

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

April 11, 2000 Board Meeting

---

**10-5**

---

**Subject**

AB 1956 – Keeley. The Consumers’ Energy and Environmental Security Authority Act

**Description**

---

This bill by Assembly Speaker pro Tem Fred Keeley (D – Boulder Creek) is relevant to policy principles adopted by the Board last year regarding divestiture of hydroelectric facilities owned and operated by Pacific Gas and Electric Company (PG&E) for almost a century. PG&E’s hydroelectric assets are located in northern and central California and include 68 power houses with a total capacity of 3,890 megawatts, 99 reservoirs, 174 dams, and 136,000 acres of land. The adopted policy principles urged that divestiture be accomplished in such a way as to increase fishery habitat, increase local water supply benefits where feasible, promote coordination among different watersheds, and avoid adverse local impacts and state water supply impacts.

AB 1956 would establish the Consumers’ Energy and Environmental Security Authority as a state entity. The Authority would have the ability to acquire, through payment of fair market value, PG&E’s hydroelectric facility assets. The Authority would not retain ownership of the facilities for more than six years, after which they would be sold or decommissioned if they offer no economic value. While the Authority owns the facilities, its primary interest is to ensure environmental remediation and improvement of natural resources that have been adversely affected by operation of the facilities, and enhancement of environmental benefits associated with the assets. The Authority is also directed to apply to the Federal Energy Regulatory Commission (FERC) or the State Water Resource Control Board as appropriate for modification of applicable licenses and permits as necessary to achieve long-term environmentally sensitive management of the facilities. Funds to secure asset payment would be obtained from state issuance of tax-exempt bonds, and revenue from the facilities’ operation would be used to pay the bond indebtedness. Fifty percent of the balance of remaining revenues would be dedicated to environmental restoration and enhancement, while the remaining 50 percent would go to the facility’s customers. Successor owners would be obligated to maintain environmentally sensitive operation of the hydroelectric facilities.

The bill’s underlying concept, achieving remediation of adverse environmental impacts associated with PG&E’s prior operation of its hydroelectric facilities, is certainly consistent with the Board’s hydroelectric divestiture policy principles. However, the current language of the bill could be construed as mandating that the Authority operate or seek to operate the facilities in a most environmentally favorable fashion, in disregard of water supply and other relevant economic considerations. Hence, staff is seeking a bill amendment that would balance the environmental and economic concerns associated with operation of the facilities. Additionally, the bill contains no provision for the loss of local property tax base associated with state ownership of the facilities. Staff is seeking to add text to address this additional concern.

AB 1956 is one mechanism available to consider the broader social values associated with hydroelectric facilities. Other opportunities may arise in the current California Public Utilities Commission proceeding established to consider PG&E’s application to auction its hydro facilities, or through hydro relicensing proceedings at FERC.

**Policy**

---

MWD Administrative Code Section 2491(g)

**Fiscal Impact**

---

If amended as suggested above, a more equitable and balanced distribution of the costs of environmental mitigation and enhancement of California's waterways and watershed may result.

---

*General Manager*

*Date*