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Power struggle between PG&E, SMUD sparks on Companies present differing estimates of natural gas prices

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Fears and assumptions regarding natural gas price increases have been circulating in the United States since hurricanes Katrina and Rita hit the gulf coast and its numerous oil refineries in late August and September.

But locally, the disasters are creating more than just anticipation for larger bills.

The rising cost of natural gas is the latest development in the dispute between the Sacramento Municipal Utility District and Pacific Gas and Electric over a proposed annexation for the city of Davis and other select Yolo County communities.

In a letter to the Sacramento Local Agency Formation Commission, SMUD called the latest claims made by a PG&E consultant regarding natural gas prices “erroneous, misleading and based on absurd assumptions.”

PG&E had earlier asserted that SMUD incorrectly forecasted the cost of the annexation since the hurricanes would surely increase the costs of natural gas.

“[Energy] prices will definitely be higher and SMUD’s forecasts were significantly lower than they really are,” said Jann Taber, spokesperson for PG&E.

The war of words between the two companies stems from the original figure

SMUD estimated PG&E’s services were worth in Yolo County. During the early phases of an annexation assessment, the purchasing company has to estimate the worth of the company they wish to take over.

SMUD officials offered an estimated \$110 million buyout to PG&E, but Taber said the value is severely underestimated, noting that the cost actually exceeds \$500 million.

“Every environmental official in the nation would disagree,” Taber said. “[SMUD’s] forecast is incorrect if they think that in the long run prices will be cheaper and stay as predicted.”

SMUD responded to PG&E’s latest attempt to deter the proposed annexation by submitting a letter of its own to LAFCO.

In the letter, SMUD General Counsel Arlen Orchard countered by writing that PG&E is mistakenly making the assumption that customers would not pay for increases in natural gas costs if they were PG&E customers.

Arguing that the services provided to SMUD customers would continue to be economically beneficial, the letter stated that SMUD’s rates are expected to be at least 10 to 15 percent lower than PG&E’s services in the long run.

SMUD Chief Financial Officer Jim Tracy told The Sacramento Bee that while natural gas costs could be higher in the first year than originally estimated, the increase would not be sufficient enough to alter the economic benefits to SMUD customers over 20 years.

Tracy also said that while no one is sure how much natural gas will cost in 2008, SMUD would recalculate its gas price forecast and rate surcharge before potential SMUD customers went to vote.

The annexation was first suggested in 2003 when city officials from Davis, Woodland and West Sacramento contacted SMUD seeking lower rates and better service. After months of public meetings and corporate debate, SMUD officials agreed to move forward with the idea and submitted the required buyout application to LAFCO.

Since that submission on Aug. 1, PG&E has persistently questioned the manner in which SMUD has carried out the annexation process.

“SMUD staff, unbeknownst to the board of directors, significantly changed the border areas that they wanted to take over,” Taber said.

SMUD officials argue that the boundary changes were necessary to comply with regulatory policies.

According to the SMUD website, the changes were meant as a compromise instead of splitting large agricultural parcels and stranding remaining customers from PG&E’s services.

LAFCO officials agreed with SMUD’s revised boundary changes and noted that the alterations would not hinder the commission’s review process.

LAFCO has also prepared a Program Environmental Impact report outlining the potential environmental effects of the annexation.

If the application is approved by the commission, 70,000 customers in the proposed annexed area would be able to vote on the issue as early as November 2006.

While reviewing the application, the commission will continue to conduct further environmental reviews and public hearings for a year.

If voters approve the annexation, the prices of lines, poles and other equipment would have to be determined, said SMUD representative Dace Udris.

Udris added that SMUD would not actually start serving annexed Yolo customers until 2008.

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