

New / Old Major Municipal Utility – Rev c

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1. Introduction

I've written several posts recently about the California wildfires in the last three years, and the attendant liability and bankruptcy of PG&E. But I almost missed a major result of the latter. This is a very complex story, but from the resolution of this bankruptcy at least one new major municipal utility will almost certainly emerge. Except they are not new, but over 100 years old.

2. Potential New Public Utilities

On September 6 of this year, the honorable London N. Breed, Mayor of San Francisco sent a detailed letter to William Johnson, Chairman and President of the PG&E Board of Directors, and Andrew Vesey, CEO and President of PG&E Utility Operations. The letter was to "...submit this non-binding indication of interest to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers in San Francisco...The City is pleased to submit an indicative purchase price for the Targeted Assets of \$2.5 billion to be paid in cash upon the closing of the Proposed Transaction."¹

In a bit over a month, after the first round of public safety power shutoffs (PSPS), San Jose Mayor Sam Liccardo revealed a plan to have the city create its own utility, although he admits it will take a lot of time and money before the city can remove itself from the PG&E grid.²

Then, less than a month later, a large group of mayors and other civic leaders from Northern California (listed below) sent a letter to the California Public Utility Commission proposed "*Based on a foundation currently in the Public Utilities Code, we will propose transforming PG&E into a mutual benefit corporation – in essence, a cooperative owned by its customers.*"³

Mayor Sam Liccardo, City of San José
Mayor Darryl Steinberg, City of Sacramento
Mayor Libby Schaaf, City of Oakland
Mayor Michael Tubbs, City of Stockton
Mayor Ted Brandvold, City of Modesto
Mayor Steve Ly, City of Elk Grove
Mayor Barbara Halliday, City of Hayward

Mayor Larry Klein, City of Sunnyvale
Mayor Jesse Arreguin, City of Berkeley
Mayor Tom Butt, City of Richmond
Mayor Drew Bessinger, City of Clovis
Mayor Randall Stone, City of Chico
Mayor Julie Winter, City of Redding
Mayor Ian Bain, City of Redwood City

¹ Letter London N. Breed, Mayor and Dennis Herrera, City Attorney of San Francisco to William Johnson, Chairman and President of the PG&E Board of Directors, and Andrew Vesey, CEO and President of PG&E Utility Operations, Sep 6, 2019, <https://www.sfwater.org/modules/showdocument.aspx?documentid=14276>

² Scott Budman, NBS Bay Area, " Mayor Wants San Jose to Break Away From PG&E, Create Own Utility", Oct 17, 2019, <https://www.nbcbayarea.com/news/local/Mayor-Wants-San-Jose-to-Break-Away-From-PGE-Create-Own-Utility-563332831.html>

³ <https://assets.documentcloud.org/documents/6540738/Mayors-letter-to-CPUC-re-PG-E.pdf>

Mayor Brett Lee, City of Davis
Mayor Martine Watkins, City of Santa Cruz
President Carole Groom, San Mateo County Board of Supervisors
Chair Ryan Coonerty, Santa Cruz County Board of Supervisors
Chair Kate Sears, Marin County Board of Supervisors
Chair Don Saylor, Yolo County Board of Supervisors
Chair Mark Medina, San Benito County Board of Supervisors

Mayor Teresa Barrett, City of Petaluma
Mayor Heidi Harmon, City of San Luis Obispo
Mayor Dominic Foppoli, City of Windsor
Mayor Jack Dilles, City of Scotts Valley
Mayor Amy Harrington, City of Sonoma
Mayor John Dell'Osso, City of Cotati

This letter, which is referenced above, contains a good preamble before making the "...*mutual benefit corporation*..." proposal.

