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Yolo County ballot fight seeks to trade PG&E for public utility

ROBIN HINDERY

Associated Press

\*SACRAMENTO - \*The state's energy crisis of 2000 and 2001 may be over, but lingering consumer frustration has contributed to a push by several cities in one Northern California county to abandon investor-owned Pacific Gas & Electric Co.

The quest for cheaper utility rates in parts of Yolo County began in Davis in the late 1990s, as California began its failed experiment with energy deregulation.

The ensuing crisis, marked by blackouts and soaring utility rates, led PG&E and other utility giants to rack up billions of dollars in debt. Municipally owned utilities emerged relatively unscathed.

"When the energy crisis hit, public power started looking like a really good thing," said Dan Berman, a Davis resident and co-founder of the citizens' movement to dump PG&E, the Coalition for Local Power.

Berman and others started pushing Davis to break away from PG&E, the state's largest utility. The campaign evolved over several years and grew into a ballot initiative that will go before voters in Sacramento and Yolo counties on Tuesday.

At issue is whether the Sacramento Municipal Utility District will

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be allowed to annex Davis and other parts of Yolo County, including the cities of West Sacramento and Woodland. PG&E would lose 70,000 customers.

The takeover effort could spread throughout PG&E's territory in Northern California if it's successful, Yolo County Supervisor Mariko Yamata said.

"Once people realize the savings they can achieve with a public utility - as opposed to an investor-owned utility that only cares about maximizing their profits - everyone will want to municipalize," Yamata said. "This could spread to the Bay Area and elsewhere, and that scares PG&E."

PG&E has spent more than \$10 million campaigning against the annexation, which will appear on the Yolo County ballot as Measures H and I and on the Sacramento County ballot as Measure L. Voters must approve all three measures for the switch to happen.

As a public utility, the Sacramento Municipal Utility District is not allowed to spend money on political campaigning.

Municipal utility officials say the acquisition would cost \$110 million and would take five to 10 years to pay off. During that time, Yolo County customers would have to settle for rates only 2 percent less than they pay now.

PG&E argues the takeover will cost more than \$500 million and is therefore too risky and too expensive.

"SMUD wants Yolo customers to invest millions of dollars to buy PG&E's property and equipment," said a recent mailer by the Coalition for Reliable and Affordable Electricity, the anti-annexation committee fueled solely by PG&E contributions. "But Yolo ratepayers won't see any benefits from the financial risk we're taking."

Some area residents view PG&E's costly campaign as an attempt to

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make voters forget the company's turbulent history.

"Public power has been much more dependable," said David Thompson, a Davis resident for the past 26 years. "We're being asked not to trust SMUD by a company that had the largest bankruptcy in California history and that initiated and asked for the most costly utility plan that's ever been promoted."

The pro-annexation campaign promises that Yolo residents will begin seeing huge savings after the PG&E acquisition costs are paid off. The public utility's rates historically have been lower than PG&E's. The gap today - with rates 30 percent lower - is larger than it has been in 20 years.

Those savings could have a real impact on Yolo County, Thompson said. He and his wife, Ann, installed solar panels on their roof in an effort keep their PG&E bills down.

The Davis Food Co-op recently compared its PG&E electricity bills to those of the similarly sized Sacramento Natural Foods Co-op, which gets power from the Sacramento utility. The bills showed the Davis co-op was paying \$40,000 more per year, said Thompson, who used to sit on the co-op's board.

"When I think about the communal good (the SMUD annexation) could do, we'd have more money in our community, more representation and higher quality," he said.

The takeover also would help the Sacramento utility spread its costs and become more efficient, said Bill Slaton, a member of the utility's board and chairman of the campaign promoting Measure L in Sacramento County.

"It's healthy for our economy to have these two competing systems and for people to be able to really step back and compare the two," he said.

