said Young.

The deal, which had to be approved by the Seattle City Council, allows Seattle Steam to buy much cheaper interruptible power that City Light had been selling to the California utilities. After its power bill was cut, Young says, Seattle Steam was able to lower the price of its steam by an average of 15 to 20 percent.

Other companies are still on the sidelines. One is InCon Packaging, formerly Northwestern Glass, which employs 600 people in Seattle to make glass bottles for such companies as Rainier beer, Tree Top apple juice, and Ste. Michelle wine.

InCon's electric bill is about $300,000 a month, and its gas bill is about $280,000, says Frank Glinka, general manager.

"We definitely could switch to oil," he says. It would cost $30,000 to $40,000 for a pumping system — a relatively small amount. Glinka is considering it.

So far, there has not been a surge of applications from industry to install new oil-burning equipment, says Harry Watters, air pollution engineer at the Puget Sound Air Pollution Control Agency. But if oil stays cheap, that could change.

Sales fall 14%

Fuel-switching has been done by companies that had the oil-burning equipment available already. These switches are causing headaches for the gas utilities, which have long required that all interruptible customers be able to use something other than gas.

As those customers have begun switching, sales of interruptible gas in the most recent quarter fell 14 percent below the year-earlier level at Washington Natural Gas Co. Falling sales of gas have cut recent quarterly profits of Washington Natural Gas, Washington Water Power Co. of Spokane, and Burlington Northern.

Gas rates are falling, too. Since the beginning of 1975, Washington Natural has lowered its interruptible rate 18.1 percent, compared with a drop of 14.5 percent in residential rates, says spokesman Steve Gray.

Industrial users

"We've been right on the edge of holding some of these customers," says John Stefani, director of industrial marketing and gas contracts.

Washington Natural is also beginning to cut deals with big industrial users who threaten to go elsewhere. No longer are the distribution companies like Washington Natural required to buy gas from Northwest Pipeline Co., which once held a monopoly; now they can buy gas much more cheaply from the producer, and pay the pipeline to deliver it.

Washington Natural cut such a deal late last year for Simpson Paper Co.'s kraft pulp mill in Tacoma, which burns 8 million therms a year. The Simpson mill switched from oil to gas. It has since switched fuels five times — and is now using oil.

"Because we have this ability to switch, we have been able to take advantage of the declining market," says Wayne Meek, Simpson's director of energy and environmental services. "Today, if a utility wants to remain competitive, it has to make sure its *customers* remain competitive."

So far, Washington Natural is allowed to contract for cheap gas for only the largest industrial customers. The utility has sent state regulators a proposal to allow negotiated rates for any user who burns 2,000 therms a day — a category that includes a much wider range of enterprises.