The South San Joaquin Irrigation District (SSJID) has been attempting to take over PG&E's service territory in and around Ripon, Escalon and Manteca since 2009. This area contains about 110,000 people in south San Joaquin County. It has long delivered Stanislaus River water to about 50,000 acres of farmland and treats some its supply for use in Manteca, Tracy and Lathrop. SSJID generates hydropower at four plants it owns with the Oakdale Irrigation District (Tri-Dam Project), selling power on the wholesale market.⁴

The above moves infer that either one, two or three or possibly more new publically owned utilities may emerge from PG&E's Bankruptcy. However, note that Mayor Breed (San Francisco) did not sign the above letter. The City of San Francisco really wants to form their own utility, and this is their one-time chance to do it.

3. San Francisco and PG&E's Battle

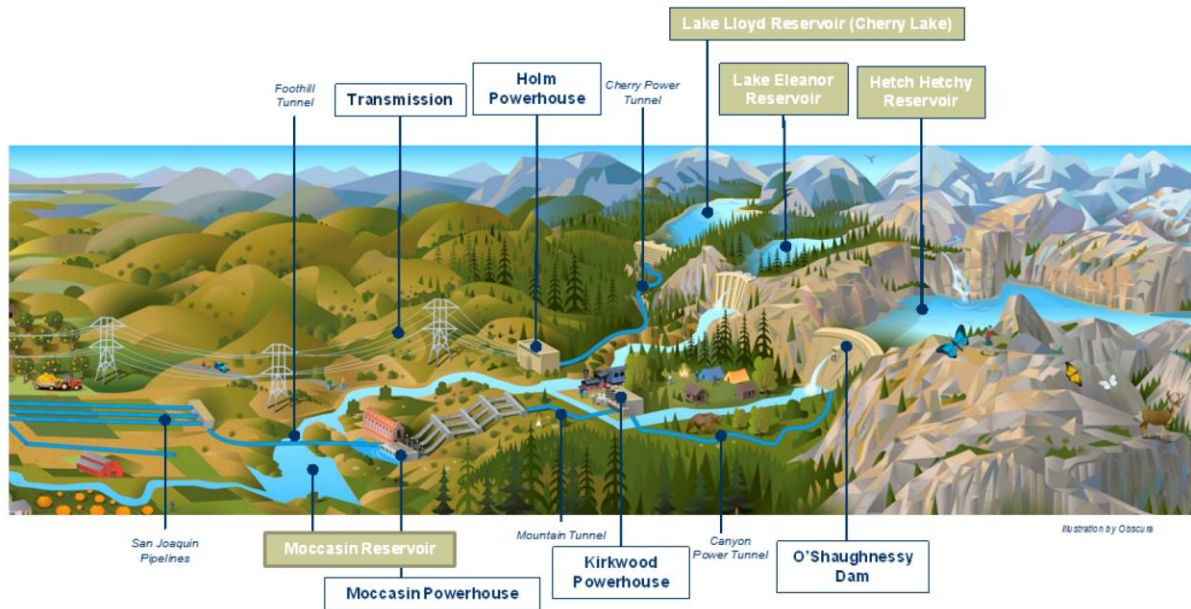
The City of San Francisco and PG&E have been fighting for over a hundred years, and this is ironic, because PG&E's headquarters are in San Francisco (77 Beale Street). Although pieces of PG&E existed before 1900, it was in 1905 that the company (then the California Gas and Electric Company) acquired the San Francisco Gas & Electric Company, and named the merged entity the Pacific Gas and Electric Company (PG&E).⁵

In 1913 San Francisco began the construction of a water storage and conveyance system and a hydroelectric generation system. The result of this project was known as the Hetch Hetchy Water and Power Project, and is operated by the San Francisco Public Utilities Commission ("SFPUC"), a department of the City and County of San Francisco. Wholesale and retail power services are provided by the SFPUC's Hetch Hetchy Power Enterprise, San Francisco's century-old public power retail electric utility. The figure below illustrates this project.⁶

⁴ John Holland, The Modesto Bee, "SSJID wins round in bid for PG&E power service", March 14, 2016, <https://www.modbee.com/news/article66063232.html>

