

- **Board of Directors**
Communications and Legislation Committee

July 23, 1999

10-9

Subject

Hydro-electric Divestiture Legislation

Description

Hydroelectric facilities owned and/or operated by or on behalf of the state's investor-owned utilities are significant components in both energy and water operations of California. The California electric generation market is being deregulated under AB 1890 (Brulte), Statutes of 1996. Pacific Gas and Electric (PG&E) owns the majority of the hydroelectric system. PG&E's hydroelectric assets include 68 power houses with a total capacity of 3,890 megawatts (MW), contract rights to irrigation district power production (1,062 MW), 99 reservoirs, 174 dams, and 136,000 acres of land. These assets have a book value of \$1.4 billion, and an estimated market value of at least \$3 billion and perhaps more than \$5 billion. Whether assets are retained or disposed of, their relative value must be determined based on "appraisal, sale, or other divestiture" by December 31, 2001.

Staff has attended hydroelectric divestiture meetings which have included the Association of California Water Agencies staff, legislators, legislative staff, and other interest groups. The following four principles have been discussed to address the concern that competitiveness goals of divestiture should be reached in ways that are consistent with improved values for statewide interests not directly related to energy generation or consumption. These principles are policy areas and are provided for the Board to consider as the hydroelectric divestiture issue progresses:

1. Divestiture should be completed in a way that creates potential for improving habitat for Salmon and other species of concern. Operation of the hydroelectric facilities can affect habitat restoration of critical ecological processes and species populations. Improved fishery habitats is linked to current and future water supply reliability. Maximizing the possibility for voluntary agreements that may alter physical structure or operations in a manner that enhances fishery habitat would result in enhanced water supply reliability.
2. Divestiture should be done in a manner that creates potential for local water supply benefits where feasible. Some water agencies have coordinated operations with PG&E through commitments made through contracts and "in-the-field" understandings. Divestiture should promote the continued coordination between the hydroelectric facility owners and water agencies in an effort to enhance water supply benefits.

3. Divestiture should be implemented in a way that promotes coordination among different watersheds. Operation of activities related to temperature, volume, timing, pollution control and ecological balance can be coordinated between watersheds to protect water flowing from these watershed to supply the state's water distribution system.
4. Divestiture should avoid adverse local impacts. Divestiture should be completed without causing impacts to local community water supplies, recreation, environmental habitat or the local tax base.

PG&E proposed to divest all of its hydroelectric facilities through a transfer to an unregulated subsidiary, Maryland-based PG&E Generating Company, at a value fixed through appraisal. It is not clear that this transfer will result in the diversified outcome that will promote other statewide interest. Therefore, many parties believe that the best option for divestiture may be through legislation.

On July 13, the Senate Energy, Utilities and Communications Committee, chaired by Senator Debra Bowen, met to consider recent amendments to SB 1063. SB 1063 would make disposition of PG&E's hydroelectric assets contingent on an enforceable agreement with the new owner to achieve and maintain compliance with state water quality standards set by the State Water Resources Control Board. It would ensure that facilities located on the same river won't be divided among different owners, and would require existing rights, contracts, licenses and permits to be honored according to their existing terms to protect vested water interests. Stakeholders have been requested by Senator Bowen to submit suggested amendments to provide the Senate Committee on Energy, Utilities and Communications an opportunity to consider the amendments prior to a vote on the bill. SB 1063, as currently proposed, appears to be consistent with the above principles to protect a broader array of public values once the assets are sold.

Policy

No previous policy adopted.

Board Options/Fiscal Impact

For information only.

 Stephen N. Arakawa, Acting Chief Date
 Planning and Resources Division

 General Manager Date

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