County of Santa Cruz

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BOARD OF SUPERVISORS

701 OCEAN STREET, SUITE 500, SANTA CRUZ, CA 95060-4069
(831) 454-2200 FAX: (831) 454-3262 TDD: (831) 464-2123

JANET K. BEAUTZ, FIRST DISTRICT | WALTER J. SYMONS, SECOND DISTRICT | MARDI WORMHOUDT, THIRD DISTRICT | TONY CAMPOS, FOURTH DISTRICT | JEFF ALMQUIST, FIFTH DISTRICT

AGENDA: 1/9/01

January 3, 2001

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

RE: UTILITY RATE INCREASES

Dear Members of the Board:

Attached is a January 2, 2001, letter from Supervisor-elect Ellen Pirie, with an attachment, raising concerns about the proposed statewide utility rate increases and their potentially devastating effects on Santa Cruz County residents, especially those with low and fixed incomes. While this is a problem that cannot be solved locally and needs, at least, a statewide response, I agree that it is a very serious problem for County residents and that County government should do what it can to minimize the impact of these probable rate increases on our citizens.

Supervisor-elect Pirie suggests that this Board consider changes to the County Utility Tax Ordinance in order to reduce the financial burden of the likely rate increases on those least able to pay. Since the County's ordinance imposes a fixed percentage on a customers's charge from the utility, it seems very appropriate for us to investigate ways to reduce or eliminate County tax payments based on major increases imposed by the utilities. In addition, though, I think it is also important for us to express our concerns about this situation to our State representatives and urge them to find a solution to the problem that does not impose a severe financial hardship on the public.

Therefore, I recommend that the Board of Supervisors take the following actions.

1. Direct the County Administrative Officer and County Counsel to investigate the utility rate increase issue and assess the feasibility of providing some relief to residents in the unincorporated area, particularly those who will be most impacted by the proposed major statewide increase in utility rates, and report back to the Board on February 6, 2001.

2. Direct the Chair to write to Governor Davis, Senator McPherson, Assembly Member Keeley, and Assembly Member Salinas and urge them to resolve the current power crisis in a manner that does not impose a serious financial burden on the public.

Sincerely,

Mardi Wormhoudt

MARDI WORMHOUDT, Supervisor
Third District

MW:ted
Attachments

cc: Supervisor-elect Pirie
County Administrative Officer
County Counsel
Governor Davis
Senator McPherson
Assembly Member Keeley
Assembly Member Salinas

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ELLEN PIRIE

Supervisor-elect for the Second District, Santa Cruz County

159 Crest Drive
La Selva Beach, CA 95076
Home Tel: 83 l-728-773 1 Work Tel: 83 l-426-8824

0453

January 2, 2001

Mardi Wormhoudt, Chairperson
Santa Cruz County Board of Supervisors
701 Ocean Street
Santa Cruz, CA 95060

Re: Board Agenda for January 9, 2001
Utility Tax Exemption

Dear Supervisor Wormhoudt,

As you know, many recent news articles and comments by Governor Gray Davis indicate that residents of Santa Cruz County are likely to be paying much more for electricity in the very near future. (See attached San Jose Mercury News article dated Saturday, 12/30/2000.) Although state regulators have not yet approved any rate increase, Pacific Gas & Electric Co., our local power supplier, is proposing an immediate, average rate increase of 26% and a total rate increase for this coming year of nearly 40%. If the Public Utilities Commission approves PG&E's proposal, the average residential gas bill would rise from $77.00 to $125.00; the average residential electrical bill would rise from $54.50 to about $77.00. The PUC is scheduled to vote on the rate increase proposal on Thursday, January 4, 2001.

While no final decision has been made on whether to approve any rate hike, it seems prudent for the Board to begin to consider the impact that a significant increase would have on our area's residents. While any substantial increase in cost would affect our entire community, of immediate concern is the potentially devastating impact that such a rate increase could have on seniors and others living on small, fixed incomes. I would like the Board of Supervisors to consider changes to the County utility tax ordinance which would reduce the financial burden on those least able to bear it. While I recognize that raising the exemption level or reducing a portion of the tax cannot provide complete relief, it can relieve our most at-risk citizens from a portion of this new burden.

I realize that this letter provides short notice but I think that it is important that we start a discussion about this issue. Therefore, I request that the Board take the following action:

1. Place this matter on the agenda for the Board meeting for January 9, 2001; and
2. Request that the CAO and the County Counsel review the matter and report back with an assessment of the feasibility of providing some relief to those who will be the most immediately affected.

Very truly yours,

Ellen Pirie
Second District Supervisor-elect

encl.

Front Page
The Mercury News

0454

Published Saturday, Dec. 30, 2000, in the San Jose Mercury News

PG&E says parent firm can’t offer financial help

CONSUMER BACKERS QUESTION FIRM

BY BRANDON BAILEY AND STEVE JOHNSON
Mercury News

PG&E executives, pressing for an electricity rate increase of up to 40 percent, were grilled Friday by consumer attorneys who demanded to know why the utility hasn’t sought help from its wealthy parent company instead of hitting consumers with a price increase.

To underscore the company’s dire financial condition, Pacific Gas & Electric Co. announced that a third of its wholesale suppliers are now refusing to sell natural gas to the utility, for fear they might not get paid.

Natural gas prices have been soaring in recent months; PG&E said Friday that the average residential gas bill will rise from $77 to $125 next month.

That means a double whammy for millions of PG&E customers if regulators approve PG&E's electricity rate plan, which could raise monthly residential electricity bills from $54.50 to about $77 by this time next year.