The New York Times <<http://www.nytimes.com/>>

November 3, 2006

Power Play

Some Californians to Pick Their Utility at the Polls

By DAVID CAY JOHNSTON

<[http://topics.nytimes.com/top/reference/timestopics/people/j/david\\_cay\\_johnston/index.html?inline=nyt-per](http://topics.nytimes.com/top/reference/timestopics/people/j/david_cay_johnston/index.html?inline=nyt-per)>

WOODLAND, Calif., Nov. 1 — Gene Stille says he is tired of paying the Pacific Gas and Electric Company roughly \$300,000 a year in extra electricity bills for his small chain of Nugget supermarkets. If his stores were just a few miles east, in the Sacramento Municipal Utility District, he said, his costs would be that much lower.

“I can’t see any reason to pay all that extra money” to P.G.&E., he said, considering that it charges roughly 40 percent more than its publicly owned counterpart based in the state capital.

Mr. Stille cannot move his stores, but he hopes to do the next best thing: swap the utilities.

On Tuesday, voters will decide whether Mr. Stille’s stores and 77,000 other Yolo County customers will switch to the municipal utility. Such a move is a rare event these days in California, where corporate-owned and publicly owned power systems fought long and bitter battles going back more than a century over the role of electricity in state politics and the economy.

If the switch takes place, Mr. Stille, like other residents of this

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table-flat farming area, will not necessarily enjoy significantly lower electricity costs right away.

But he and many others here are tempted enough to abandon P.G.&E. that the company has poured \$10.4 million of its shareholders' money into trying to defeat the plan, even though it would lose just 1.5 percent of its customers. The utility, which is worried about Yolo County setting a precedent, is the sole donor to the no campaign.

"I am confident that we will win this," said Peter A. Darbee, chief executive of the PG&E Corporation

<<http://www.nytimes.com/redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=PCG>>.

PG&E owns the utility Pacific Gas and Electric, which supplies power to about 15 million people in Northern California.

Advocates for the switch — a coalition of business owners, local officeholders and a few dedicated public power advocates — have spent less than \$1 million, most of it raised in small amounts. Volunteer crews have gone door to door seeking votes.

The election here is a small but significant sign of modern-day efforts around the nation to expand publicly owned power, which achieved its greatest gains in the Progressive era early in the 20th century and during the New Deal of the 1930s, but has grown little since.

The movements are fueled in good part by discontent in many areas where electricity rates are on the rise and the power industry has failed to deliver on its promise of lower prices from restructuring.

Drives to make the switch are under way in much of Massachusetts. Six towns in Iowa are studying the idea, along with cities in Colorado, Connecticut and Louisiana, according to the American Public Power Association, a trade group for public power agencies.

In Oregon, the Portland City Council made an offer for the Portland

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### General Electric

<<http://www.nytimes.com/redirect/marketwatch/redirect.ctx?MW=http://custom.marketwatch.com/custom/nyt-com/html-companyprofile.asp&symb=PORWI>>

unit of the bankrupt Enron, but its offer was rejected in 2004, even though it was willing to pay more than the top bid.

One main reason municipal utilities can offer lower rates is that they are able to borrow tax-free, giving them lower interest rates than corporate utilities. They also often get cheap hydroelectric power from government dams, pay much smaller salaries to executives and do not have to pay dividends to shareholders.

In the California fight, the Sacramento utility district has promised to cut rates by 30 percent, but it will take back all but two percentage points of that in a surcharge to pay P.G.&E. for its equipment. The district also promises benefits to local governments and nonprofits equal to the property taxes that P.G.&E. now pays.

The Sacramento district says that the surcharge could end in as little as five years, but P.G.&E. says the charge may last for a quarter-century.

Mr. Darbee said that if voters approved the switch, his company might demand as much as \$567 million for its poles, wires, transformers and other distribution equipment. That is about five times the \$110 million to \$130 million that three reports for local government agencies estimated they are worth.

“We think a jury would award us \$400 million,” he said.

Mr. Darbee argued that “it is inappropriate for politicians” to take away part of P.G.&E.’s business “just because they think they can do a better job.”

