

## **PG&E's playbook**

*What will happen next in the battle between SMUD and the giant utility? History provides a script.*

By [Cosmo Garvin](#)

**An upstart public-power movement** gains momentum. Local government leaders, building on the work of public-power activists, draw up plans to free citizens from the grip of the big electric utility in the area, Pacific Gas and Electric. Public power, they promise, will mean lower electricity bills and will provide some sort of democratic control over the local power provider.



PG&E has been here before and isn't about to let its territory go. A bitter and expensive political fight ensues, with both sides accusing each other of distorting the truth.

Sound familiar? If you thought this described recent developments in the Sacramento Municipal Utility District's attempt to take over electricity service for the urban parts of Yolo County, you'd be right. But you'd also be correct if you thought it was about the tiny South San Joaquin Irrigation District attempting to take over PG&E territory in nearby Manteca, Rippon and Escalon.

Or how about the nasty fight that broke out in San Francisco in 2001, and again in 2002, that followed a similar pattern? Or the Davis Municipal Utility District campaign in 2000, or SMUD's annexation of Folsom in the 1980s, or the mother of all public-power battles when Sacramento fought PG&E in the courts and in the press for two decades--from 1923 when Sacramentans voted to form SMUD to 1947 when the new public utility finally threw the switch.

In each case, PG&E used its wealth and political influence to try to stop the locals from taking control of the electricity grid--sometimes successfully, sometimes not.

Back in the fall of 2002, the electric utility industry's trade association, the Edison Electric Institute (of which PG&E is a member in good standing) published a helpful little book as a guide to nullifying public-power takeovers. *New Public Power Takeovers: Strategic Resources for Defeating Municipalization* came out near the tail end of California's last big energy crisis, amid renewed interest in public power. It begins, "Municipalization campaigns--aimed at taking over local electric companies--are popping up around the country as a growing number of communities weigh the public power option."

Dubbed "PG&E's playbook" by some public-power advocates who have read it, the guide is about 70 pages and contains a mixture of boilerplate advice and common sense. Above all,

*New Public Power Takeovers* reminds for-profit utilities to stay on message: Any move toward public power in today's deregulated energy environment is too costly and too risky.

Of course, PG&E doesn't really need a playbook. It has developed its own sophisticated and well-funded public-relations machine. But there's no doubt the book provides an informative lens through which to view the current fight between PG&E and SMUD, as well as other public-power battles.

Of course, nothing in the book says "exaggerate like hell," or "stonewall and delay" or "create fear, confusion and doubt." But ask any of the local government officials or public-power advocates in Sacramento, Woodland, Manteca or San Francisco who have tangled with the utility, and they'll tell you that's all there--in between the lines--in PG&E's playbook, too.

## **Page 12: "Provide accurate information and pithy quotes to reporters."**

"SMUD is clearly cooking the books, or they are in serious denial."

That's what PG&E spokeswoman Jann Taber told SN&R (and The Sacramento Bee and the Sacramento Business Journal) regarding the latest analysis PG&E has done of SMUD's proposal to annex the urban parts of Yolo County.

SMUD staff certainly would dispute its accuracy, but even SMUD's chief financial officer, Jim Tracy, would have to grant its pith.

If you've read the daily news lately, then you know that PG&E most recently has been claiming that because of Hurricane Katrina and the ensuing rise in natural-gas prices, there is no way SMUD can take over the job of providing power to 70,000 customers in the cities of Woodland, West Sacramento and Davis--not without having to raise rates on its Yolo County customers by about 19 percent.

PG&E made this claim in a letter to something called the Local Agency Formation Commission (LAFCO) of Sacramento County. LAFCO is the agency that must decide whether Yolo County voters will get to vote on SMUD taking over their electricity service.

Much of the LAFCO process is deadly dull; there are environmental-impact reports to be prepared, boxes of documents to be sifted through and wildly different estimates of the cost of PG&E's electric facilities (the wires and polls and transformers). LAFCO won't begin holding public hearings until the spring of 2006.

There's little about the process that would generate headlines. But then Hurricane Katrina came along--a perfect storm for PG&E. Now that natural-gas prices are spiking, the company has been able to seize on the mini energy crunch to cast doubt on SMUD's numbers. We'll return to the natural-gas flap later, but SMUD staff was knocked back on its heels a bit by the claims, trying to figure out how to respond.

That fits right in with PG&E's game plan.

## **Page 7: "Research and create a persuasive message."**

PG&E has been saying all along that SMUD's numbers just don't pencil out. Let's consult the book, which provides some helpful "sample messages." Sample message No. 1: "A new public power takeover will be costly and is fraught with hidden risks and uncertainties." This is by far the most popular message in PG&E's anti-public-power campaigns.