As an emergency hearing called by the state Public Utilities Commission spilled into its third day, PG&E representatives found themselves responding to consumer advocates’ questions about billions in revenue that the utility transferred to its corporate parent. Advocates also questioned why the company has not tried to cut shareholder dividends, mortgage power plants it owns in other states or issue more stock to raise money.

``PG&E has tried to divorce itself from the parent company,” said consumer attorney James Weil. “I think it’s time to use the resources of that company.”

PG&E representatives said they have spent all their cash and exhausted their credit, making it difficult to obtain mortgages or sell stock. They said the utility’s corporate holding company

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0455

doesn't have enough assets to keep up with an operating deficit that is approaching $1 billion a month -- the result, they say, of a dysfunctional market that was created by the state's electricity deregulation law.

"We have to provide for the survival of our company, so we can continue to provide service for our customers, and that means a rate increase now," said Chris Warner, a PG&E attorney.

The PUC hearing is part of a hurried effort to gather information before Thursday, when the commission is scheduled to vote on allowing the state's two largest utilities, PG&E and Southern California Edison, to raise their electricity rates. Although the hearing was initially scheduled to end this week, PUC President Loretta Lynch said it will continue Tuesday.

PUC member Carl Wood said he's not sure the commission's auditors will be finished reviewing the utility's finances before Thursday's vote. He said the commission might vote on an interim rate increase -- something to convince the utilities' creditors that some financial relief is on its way -- while reserving the right to revise or reverse its actions when more information becomes available.

Wood and Lynch were the only members to attend Friday's hearing. They skipped the afternoon session, which was conducted by an administrative law judge who will help draft the commission's eventual ruling.

The commission is attempting to act with extraordinary urgency because the utilities say they are on the brink of bankruptcy, after running up $9 billion in deficits this year. Those deficits occurred because wholesale electricity costs have soared much higher than the retail rates that utilities are allowed to charge their customers under state law during the transition to deregulation.

Three increases in 2001?

PG&E wants to raise electricity rates by an average 26 percent immediately, under a proposal submitted just days before the PUC hearing began this week. According to a summary fact sheet released on Thursday, the plan would allow two more increases in the coming year, if wholesale prices remain high, for a total increase of 39.8 percent for residential customers.

Southern California Edison has proposed an immediate rate increase of 30 percent for its customers, with additional increases possible that could bring the total increase to 76 percent within two years.

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0456

Meanwhile, the price of natural gas has also been rising, as demand has exceeded producers' output and distributors' pipeline capacities. This increase started even before many of PG&E's suppliers recently began refusing to sell the company more gas.

Passing along costs

While PG&E and Edison don't produce natural gas, they buy it for their customers. And because the gas industry isn't subject to the same regulations as the electricity industry, the utilities are allowed to pass along the increase in gas prices to their customers.

PG&E said the refusals won't have any immediate impact because it has already bought enough gas from its suppliers to get customers through January, barring unusually cold weather.

But PG&E spokeswoman Staci Homrig said it's unclear what will happen when the utility tries to buy gas for February. If PG&E is not able to buy enough gas to satisfy its 3.8 million customers, she said, gas might have to be parceled out on an as-needed basis, with residential and small business customers getting first priority.

A rate increase for electricity would help put PG&E on a firmer financial footing, Homrig noted. She said the company believes that could make it easier to buy gas next month.

Homrig said two of the biggest natural gas suppliers who have refused to sell PG&E gas were Reliant Energy and Dynegy Inc., whose officials could not be reached for comment. She said Duke Energy Corp., another large supplier, is still selling gas to the utility.

Tom Williams, a spokesman for Duke, said he was unaware of any specific concerns expressed by his company to PG&E over the utility's ability to pay its natural gas bills. But he said Duke was monitoring PG&E's financial circumstances carefully.

"I think it would be fair to say we're watching everything closely," Williams said. "It's gotten the attention of the highest levels of the company."

$9.6 billion sent to parent

At the PUC hearing, meanwhile, PG&E financial executive Walt Campbell testified that the utility had transferred about $9.6 billion to its parent corporation, PG&E Co., since the state's deregulation law took effect in 1998. That is roughly the amount of additional revenue that the utility was allowed to collect from

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0457

its customers under a provision of the deregulation law that was intended to ease the utilities' transition to a competitive market.

Consumer advocates argue that the utilities should be required to apply that revenue toward their current deficits, before asking consumers to pay more.

But Campbell said the transfers were unrelated and that almost half of that amount represented inter-company loans that were later paid back. In effect, he said, the parent company got about $5 billion from the utility, which it used to pay taxes and shareholder dividends and to buy back some company stock.

The money has been spent, he said; it's not available to cover current power costs.

Campbell acknowledged that PG&E's financial crisis began last summer, months before the company decided to distribute a shareholder dividend worth about $116 million. But he said that amount of money was too little to solve the current crisis, and the company feared that holding back the payments could make things worse by alarming creditors.

Another consumer advocate, Jason Zeller of the PUC's advisory Office of Ratepayer Advocates, said the power companies should use their power of eminent domain, under state utility laws, to buy back the generating plants that deregulation required them to sell to outside companies. Those companies are now selling power to PG&E on the high-priced wholesale market.

Some form of rate increase may be necessary in the short term, Zeller said, but it's not going to solve the problem of wholesale costs.

"I just kind of see it as like giving heroin to a junkie," Zeller added. "It's important to stabilize the finances of the utilities, but I find it outrageous to reward the generators that are charging exorbitant prices."

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