

Ruling awaited on SMUD vs. PG&E  
By Beth Curda/Enterprise staff writer  
Editor's note: This is the first of two parts.

A Sacramento decision-making body is expected to rule Thursday on whether Davis, Woodland, West Sacramento and some rural areas of Yolo County may switch electricity providers.

In the minds of those who support that move, it would mean cheaper electricity, more reliable service and a public process that is not available under Pacific Gas & Electric Co. In the minds of opponents, it means higher costs for either PG&E's electricity customers in the Yolo areas or the customers of neighboring public utility Sacramento Municipal Utility District, or for both groups.

The Sacramento Local Agency Formation Commission has been reviewing a proposed annexation of the Yolo areas by SMUD. The cities and county approached SMUD with the idea about three years ago, and since then it has been a subject of study and of strong opposition by PG&E.

If LAFCO OKs the move, it will go on the ballot in November in the affected Yolo areas and those in SMUD's existing service area. If the two groups of voters agree, residents and businesses here would become SMUD customers in 2008.

Opponents of the annexation, primarily PG&E and some residents and groups in Sacramento, question the financial gains SMUD believes the Yolo customers and those in the utility's existing territory would see. They say if PG&E's predictions are right, instead, one or both groups of customers would end up paying more after the annexation, not less, than they do today.

LAFCO's meeting will begin at 5:30 p.m. Thursday in the Board Chambers at the Sacramento County Administration Center, 700 H St., Sacramento.

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If the annexation went forward, it would be set up like this:

- SMUD would build a transmission line and substation in Yolo County for delivering electricity;
- The Yolo County customers would see a 2 percent drop immediately from what they would be paying PG&E, and that slight difference in rates would last as long as it takes to pay for the annexation;
- Yolo County customers would pay all annexation costs through an extra fee SMUD would charge for a few years or longer, depending on how much money is needed;
- Once the Yolo customers paid for the annexation, their rates would match those of the other SMUD customers, which today are 30 percent lower than PG&E's rates; and
- The property taxes and franchise fees PG&E pays each year to the cities and county, which SMUD would not have to pay because it is a government body, would be made up through rewards, rebates and incentives from SMUD.

One of PG&E's central arguments in the debate has revolved around what it has said are two promises SMUD has made and would not be able to honor if the annexation went forward. The first is the guaranteed 2 percent savings right away, and the second is telling existing SMUD customers they would not have to pay any of the costs.

PG&E says SMUD's price estimates are severely low and it would be impossible for the public utility to keep both promises while covering all of the costs.

“We believe that they're way off on the cost to pay for the poles, wires, land and equipment, and they're way off on the cost to provide power for the area,” PG&E spokeswoman Jann Taber said. “And somebody has to pay for that.”

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The annexation debate began in 2003 when the cities and county asked SMUD to consider becoming their electricity provider. Since then, the city councils and county Board of Supervisors voted unanimously to pursue annexation and SMUD's board voted 5-2 to approach LAFCO about it.

In the debate, SMUD, PG&E and teams of consultants have produced a mountain of paper following studies of the issue and estimates of the costs involved.

The problem for those weighing the decision is that SMUD's and PG&E's estimates differ significantly in amount and calculation method.

SMUD has used a method called original cost, less depreciation. The public utility has estimated PG&E's equipment would cost around \$110 million.

PG&E has used a method called replacement cost new, less depreciation. With that method — and with factoring in a measurement for the equipment's other income-generating options — the San Francisco-based company has estimated its equipment here is worth more than \$500 million.

Ultimately, the figure would be decided in a court battle if the annexation were approved. A question today is, why is everyone fighting so hard?

The SMUD board said three years ago it had not planned to expand into surrounding areas, so it needed to wrestle with the issue and decide whether it would accept such a request.

For PG&E, the annexation represents just 70,000 of its more than 5 million customers between Bakersfield and the Oregon border.

Leaders of Yolo County and its cities have remained strong supporters of the move all along, as the issue has been studied repeatedly by SMUD, PG&E and consultants. Arlen Orchard, SMUD's general counsel, said SMUD's reasons for pursuing the annexation are twofold: The cities and county requested it and SMUD agreed to respond to them, and it illustrates a regional approach to energy issues.

The SMUD board has been “cautious” in its approach to the issue, he said, and at the end of the day has decided it would make the utility stronger, keep rates low, benefit both sets of customers and help SMUD continue the programs it offers.

And, he said, after three years of study, “we haven’t seen anything from PG&E that would change our minds.”

For PG&E, Taber said, it’s the principle of the issue: The business is not for sale. “We’re a private company — we’re a regulated company, but we’re a private company,” she said. “And we’re not for sale.”

Also, she said, PG&E truly believes its customers in Yolo County would pay more following the annexation, so it opposes the move.

Mariko Yamada, a county supervisor and chairwoman of a political group that will campaign for the annexation if LAFCO approves it, said her support has not wavered because, other than those released by PG&E, studies have drawn similar conclusions about the benefits of the annexation.

Bob Weir, public works director for Davis, said his confidence stems from a string of convincing report conclusions. The cities, the county and SMUD hired R.W. Beck, a reputable firm, three years ago and were encouraged by the company’s findings. Since then, consultants and experts have verified the general conclusions of that report. PG&E has countered it with very different numbers, he said, but that’s the company’s strategy.

“It’s not surprising when PG&E comes out and has an outlandish and, I would say ridiculous, inflated valuation for their assets,” he said. “That’s just part of their strategy. Their strategy is to put a ridiculously high number out into the public and then tell people that, well, the number will be somewhere in the middle.”

Wednesday: A conversation with the chairman of LAFCO as he and his fellow commissioners weigh their decision.

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