

# Is PG&E 'wheeling' itself into profits?

## San Francisco may be throwing away \$4 billion in the next 30 years to the utility under new long-term agreement

By Marc Picker  
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mental Law Society

San Francisco could be throwing away up to \$40 billion over the next 30 years if it continues to allow Pacific Gas & Electric Company to "wheel" Hetch Hetchy-generated electrical power into the City.

And because of that, environmentalists may be getting an unwanted ally in the fight to restore Hetch Hetchy Valley in the form the giant utility. PG&E would like to see O'Shaughnessy Dam torn down so it will no longer have to funnel power at a cheaper rate into the City. Instead it would be able to sell San Francisco power at a higher rate, without the danger of the City municipalizing PG&E's facilities within the City - something some city officials are already demanding and which the Raker Act of 1913 may very well re-

quire.

The Raker Act authorized San Francisco to build O'Shaughnessy Dam, flood Hetch Hetchy Valley, and supply water and electrical power to City residents - but the City was prohibited from selling the power for resale, or from giving up control of the water and electrical power generating system to any commercial business or person.

*(See Raker Act article in this issue for further explanation of the law.)*

The 1973 San Francisco City and County Grand Jury recommended that the City lease or buy out PG&E's electrical distribution system within the City in order to comply with the Raker Act. While the City owns the dam at Hetch Hetchy and the lines that carry the power generated there to the East Bay community of Newark, the power is then carried by PG&E on the utility's transmission lines and is

distributed through PG&E's system within the City.

The power is thus "wheeled" according to a contract between the City and the utility which gives the City credit for power received into PG&E's system but there are charges to using the system and carrying it to municipal departments which use the power. City residents don't get any such credits.

The latest contract between PG&E and the City expired on December 31, 1987, and a new one is awaiting approval by the Federal Energy Regulatory Commission.

In the November 11, 1987, edition of the San Francisco Bay Guardian, it was revealed that legislation had been introduced in Congress that would prevent cities from selling tax-exempt bonds to finance municipalization of electric utilities. The article noted that the City of Chicago was

then studying such a municipalization under a \$75,000 feasibility study.

On November 18, 1987, a Bay Guardian article discussed the then-pending negotiation between the City and PG&E for a new "wheeling" contract. The article stated that PG&E was "taking \$165 million a year in profits out of the city ..." The San Francisco Bay Guardian, November 18, 1987, Page 7.

On November 25, 1987, another Bay Guardian article conjectured that PG&E was ultimately behind Secretary of the Interior Donald Hodel's proposal to drain Hetch Hetchy Valley and restore it, or that PG&E had the most to gain from the destruction of the power-generating dam. The article stated that even though restoration of the valley might be nice, it would be a worthless and costly effort. Plus, PG&E would be the big winner from such a proposal because it would no longer have to carry Hetch Hetchy power at a lower rate for the City's municipal uses and could instead sell

the City power at full rate. Bay Guardian, November 25, 1987, Page 9.

On December 2, 1987, the Bay Guardian detailed efforts by San Francisco City Supervisor Richard Hongisto to oppose the federal legislation on municipalization bonds and to get the state Public Utilities Commission to commission a study on the City's future energy options, specifically including municipalization of PG&E's in-city distribution system.

On December 12, 1987, after much political maneuvering, Hongisto chaired an Oversight Committee meeting which approved a resolution calling for a municipalization feasibility study. Hongisto and fellow Supervisors Carol Ruth Silver and Harry Britt adopted the findings of the 1973 Grand Jury that the City had been and was still in violation of the Raker Act and the subsequent United States Supreme Court decision because of the for-profit nature of the

"wheeling" contract with PG&E. The committee also requested all negotiations between Mayor Dianne Feinstein and PG&E on a new "wheeling" contract be suspended.

Cheryl Brust, Hongisto's legislative aide, said in an interview that the 1973 Grand Jury's comparison of the City's low water rates (because of an entirely municipal system) and the astronomical City power rates (sixth highest among the U.S.'s largest cities) which didn't make sense because the water and power both come from Hetch Hetchy - except the power is "wheeled" through PG&E.

Brust said, "What's very interesting is that San Francisco provides (sells) power (directly from Hetch Hetchy) to Turlock and Modesto, and their rates are lower than our's." And, that is despite the fact that San Francisco makes an average of \$40 million profit each year on its power and water sales.

Hongisto's resolutions all fell on

deaf ears before the full Board of Supervisors on December 15, 1987. Mayor Feinstein announced at that point that she completed negotiations on a new "wheeling" contract which would run through the year 2015 and should net the city about \$28.7 million a year, about twice what it was making under the now-expired contract. The Board refused to back a feasibility study for municipalization and wouldn't go along with any of Hongisto's other proposals.

The Public Utilities Commission approved the 30-year contract with PG&E on

December 21, 1987, along with two interim agreements while the FERC reviews the 30-year pact. The PUC also approved long and short-term agreements between the City and Modesto Irrigation District and Turlock Irrigation District.

The Board has no authority to affirm or deny the PG&E agreements, but must ratify the Modesto and Turlock contracts. Hongisto's senior aide Cindy Myers said the supervisor hopes to defeat the Modesto and Turlock agreements and hopes that will also scuttle the PG&E contracts.

Hongisto testi-

fied before the PUC that San Francisco would make about \$4 billion in profit over the next 30 years if it were to municipalize PG&E's in-city power distribution system and eliminate the need for the "wheeling" contract.

While PG&E seems to be in a win-win situation with its profitable "wheeling" contracts and the possibility of providing all San Francisco power if Hetch Hetchy's dam is torn down, there are some trying to serve the City, restore Hetch Hetchy Valley and not feed more profits into PG&E's coffers.

## *Hetch Hetchy -- From 'Grand Canyon of the Tuolumne' to San Francisco's water supply*

By Cathy Crothers  
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In the early years of its development, San Francisco got its water from local streams, wells and springs. Then, in 1849, the gold rush created a population explosion, and

additional potable water was hauled in and sold by the barrel.

In 1858, the private Spring Valley Water Company began providing San Francisco with water secured by a charter from the State of California. Spring Valley monopolized the nearby coastal

watersheds, including Sunol and Alameda Creeks.

At the same time, Hetch Hetchy Valley's history is intertwined with that of Yosemite National Park. The battle for the park began in 1890, when John Muir and Robert Underwood Johnson teamed up to expand California's