



## PG&E releases annex figures

### But utility says they have no relevance to cost of SMUD's Yolo plan

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After months of delay, Pacific Gas and Electric Co. has released key economic data in a sharp disagreement over how much SMUD would have to pay to acquire a portion of the company's electric system in Yolo County.

The dispute is over the proper method to set a fair market value for PG&E's poles, lines and substations in the area the Sacramento Municipal Utility District wants to annex.

If annexation is approved, SMUD would seize the assets through eminent domain - igniting a major court battle to determine a purchase price that ultimately would be paid through a bill surcharge for Yolo County ratepayers.

Based on different valuation methods, early estimates floated by the competing utilities are hundreds of millions of dollars apart.

PG&E contends the "replacement cost new, less depreciation" for its distribution and transmission system is \$521 million. SMUD argues the "original cost less depreciation" - also called book value - is \$86 million.

On Wednesday, PG&E released its own data indicating the original cost less depreciation for assets in the annexation area is \$129 million, which is much closer to SMUD's estimate. PG&E provided the book value at the

request of local regulators, who have hired an expert to determine a value range for PG&E's system in eastern Yolo County.

PG&E spokeswoman Jann Taber dismissed book value as "unequivocally irrelevant," saying PG&E developed the figure only to meet the regulators' request. She expressed confidence a court would order SMUD to pay PG&E's asking price of more than a half-billion dollars - including \$125 million for its "going concern value," based on maps, customer records, equipment records and settings, and key intangible assets.

"This is a government condemnation of private property, and the law is very clear that they must pay fair market value," Taber said.

SMUD officials are "glad the numbers are not as far apart as we thought they were," general counsel Arlen Orchard said. But the PG&E estimate "is still too high," he said, noting the company's property tax payments for the annexation area indicate a book value of \$65 million.

Release of the new data resolves a public relations issue for PG&E, which SMUD has accused of stonewalling on key information to determine annexation costs.

Similar complaints were expressed by elected officials in Davis, West

Sacramento, Woodland and Yolo County who voted last year to seek to join SMUD.

PG&E said the information was not readily available in the form requested by SMUD. The company had to research a detailed inventory database to cull book value information for the specific annexation area, officials said.

Meanwhile, the utilities remain sharply divided on the legal question of which valuation method a court likely would use to determine the annexation purchase price. Regulators on the Sacramento Local Agency Formation Commission also are studying the issue to decide whether annexation makes sense for both Sacramento and Yolo counties.

PG&E contends legal precedents support the conclusion that the private company would be entitled to recover

replacement cost new, less depreciation.

Taber dismissed the "absolute rock bottom, below-market" book value method argued by SMUD.

"That's like SMUD saying it's going to take the house you bought in Sacramento in 1989 for \$123,000 and pay you the depreciated cost of the home over the past 16 years ... rather than its worth of \$355,000 today," she said.

SMUD rejects the homebuying analogy, contending PG&E is a regulated utility subject to different valuation rules.

"When you are a regulated monopoly with a guaranteed rate of return that is based on your book value, then book value is the appropriate way to value the system," Orchard said.

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