In San Francisco in 2001, the company spent handsomely to produce full-page newspaper ads and street signs that read "Too Costly, Too Risky, Vote No on F and I." The two ballot measures would have allowed San Francisco to start its own municipal utility.



Photo By Larry Dalton

*PG&E's Jann Taber says SMUD's future customers in Yolo County would have to pay 19 percent more on their electric bills than they do with PG&E.*

The full-page ads the company took out in The Sacramento Bee and the Davis Enterprise in March of this year struck a similar chord. The "Half a Billion?" ads blasted local officials for proceeding with such a risky grab, warning Sacramento ratepayers that they would be on the hook for some \$500 million if SMUD forced the utility to sell its system.

SMUD believes PG&E's system, the wires and polls and transformers that make up the electricity grid, are worth somewhere between \$80 million and \$120 million. PG&E claims the number is closer to \$500 million and that SMUD can't really afford to give Yolo customers a better deal on their rates as SMUD has promised.

SMUD has guaranteed that Yolo

customers will pay at least 2 percent less than their rates would be under PG&E. According to SMUD, Yolo customers still would pay higher rates than SMUD customers in Sacramento County, for five to 10 years, while the cost of buying PG&E's local assets was being paid off.

But Taber said that SMUD's numbers are so far off that Yolo customers actually will pay around 19 percent more than they are paying PG&E now.

In fact, it will be up to a judge to decide finally what PG&E's system is worth. But a judge's decision will come well after Yolo County voters make a decision at the ballot box about joining SMUD. Tracy said SMUD is confident that the final price will come very close to what SMUD has estimated. But Taber warns that voters are taking a "leap of faith" that SMUD is right.

So, ratepayers may be left wondering what they are getting themselves into. And that bit of confusion and doubt works to PG&E's benefit.

### **Page 3: "Your overarching goal is to keep the takeover from reaching the ballot box."**

The company is taking a similar tack in a public-power fight that's going on right now in South San Joaquin County. PG&E and the irrigation district are embroiled in a contentious battle over the area's 35,000 electricity customers, in a fight that in some ways parallels SMUD's effort to annex parts of Yolo County.

There, the irrigation district is battling PG&E to take over distribution of power in the communities of Rippon, Escalon and Manteca. In South San Joaquin, too, PG&E's estimate of the value of its facilities was nearly three times what the district figured.

"Our modeling assumes a value of \$80 million. PG&E says it's worth \$204 million," said Jeff Shields with the South San Joaquin Irrigation District (SSJID).

Shields predicts a long legal battle with PG&E. "[PG&E] told us they are going to do whatever it takes" to prevent SSJID from taking over those customers, Shields said. He expects the environmental documents and other parts of the LAFCO process to wind up in court before the takeover is settled.

When SMUD began annexation of Folsom in 1982, PG&E warned that the municipal utility district's numbers were way off base. SMUD figured on a cost of about \$10 million to annex Folsom and the nearby Mather Field area. PG&E said it would cost four times that much.

In 1989 PG&E settled, giving up its Folsom facilities for \$13 million--a little more than what SMUD had projected.

The Folsom annexation may not have cost nearly what PG&E said it would, but Taber said SMUD wouldn't get nearly as good a deal on PG&E's Yolo County property. "In Folsom, we agreed to settle that with them. There will be no negotiated settlement this time. Our system is not for sale."

Tracy, the chief financial officer for SMUD, said that what most people don't realize is that PG&E has been very secretive about what equipment it owns in Yolo County, making it difficult to get a good estimate of the system's worth. SMUD says it has been served with more than 20 public-records requests and has complied with them all. But getting information from PG&E has been like pulling teeth, Tracy said.

"The information they do provide is generally very poor and not on the point. They're being kind of obstructionist," Tracy said.

Because PG&E is a private company, it doesn't have to comply with public-records requests the same way a public agency like SMUD does. "We don't open our books for anybody. This is a hostile government takeover of private property. If the government was trying to take your house, you wouldn't just open your books for them," Taber explained.

Two weeks ago, PG&E told the Sacramento LAFCO that SMUD was "cooking the books" with its cost estimate regarding natural-gas prices. Taber said that PG&E's energy consultant, Global Energy Decisions, estimated that increasing natural-gas prices would cost SMUD nearly \$900 million more than the utility was planning to spend on providing electricity to Yolo County.

Tracy said that while the natural-gas flap generated good headlines for PG&E, it was really only half the story. "PG&E's numbers are not meaningful. They only talk about one side of the equation." Tracy said that it was true that increasing natural-gas prices would affect SMUD rates in Yolo County, but he countered that PG&E also would be vulnerable to rising prices. SMUD still would be able to provide electricity at lower rates than PG&E, he insisted.