⁵ Wikipedia Article on "Pacific Gas and Electric Company", https://en.wikipedia.org/wiki/Pacific_Gas_and_Electric_Company

⁶ San Francisco Public Utilities Commission, "Preliminary Report on Electric Service Options", May 13, 2019, <https://www.sfwater.org/modules/showdocument.aspx?documentid=13736>



For decades, San Francisco purchased distribution services from PG&E pursuant to a series of bilateral agreements that allowed the City to deliver power to its numerous individual customers scattered throughout the City. These agreements with PG&E to purchase distribution services mitigated the need for the City to invest in its own distribution facilities. The last of these agreements expired June 30, 2015.

However, PG&E's cooperation with the City to serve City facilities has diminished over time, while Federal laws establishing open access to distribution services provided a right to access another utility's distribution grid for eligible entities, like San Francisco. Beginning in the 2000's, the City pursued relief from the Federal Energy Regulatory Commission, as PG&E attempted to abrogate its agreements with San Francisco and unreasonably withhold tariffed distribution service from the City. Continued reliance on purchasing distribution service from PG&E has grown increasingly untenable and unnecessarily expensive.

The referenced document recommends acquiring PG&E assets as described in Mayor Breed's letter for full independence. The following bullets summarize their justification.

- Acquiring PG&E's assets for full power independence requires the highest up-front capital need and will be time-, staff-, and resource-intensive. At the same time, staff's initial analysis suggests that this option would likely result in the greatest long-term benefits including net cost savings:
- Acquisition of PG&E assets would eliminate the roadblocks, delays, and costs that the City faces currently when working with PG&E on service requests. The significant current staff resources and time spent on filing complaints with FERC and on disputes with PG&E would be directed to other purposes.
- Funding needs of approximately \$75 million for PG&E shareholder profits, taxes and borrowing costs will be significantly reduced.
- Additional savings are possible through higher operating efficiencies and lower compensation levels for executive management.

- Instead of about \$300 million (staff's preliminary estimate) in payments from San Francisco to PG&E to build, operate and upgrade its system throughout California, these funds could be reinvested in San Francisco to operate, maintain and improve a City-owned electric system or to provide better service or lower rates for San Franciscans.

Many will remember that Mayor Ed Lee of San Francisco died while in office. Mayor Lee was the 43rd Mayor of San Francisco, and was initially appointed by the Board of Supervisors to replace his predecessor, who resigned to become the Lieutenant Governor of California. Mayor Lee Served from 2011 to 2017. His predecessor, and the 42nd Mayor of San Francisco (2004 to 2011) was Gavin Newsom. Yes, that Gavin Newsom, the current Governor of California.

4. Other Candidates for Public Utilities' Expansion

There are several types of public utilities that could end up with a piece of PG&E's current service territory. These are listed below, followed by some other scenarios. These are all public Load Serving Entities (LSEs) in PG&E's current service territory as listed by the reference here.⁷

4.1. Community Choice Aggregators

Per the reference below: *"CCAs are local, not-for-profit, public agencies that take on the decision-making role about sources of energy for electricity generation. Once established, CCAs become the default service provider for the power mix delivered to customers. In a CCA service territory, the incumbent utility continues to own and maintain the transmission and distribution infrastructure, metering, and billing."*⁸

The following list contains the CCAs in PG&E's Service Territory. Note that it does not include Clean Power SF, which is associated with the City of San Francisco (covered above). Although, in theory, any CCA could raise their hand and be considered for assumption of one or more of PG&E's current functions (should these become available) in their load serving territory, in reality these will rarely have the assets nor expertise to fulfill these responsibilities.

