BREAKING NEWS

Juul to cut 650 jobs, slash $1 billion in spending as restructuring continues

News > California News

Mayors' ambitious plan for customer-owned PG&E fix would put California on uncharted electricity path

34

If customers owned the giant utility, would it be better run?

Pacific Gas and Electric Company (PG&E) CEO Bill Johnson, from left, sits with President and CEO Andy Vesey and Senior Vice President, Electric Operations Michael Lewis during a California Public Utilities Commission meeting in San Francisco, Friday, Oct. 18, 2019. (AP Photo/Jeff Chiu)

By **JOHN WOOLFOLK** | jwoolfolk@bayareanewsgroup.com | Bay Area News Group

It would be the biggest government-led intervention in California's electricity system in decades, a bold takeover of the state's largest and most troubled utility as Pacific Gas and Electric Co. is assailed over widespread blackouts to avoid power line-sparked wildfires that have put it in bankruptcy court.

But will the proposed PG&E remake as a customer-owned cooperative bring cheaper, safer and more reliable power to Silicon Valley and beyond? One thing is certain: A state whose power business deregulation imploded in 2000 with rolling blackouts again would be charting new ground in delivering electricity.

"This is unprecedented," said Robert McCullough, an energy consultant and adjunct professor of economics at Portland State University.

Following three years of devastating wildfires and a series of forced power blackouts to try and prevent equipment-related blazes, the mayors of San Jose, Oakland and 20 other cities and the leaders of five counties say it's worth trying. San Jose Mayor Sam Liccardo is spearheading the local officials' proposal to create a nonprofit cooperative that would raise the estimated $60 billion it might take to pay creditors and wildfire victims.

PG&E has declared it's "not for sale." But Liccardo said the cities and counties could use the California Public Utilities Commission, which must sign off on the company's bankruptcy exit plan, as leverage.

A federal bankruptcy judge is weighing competing exit plans from PG&E's shareholders and bondholders, groups Liccardo says are dominated by "hedge funds." The cities and counties would be asking the court to consider their cooperative as another alternative when it evaluates them in the spring.

Their pitch is that a nonprofit cooperative could borrow at lower cost than a private utility, because it would have access to lower-rate financing and would not have to pay dividends or federal taxes.

"It's going to take tens of billions of dollars to fix PG&E," said Jan Baker, a bankruptcy attorney advising the mayors. "A co-op would enable a new PG&E to have a lot more money to invest in its system for the benefit of the customers. The mayors believe deeply that PG&E not only needs more money, but it needs a laser focus on the needs of the customer. We believe they're much more likely to get that if the board is elected by the customers."

If all goes according to plan, PG&E would be restructured over the next year through the bankruptcy proceeding and led by a new co-op board. Employees

Still, there is a lot of uncertainty surrounding the proposal, much of which would have to be resolved in the next few months before it is even considered by the judge. The co-op has yet to be incorporated, to name its directors, to raise money and even to hire bankruptcy lawyers and investment bankers to raise the capital.

“There’s just a lot here that’s really complicated,” said Jared Ellias, a bankruptcy law expert at the UC Hastings College of Law. “This company is moving to get out of bankruptcy, so the train is leaving the station. We haven’t reached point of no return. But there’s just a lot to do, and it has to be done very quickly, and it’s expensive.”

Electric cooperatives are private, independent, nonprofit businesses owned by their customers who elect its directors. They were promoted by the federal government during the Great Depression to bring power to America’s farm country where private utilities considered the investment unprofitable.

But none exist on the scale of PG&E, with 5.4 million electric customers across 70,000 square miles from Bakersfield to Oregon, an area bigger than North Dakota. The median electric co-op serves 13,000 customers.

And co-ops aren’t the same as the government-run public utilities that deliver power such as those in Santa Clara, Palo Alto, Alameda, Sacramento and Los Angeles. A municipal takeover of the local electric system also is being weighed in San Jose, as well as San Francisco, which was not among cities that had signed on to pursue a cooperative.

San Francisco has considered acquiring PG&E’s grid in the city many times over the years. It recently offered $2.5 billion, which the utility rejected last month as significantly undervaluing its assets. Although San Francisco officials continue to pursue it, they say its municipalization bid isn’t mutually exclusive with the co-op plan.

Municipalization efforts elsewhere involved decades of wrangling over acquisition costs. Boulder, Colorado, has been at it since 2011. Sacramento residents voted to municipalize their PG&E grid in 1923, a process that lasted through 1946.

Cities hoping a municipal-run system might shield them from PG&E’s blackouts to reduce wildfires could still find themselves in the dark. That’s because they may have to rely on PG&E’s long-distance transmission lines in fire-prone wilderness to deliver power generated elsewhere to the city grid.

There is only one modern case of a cooperative taking over a private utility. In 2002, local businesses led the formation of Kauai Island Utility Cooperative and its $218 million takeover of Kauai Electric in a bid to more aggressively pursue renewable energy. Kauai's small co-op serving 37,000 customers now gets 55 percent of its power from renewables, up from 8 percent in 2010. But a 2016 U.S. Department of Energy study said that "since its inception, KIUC's residential rates have remained higher than the state average."

The Kauai acquisition didn't involve a hostile takeover in a bankruptcy proceeding. But PG&E's unwillingness to sell isn't necessarily a barrier, said Dan Richard, a former senior PG&E executive advising the San Jose mayor's cooperative effort.

"They put themselves up for sale when they filed for Chapter 11 protection," Richard said.

Richard is confident investors will be interested, but others aren't so sure.

"How interested are private investors going to be in funding this plan," Ellias asked. "PG&E has to borrow money all the time. So if private markets have never seen anything like this, how interested are they going to be in lending money?"

Moreover, once customers replace shareholders as the utility's owners, they become solely responsible for costs of disasters linked to the company. Richard argues "customers are already on the hook" with PG&E shareholders and often end up sharing those costs.

But the California Public Utilities Commission said it has not allowed PG&E to recover significant past liability costs from ratepayers. That includes the $333 million 1996 settlement of the Erin Brockovich lawsuit over Hinkley groundwater contamination and more than $2.85 billion in penalties, refunds, system improvements and legal settlements from the 2010 San Bruno gas pipe explosion.

"Be careful what you wish for — if you own PG&E, you own PG&E," Ellias said. "Sometimes you don't want to own things. Sometimes it's better to beat them up from afar."

Start your weekday with all the news you need, from the Bay Area and beyond.

Get the Morning Report newsletter

Enter your email

SIGN UP

By signing up, you agree to our privacy policy and terms of service.

Tags: **California Fires**, **PG&E**, **PM Report**, **Regional**

John Woolfolk John Woolfolk is a reporter for the Bay Area News Group, based at The Mercury News. A native of New Orleans, he grew up near San Jose. He is a graduate of the UC Berkeley School of Journalism and has been a journalist since 1990, covering cities, counties, law enforcement, courts and other general news. He also has worked as an editor since 2013.

Follow John Woolfolk **@JohnWoolfolk1**