In September, PG&E asked that LAFCO throw SMUD's application out altogether because the SMUD staff had made last-minute changes to a map of the proposed annexation area. Tracy said the changes were minor, made to keep from cutting parcels of land in half or "stranding" PG&E customers in the middle of SMUD's new territory. But PG&E's Taber called the move "illegal" and said SMUD was trying to cherry-pick new growth areas--places that haven't been developed but eventually will mean thousands of new customers for whatever electric utility provides service there. LAFCO decided that the changes were minor and shouldn't stop the application from going forward. But Taber said PG&E is "still weighing its legal options" regarding the map issue.

Tracy said the map question and the natural-gas issue showed a pattern of PG&E doing its best to muddy the waters.

"I'd bet a week's paycheck that they will come up with more 'very important information' at the last minute," Tracy explained.

## Page 11: "Form a broad-based citizens' coalition."

PG&E likes to call SMUD's proposal for Yolo a "hostile takeover."

"It's not a hostile takeover," said Tracy. "It's a ratepayer revolt."

In fact, the annexation probably wouldn't have happened without the efforts of people like Dan Berman, a longtime public-power advocate who was a major organizer of the Davis Municipal Utility District campaign in 2000. PG&E was able to squash the Davis public-power initiative at the Yolo County LAFCO, spending a mere \$120,000. Berman and others like him have committed major parts of their lives to dogging PG&E and mercilessly lobbying local government officials.



Photo By Larry Dalton

*SMUD's Jim Tracy says Yolo ratepayers are guaranteed to do better with public power. Voters will have to decide what they believe.*

Woodland's assistant city manager, Phil Marler, who is a major proponent of the annexation proposal, affectionately calls Berman and others "our wackos in Davis," because they are so zealous about public power.

Marler means that in a good way. But here's what the playbook has to say about public-power advocates on page 6: "The push for a takeover often begins with a small group of activists. Most of these activists have been seduced by the false notion that municipalization will automatically lead to benefits." Any anti-public-power campaign worth its salt needs its own citizens group to give the counterinsurgency a "grassroots" feel.

Enter the Citizens for Reliable and Affordable Energy (CRAE), a new citizens group that recently has been going door to door in West Sacramento, trying to get the message out that the SMUD takeover is costly and risky.

The new group was created by local political consulting firm Townsend Raimundo Besler and Usher, which has been retained by PG&E to run its anti-annexation campaign.

So far, CRAE consists solely of paid staff, but Jeff Raimundo hopes its ranks soon will swell with volunteers.

"We're gearing up for an election, but we need to be prepared on multiple fronts," Raimundo explained. "A lot of the focus is going to be on getting people to oppose it right now at the LAFCO."

Raimundo noted that the company does not yet have to submit any campaign disclosure reports--saying how it is spending money to fight the annexation--to the county clerk or state elections officials. After all, there's no election scheduled yet, so there's officially no campaign. Same with the polls PG&E has conducted in Yolo County. In February, Sally Parker got one of these calls.

Parker said the poll contained the usual questions about elected officials (President George W. Bush, Senator Dianne Feinstein, Governor Arnold Schwarzenegger) and questions about general political attitudes, before moving into the detailed questions about SMUD and PG&E.

Perhaps previewing what might come if the annexation proceeds from the ballot box, the poll included the question "Would you support the city of Davis paying for PG&E's legal fees?"

Donna Lott, another Davis resident who was polled, said, "It sounded like they were trying to figure out how much people would oppose SMUD. I told them I supported it."

Taber wouldn't comment on the polling, saying that any polls conducted by PG&E were "proprietary and confidential." Again, without an election scheduled, the company doesn't need to provide any information about what it is spending to local elections officials.

"They are obviously spending money. They should report it. I think PG&E has to say what they are doing in Yolo County," said public-power activist Berman.

According to Yolo County elections clerk Freddie Oakley, PG&E has yet to form any political expenditure committees. "They can probably get by saying it's corporate advertising or PR," said Oakley.

## **Page 16: "Hire an experienced political consultant."**

As the playbook notes, "A successful campaign requires specialized skills in the areas of research, general advertising, direct mail, voter targeting, message development, and, most importantly, campaign strategy and positioning."

Townsend Raimundo Besler and Usher certainly fits the bill in that regard. The company boasts a long list of political wins: It's gotten statewide ballot measures passed, gotten Lou Blanas elected sheriff a couple of times and helped make Joe Serna mayor.