The state Constitution gives elected city councils and county boards of supervisors authority to grant exclusive franchises to utilities, like those P.G.&E. obtained here more than a century ago. But it

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also allows voters to terminate those franchises.

The Sacramento district is the second-largest public power operation in the state, after the municipal power agency that serves the city of Los Angeles.

For the switch to occur, two ballot measures in Yolo County and one in Sacramento County must be approved by majorities. With no hot races, turnouts are expected to be low, both sides say.

The Yolo County vote grows out of the economic wreckage left behind by Enron, which was one of the PG&E Corporation's biggest trading partners at the height of the California energy crisis in 2000.

Enron's manipulations of California's flawed electricity restructuring plan helped send state electricity prices soaring and caused blackouts and brownouts. The debacle pushed the P.G.&E. utility into bankruptcy and forced the state to take on \$11 billion in debt that, with interest, is expected to weigh on taxpayers for about two decades.

"That's when our reputation fell," Mr. Darbee said.

In the latest J. D. Power survey of residential customers' satisfaction, the Sacramento district ranked second among 55 large utilities in America, while P.G.&E. was at the edge of the bottom fourth.

Enron was one of the most aggressive champions of replacing government-regulated prices. These provide an established profit for utilities on their investments but can lead at times to wasteful spending because there is no built-in incentive to seek the lowest cost or the most efficient way to meet the energy needs of customers.

A switch to the Sacramento district is supported by the councils of all three cities in the area — Woodland, the college town of Davis and industrial West Sacramento — as well as the boards of supervisors in Sacramento and Yolo Counties. All three daily

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newspapers in the area also favor the move.

Eleni Tsakopoulos-Kounalakis, president of the largest land development firm in the Sacramento area, said that “support for the annexation among business leaders is overwhelming.”

She donated \$300,000, saying she regards the utility district as a benefit to the community in many ways, from helping plant trees and quickly restoring power after blackouts to serving as a training ground for up-and-coming government leaders.

“The district has drawn smart people who care about our community, put all the upside back into our community and are at the cutting edge of utility service,” she said.

But not everybody is persuaded that the municipal utility offers a substantial advantage over P.G.&E.

One P.G.&E. supporter, Dudley Holman, president of the Yolo County Taxpayers Association, said that he objected to allowing the government to seize the utility’s distribution system through eminent domain.

Another opponent of the switch is Peter Defty, president of Vanguard Inflatables, which makes rafts for running whitewater rivers.

The real issue, Mr. Defty said, is that “the politicians botched deregulation and we had deregulation in name only,” on terms that gave utilities, generating companies and market traders opportunities to increase their profits and pass the costs on to customers.

He said it was difficult to see how the Sacramento district could achieve long-run savings as long as it would have to buy much of the power for Yolo customers in the same markets.

“The politicians are going for this because the disparity in rates” between P.G.&E. and the Sacramento utility district “is at an

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all-time high," Mr. Defty said. But "it won't last because the era of cheap energy is over."

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Sacramento Bee, November 1, 2006

Probe of PG&E tactics is urged

Legislators say utility's use of bill inserts and customer phone lines is unethical.

By Edie Lau - Bee Staff Writer

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Story appeared in METRO section, Page B1

The increasingly aggressive election battle over electricity service in eastern Yolo County landed on the steps of the Capitol on Tuesday, with several lawmakers calling for an investigation into Pacific Gas and Electric Co.'s campaign tactics.

Assemblyman Dave Jones, D-Sacramento, and Sen. Deborah Ortiz, D-Sacramento, denounced PG&E for using a customer service telephone line and billing inserts to oppose ballot measures that would enable part of Yolo County to drop PG&E and buy power instead from the Sacramento Municipal Utility District.

"These customers are captive," Ortiz said at a news conference. "It's an unethical, inappropriate use."

Ortiz and Jones -- along with Assemblywoman Lois Wolk, D-Davis, who

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was not at the news event -- wrote a letter dated Tuesday to the Senate Energy, Utilities and Communications Committee and the Assembly Committee on Utilities and Commerce requesting that PG&E be asked to demonstrate that none of its inserts, telephone recordings or other political activities was paid for with ratepayer funds.