East Bay Community Energy, Oakland, CA
 King City Community Power, King City, CA
 Marin Clean Energy, San Rafael, CA
 Monterey Bay Community Power, Monterey, CA
 Peninsula Clean Energy, Redwood City, CA
 Pioneer Community Energy, Rocklin CA
 Redwood Coast Energy Authority, Eureka, CA
 San Jose Clean Energy, San Jose, CA
 Silicon Valley Clean Energy, Sunnyvale, CA
 Sonoma Clean Power, Santa Rosa, CA
 Valley Clean Energy, Davis, CA

⁷ California Energy Commission, Electric Load-Serving Entities (LSEs) in California, https://ww2.energy.ca.gov/almanac/electricity_data/utilities.html#rural

⁸ Wikipedia Article on Community Choice Aggregation, https://en.wikipedia.org/wiki/Community_Choice_Aggregation

4.2. Existing Public Utilities

California has many existing public utilities that are either surrounded by or have a service territory that is adjacent to PG&E. Any of these could absorb nearby communities and other areas by any number of processes, assuming these were made available by PG&E's bankruptcy process (with concurrence by the state). For instance, the Sacramento Municipal Utility District (SMUD) attempted to absorb the several cities in Yolo County west of Sacramento in 2006, but the voters rejected this. This could be another chance to do this, potentially by forming a partnership with Valley Clean Energy (prior subsection).

The following are public electric utilities as described above:

Alameda Municipal Power, Alameda, CA

Biggs Municipal Utilities, Biggs, CA

Eastside Power Authority, Delano, CA

Gridley Electric Utility, Gridley, CA

Healdsburg, City of, Electric Department, Healdsburg, CA

Kirkwood Meadows Public Utility District, Kirkwood, CA

Lassen Municipal Utility District, Susanville, CA

Lathrop Irrigation District (collocated with South San Joaquin Irrigation Dist.), Ripon, CA

Lodi Electric Utility, Lodi, CA

Lompoc, City of, Electric Division, Lompoc, CA

Merced Irrigation District, Merced, CA

Modesto Irrigation District, Modesto, CA

Palo Alto, City of, Utilities Department, Palo Alto, CA

Pittsburg, City of, Pittsburg Power Company Island Energy, Pittsburg, CA

Plumas-Sierra Rural Electric Cooperative, Portola, CA

Port of Oakland, Oakland, CA

Port of Stockton, Stockton, CA

Power and Water Resources Pooling Authority, Tracy, CA

Redding Electric Utility, Redding, CA

Roseville Electric, Roseville, CA

Sacramento Municipal Utility District, Sacramento CA

Shasta Lake, City of, Shasta Lake, CA

Shelter Cove Resort Improvement District, Whitethorn, CA

Silicon Valley Power (SVP), City of Santa Clara, Santa Clara, CA

South San Joaquin Irrigation District (SSJID, see section 2)

Surprise Valley Electrification Corporation, Alturas, CA

Trinity Public Utilities District (PUD), Weaverville, CA

Truckee Donner Public Utilities District, Truckee, CA

Turlock Irrigation District (TID), Turlock, CA

Ukiah, City of, Electric Utilities Division, Ukiah, CA

4.3. Other Combinations

Given all of the above entities, it would not surprise me if several came together to make a stronger bid to take over part of PG&E service territory, but take over what?

PG&E provides at least the following functions in its service area:

1. Transmission Owner and Manager
2. Distribution Owner and Manager
3. Metering system owner and manager (including advanced metering infrastructure)
4. Trouble-call system owner and manager (including a very good automated voice-response system)
5. Supervisory control and data acquisition system
6. Energy management system (shared responsibility with California Independent System Operator (CAISO))
7. System planning (shared responsibility with CAISO)
8. Supplier of last resort, if any Load Serving Entity in its service area defaults on their responsibilities

A possible option is to allow a new PG&E to keep responsibilities for 1, and 3 through 8, and allow any new entities to assume responsibility for distribution ownership and management. Along with responsibilities for 4 through 8 would come the need to bill the new entities for these services (or bill consumers directly).