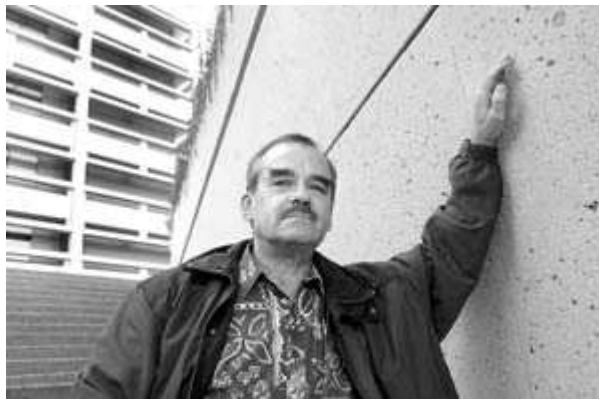


Photo By Larry Dalton

*Dan Berman has spent years battling PG&E, trying to bring public power to Davis. He says PG&E's tactics aren't illegal, "just very sneaky."*

Marler says that the local governments and SMUD aren't allowed to mount the kind of advertising campaign PG&E can, "to create fear and doubt in the minds of John Q. Public."

"We can't campaign; we can only educate people," said Marler.

In 2002, PG&E spent more than \$2 million to defeat the public-power measure Proposition D in San Francisco. By contrast, the proponents of the measure were only able to raise about \$70,000. Marler sees a similarly lopsided campaign coming to Yolo County.

"I don't see PG&E bowing gracefully out of this. I think this is going to be fought tooth and nail," said Marler.

In San Francisco that year, PG&E hired Nielsen Merksamer--the same firm that ran the successful campaign against the proposed Davis Municipal Utility District in 2000.

In October 2004, Nielsen Merksamer was fined \$240,000 for failing to report about \$800,000 in campaign contributions from PG&E to defeat Proposition D. PG&E spent more than \$2 million in successfully defeating the measure.

PG&E can be as rough on its own consultants as it is on its opponents. In South San Joaquin, PG&E hired a political consultant called Meridian Pacific.

One of the principal partners in the firm is Matt Rexroad, currently the mayor of Woodland. He had to recuse himself from the votes on supporting annexation in Yolo County.

But Meridian and PG&E had an unhappy breakup after a Meridian Pacific intern downloaded some documents from the irrigation district's computer network, documents that ultimately ended up at PG&E headquarters.

The files were related to the irrigation district's campaign to annex parts of PG&E's territory in the towns of Rippon, Manteca and Escalon. When SSJID discovered that PG&E had the documents, it only made public-power advocates more suspicious of the utility.

But PG&E immediately blamed its consultant, publicly accusing the firm of unethical behavior (see "[Outrageous, unethical and unacceptable](#)" by Cosmo Garvin, SN&R News, September 22).

"The access by Meridian was not authorized by PG&E or by SSJID and we are extremely outraged by Meridian's conduct," PG&E said in a letter to SSJID officials, when it announced it was firing Meridian.

But Meridian conducted its own investigation, bringing in a computer forensics expert to document every keystroke made on the intern's laptop--and concluded that the files were on a part of the irrigation district's network that was publicly accessible. Rexroad said that the investigation clearly showed that his firm had done nothing wrong. Meridian is now considering legal action against PG&E, for libel.

"I'm just glad we didn't throw that young man [the intern] under the bus, the way PG&E threw us under the bus," Rexroad said. He said that PG&E's accusation may have hurt the reputation of his firm and could hurt his chances at being elected county supervisor. Either way, Rexroad said, his former employer is now his "least favorite utility."

On his campaign Web site last week, Rexroad wrote, "The SMUD annexation will be on the ballot in November 2006. I plan on being a Supervisor-elect at that point. That would be the only thing that would prevent me from spending all of my community service time supporting the annexation by SMUD. If I am a private citizen at that point I'll do everything I can to let the people of Woodland know that PG&E should be forced out of Woodland at all costs. My experience with them over the past three weeks has been the worst professional experience I've ever had. Not even close."

If Yolo County voters decide to join SMUD, it would be the largest public-power takeover in California in decades.

"It's huge," said Berman. "This is as important as the creation of SMUD. If something this big happens, PG&E is in serious trouble." Indeed, Berman thinks the Yolo annexation, if successful, could re-energize public-power efforts in San Francisco and other communities.

When asked what PG&E was prepared to spend to defeat the annexation measure at the ballot box, if it gets that far, Taber would only say, "We will continue to get the facts to our customers."

That's exactly what SMUD is worried about.

"PG&E will spend a lot of money advertising," Tracy said, money that SMUD, as a public agency, isn't allowed to spend. "I suspect a lot of the numbers and facts they put out will kind of muddy the waters." If the voters are sufficiently confused, he said, they are much more likely to vote no.

Tracy also noted that the annexation process is on a tight schedule. PG&E could manage to slow down the LAFCO process enough to make it impossible to get the question on the 2006 ballot. Instead, the question would go to voters in 2008, giving PG&E plenty of time to further dig in its heels. "If PG&E can delay things for another three or four months, they can effectively push [the vote] off for another two years. A delay for them is effectively a victory."