

## State sues PG&E's parent company

### Attorney general claims ratepayers were defrauded

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Attorney General Bill Lockyer accused Pacific Gas and Electric Co.'s parent company yesterday of defrauding California ratepayers by siphoning off billions dollars from PG&E in the four years before the utility filed for bankruptcy.



Lockyer's lawsuit, filed in San Francisco Superior Court, amounts to an end run around the legal and financial sanctuary PG&E acquired in April, when it filed for Chapter 11 bankruptcy protection. At the time, the company cited \$9 billion in debts from exploding energy prices.

Critics of the bankruptcy filing pointed out that PG&E had transferred more than \$4 billion to its unregulated holding company, in the form of dividends and stock purchases, in the previous four years. This included \$632 million in the first nine months of 2000, when the utility was bleeding money from power purchases. But, until yesterday, no one had found a way to challenge the transfers in court.

Lockyer contended that the transfers violated conditions laid down by the state Public Utilities Commission in 1996, when it approved formation of the holding company, PG&E Corp., as part of the state's partial deregulation of electric service.

Those conditions included a guarantee that the utility's financial health would be the parent company's first priority and that ratepayer money would be devoted to utility service rather than subsidizing activities by unregulated subsidiaries.

"Those promises have been consistently and repeatedly broken," Lockyer said at a news conference in Oakland. "All the money in this system went from child (the utility) to parent. . . . We think that caused the bankruptcy to a substantial extent."

The suit drew a scathing response from PG&E Corp., which called the action "unwarranted, discriminatory and harmful to California" and accused Lockyer of trying to obstruct the utility's efforts to emerge from bankruptcy.

He said much of the money that PG&E obtained from its 4.5 million customers and transferred to its parent company was redistributed to the parent's shareholders and other subsidiaries. The parent company also extracted more than \$600 million from PG&E in four years by manipulating its subsidiaries' tax bills, Lockyer said.

He said PG&E Corp. took steps last January, three months before the bankruptcy filing, to shield subsidiaries from any obligation to the distressed utility.

The suit seeks at least \$500 million in civil penalties, plus recovery of an unspecified amount from the parent company. Lockyer said the sum could range from \$600 million to \$4 billion, depending on the court's assessment of the legality of the transfers and the parent company's duty to keep PG&E afloat.

Apart from the civil penalties, which would be paid to the state, any money recovered would go to PG&E, whose assets are under control of the bankruptcy court to ensure repayment of creditors. But Lockyer said he was confident that at least some and perhaps all of the recovery would be used to reduce rates for the utility's customers, the original source of the payments.

The suit was filed under California's unfair competition law, which Lockyer said allows the case to proceed in state court without being tied up in the federal bankruptcy proceedings.

The parent company said transfers attacked in the suit had been subjected to numerous reviews, including two PUC-commissioned audits, "with no findings that the transactions were anything but entirely appropriate and legal."

But Lockyer said those reviews were conducted before a just-completed PUC review of the rules applying to utility holding companies under the 1996 deregulation law. Rejecting numerous utility objections, the commission ruled Wednesday that the parent company had made a binding promise to provide the utility with the cash it needed to maintain service, although it stopped short of saying that any promises were broken.

PUC President Loretta Lynch said yesterday that she supports Lockyer's suit and expects the commission to join the case or file its own suit against PG&E Corp.

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The PUC is also hoping to recapture PG&E's payments to the parent company in bankruptcy court. On Tuesday, the commission sought permission to submit its own plan to bring PG&E out of bankruptcy and repay creditors by using the utility's growing cash reserves, now at least \$4.9 billion, and its potential revenues, including claims for reimbursement by the parent company.

The utility's reorganization plan would disavow all claims against the parent company and transfer PG&E's power plants and transmission systems to newly created companies not regulated by the state.