PG&E, which stands to lose 77,000 customers in the cities of Davis, Woodland and West Sacramento and adjoining unincorporated areas, has waged a fierce campaign, pumping \$10.4 million into the fight.

Voters in existing SMUD territory in Sacramento County and a sliver of Placer County, as well as voters in the proposed annexation zone, will decide the matter Tuesday.

The question is on the ballot as Measure L in Sacramento and Placer counties, and Measures H and I in Yolo County.

PG&E spokeswoman Jann Taber acknowledged Tuesday that the utility company has used billing inserts and a customer service line for politicking.

She said PG&E has carefully accounted for its staff time and related expenses and charged those to its campaign committee, the Coalition for Reliable and Affordable Electricity, not ratepayers.

"We clearly are exercising our First Amendment right to freedom of speech to communicate with our customers without spending any customer-service dollars," Taber said.

In a campaign finance report filed Oct. 26, the PG&E political committee showed \$180,904.06 in non-monetary contributions, which a committee consultant said primarily paid for staff time on campaigning.

The recording on the customer service line says in part: "PG&E greatly values and takes pride in serving all of our customers. This includes those of you who are subject to the proposed takeover and will be forced to obtain service from SMUD at what we believe will be higher rates than PG&E's current rates. Thus, we are opposed to

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SMUD's efforts to force you to give up your PG&E service."

SMUD average rates are about 30 percent lower than PG&E rates. If annexation is approved, SMUD has promised Yolo customers rates at least 2 percent lower than PG&E's while the acquisition is being paid off.

On Oct. 20, SMUD General Manager Jan Schori sent a letter to the California Public Utilities Commission complaining that PG&E had "hijacked" its customer line for campaigning.

SMUD officials said Tuesday that the PUC has not responded formally. However, PUC spokeswoman Susan Carothers told The Bee last week that PG&E has free-speech rights to use the line if customers are given the option of skipping the message.

"I think it was an incredibly inadequate response from a spokeswoman," Ortiz, a supporter of Yolo annexation, said Tuesday. "I would have welcomed even a cursory analysis by the PUC."

Jones, who also supports annexation and has contributed \$1,000 to the campaign, said he disagrees with the PUC. "I think it's simply fundamentally wrong ... even if there's an opportunity to opt-out."

\*Carothers reiterated the PUC stance Tuesday.\*

\*"As long as the utility's service to customers is not hampered or adversely affected, and as long as PG&E is not misleading its customers with its message, it can use utility revenues to voice its opposition to the annexation," she said by e-mail.\*

PG&E spokeswoman Taber said the company is "not worried" about a legislative inquiry, but added that any inquiry should include an examination of SMUD activities, as well.

As a public agency, SMUD is barred from campaigning. However, the agency can and does use its Web site and billing inserts to give information about the annexation proposal, and several of its

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directors run a pro-annexation campaign committee.

Jon Coupal, president of the Howard Jarvis Taxpayers Association, agreed with Taber, saying he believes local governments in Yolo County have been misusing public funds in support of annexation.

"To have these guys stand up there and complain about the use of ratepayer dollars (by PG&E) when it's not even ratepayer dollars is like the kettle calling the pot black," Coupal said.

The letter by Jones, Ortiz and Wolk to the legislative utility committees also asked the committees to consider legislation to:

- Protect customers from "captive audience speeches" by their utility providers during political campaigns and from "compelled subsidy" of political speech in connection with campaigns.
- Establish consistent standards either barring or allowing all utilities from using their facilities to convey political messages.

Alex Traverso, communications director for Assemblyman Lloyd Levine, D-Van Nuys, chairman of the Assembly utilities committee, said Levine would consider holding a hearing on the matter.

"But first he wants to make sure he reviews all of the allegations thoroughly to make sure the matter warrants a hearing," Traverso said.