

SMUD raises estimate of Yolo annexation savings

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The Sacramento Municipal Utility District has raised its estimate of the benefits of annexing the major cities in Yolo County from \$260 million to \$404 million over 20 years.

SMUD has applied for permission from the Sacramento Local Agency Formation Commission to add West Sacramento, Davis, Woodland and adjoining parts of Yolo County to its service territory.

SMUD chief financial officer Jim Tracy said the annexation would provide current SMUD customers with about \$155 million in benefits from the addition of customers who would share the burden of the utility's fixed costs and a surcharge paid by Yolo customers. Including the surcharge, Yolo ratepayers would pay \$250 million less for their utility service than they do to Pacific Gas and Electric Co., Tracy said.

PG&E claims the annexation would cost SMUD customers over \$900 million, meaning SMUD would have to raise rates above the amount PG&E charges.

To calculate the costs and benefits of the annexation, the utilities must factor in three major variables: the price of PG&E's wires and substations, the difference between SMUD and PG&E's rates, and natural-gas prices, said John DiStasio, SMUD's assistant general manager of energy delivery and customer services.

SMUD updated the annexation benefit estimate to incorporate PG&E rate increase requests to the state Public Utilities Commission. SMUD estimates PG&E customers would pay an average of 3 percent to 4 percent more in 2008, Tracy said. That forecast does not include a recent PG&E rate increase for higher natural-gas costs because the California Energy Commission predicts lower gas prices in 2008.

PG&E has already factored in those numbers in its cost estimates, said PG&E spokeswoman Jann Taber. "We knew we would be making those rate requests," she said.

Last year SMUD put the purchase price of PG&E's electric infrastructure in the proposed annexation area at \$86 million. It has not changed that cost figure, but claims the book value could be even lower. PG&E property tax records submitted to LAFCO show a value of \$65 million, according to SMUD.

PG&E has claimed its electrical system in the Yolo areas is worth \$521 million, a figure SMUD considers laughable. "We know we could build it for \$250 million if we tore it all down and started from scratch," DiStasio said.

The final figure would probably be determined through an eminent domain court action. When SMUD annexed Folsom it offered \$10 million and PG&E countered at \$40 million. They settled at \$13 million plus interest from the seven-year annexation process.

Sacramento LAFCO is expected to vote on the annexation proposal by May. Following a PG&E-financed campaign, SMUD's current customers will have a chance to vote on the proposal as well. In response, SMUD's board of directors last week decided to submit a ballot initiative for the Nov. 6 election. The PG&E-backed ballot vote would be advisory only, but the SMUD initiative would be binding.

PG&E claims SMUD has left out the impact of higher natural-gas prices in its estimates of the cost to serve the Yolo area.

"They're trying to put lipstick on the pig," Taber said.

SMUD plans to incorporate natural-gas price forecast changes into its cost analysis after the LAFCO vote and before the Nov. 6 election. Tracy said pricier natural gas would raise the costs, but PG&E and SMUD will have the same level of exposure to electricity prices dependent on natural-gas markets.