

## SMUD sees bigger savings

*By Beth Curda/Enterprise staff writer*

SACRAMENTO - Not only does the Sacramento Municipal Utility District believe annexing part of Yolo County would be a win-win for its customers and those in Yolo, it believes each side would benefit to the tune of millions of dollars.

That was the message Tuesday evening, when SMUD's chief financial officer released updated estimates of what the public utility believes would be the financial benefits of annexing Davis, Woodland, West Sacramento and unincorporated areas between the cities.

SMUD believes its Sacramento customers would see \$155 million over 20 years in money brought in from Yolo County businesses and residents. Some of the utility's Sacramento customers have been leery of the proposed annexation following warnings from Pacific Gas & Electric Co. that they would end up footing part of the bill.

In addition, SMUD officials said, Yolo County customers would save \$249 million over 20 years through lower electricity bills.

The findings are based on an updated analysis that uses recent forecasting of natural gas prices by the California Energy Commission, and on anticipated rate increases by PG&E, which powers Yolo County today.

The \$155 million gain for Sacramento would come from, among other avenues, the savings of spreading fixed costs over 70,000 more customers, spreading the utility's existing debt across more customers and the fact that Yolo customers would be paying slightly more than it would cost to provide power to the new territory.

A PG&E representative said following the SMUD board of directors' workshop Tuesday evening that the new findings are "smoke and mirrors," a way for SMUD to hide its concern about natural gas prices rising in the future.

PG&E has factored into its analysis all along the rate increases SMUD discussed Tuesday, spokeswoman Jann Taber said. Thus, she said, the findings released Tuesday do not change PG&E's numbers or its belief that the annexation would cost

SMUD much more than what the public utility estimates.

“The bottom line is this doesn't change our cost analysis at all ... and our analysis shows that Yolo customers' rates are going to increase by double digits if this takeover is successful,” Taber said.

She said what is driving the amount of financial benefits each side sees is SMUD's assumption about the cost of annexation, not PG&E's rate increases.

If SMUD annexes the Yolo areas, a proposal being reviewed by the Sacramento Local Agency Formation Commission, it would use bonds to purchase PG&E's wires, poles, towers and other equipment in the areas being annexed.

The elected officials from Davis, Woodland, West Sacramento and Yolo County approached SMUD about the move a few years ago, saying it would offer cheaper electricity, more reliability and a public decision-making process that investor-owned PG&E does not offer.

If approved this spring by LAFCO and in November by Sacramento and Yolo voters, SMUD would begin providing electricity to the Yolo areas in 2008. PG&E

would continue to provide natural gas to Yolo customers.

SMUD has said Yolo residents and businesses would fund the annexation through their regular rates and a fee.

PG&E has challenged that claim, saying that because SMUD's estimate of the value of PG&E's equipment in Yolo County is about \$400 million too low, the cost would be much higher than the public utility expects. In turn, Yolo's rates would be higher than what customers pay now to PG&E and SMUD customers would have to pay extra to annex the Yolo areas, PG&E contends.

Several SMUD officials said Tuesday that PG&E's estimate of the value of its equipment is outrageously high - more than twice the cost of building all new equipment in the areas considered for annexation - and that any extra cost would be covered by extending the time the extra fee is levied on Yolo customers.

If it were more expensive, that could eat into the expected financial benefits, SMUD officials said. But, under that scenario, Sacramento residents' financial gains would not drop much, Orchard said, and they would not see higher bills because of the annexation.

The difference in estimates on the purchase price stems from different methods for calculating it. The price ultimately will be decided through the courts.

“I have to say that the strategy of PG&E - to toss out a huge number - is a great one,” SMUD Director Bill Slaton said, referring to PG&E's claim that its Yolo equipment is worth more than \$500 million. “Human nature says that you take (both estimates) and divide (them) in half. ... It does not mean that the number that PG&E is throwing out has any validity.”

He said he has thought for a long time that the proposed annexation is a “good deal” and the numbers released Tuesday reinforce that belief.

SMUD has told Yolo customers they immediately would see a 2 percent drop in their bills, compared with what they pay to PG&E. Later, once the annexation is paid for and the extra fee is discontinued, their bills would drop more. Today, SMUD is about 20 percent cheaper than PG&E, SMUD officials said.

That estimate represents a much higher savings for Yolo residents than the 8 percent predicted in a preliminary study conducted by Sacramento consultant R.W. Beck Inc. when the proposed annexation arose a few years ago.

The updated estimates were calculated for two reasons, Orchard said: PG&E has asked an authorizing agency to allow it to raise rates for investments in projects, and to try to combat the battle of experts that has emerged in the debate between SMUD and PG&E by incorporating the California Energy Commission forecast into the analysis.

SMUD officials said the expected PG&E rate increases would far outweigh the drop in natural gas prices between now and 2008 that is predicted by the commission, leading to the increase in financial gains for Yolo and Sacramento customers if the annexation goes forward.

SMUD budgets for \$75 million excess revenue each year; that is the average it sees, Orchard said. SMUD's total budget is about \$1.1 billion per year.

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