

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Report Assessments of Inventory Balances and to Address Appraisal of Retained Generation Assets	)	A.98-05-022
Application of Southern California Edison Company (U-338-E) to Report on the Valuation Process for Certain Generation Related Assets Pursuant to D.97-11-074	)	A.98-05-014

PREHEARING COMMENTS OF  
THE REGIONAL COUNCIL OF RURAL COUNTIES

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Introduction

The Regional Council of Rural Counties (RCRC) limits these prehearing comments on the two issues identified in the Administrative Law Judge's ruling on a Second Prehearing Conference: 1) does PG&E's proposed approach trigger a § 851 review and 2) should the applications of PG&E and SCE be combined?

DOES PG&E'S PROPOSED APPROACH REQUIRE A SECTION 851  
REVIEW?

It is our assertion that PG&E's "spin off" of its hydroelectric assets and associated lands does require a Public Utilities Code (PUC) Section 851

review. Section 851 specifically refers identifies that:

*"No public utility..."* Clearly PG&E is a public utility within the State of California as defined by this statute therefore the statute applies to it on that point.

*"...shall sell, lease, assign, mortgage, or otherwise dispose of...directly or indirectly..."* Clearly the transfer of the subject facilities from a regulated utility to an unregulated entity is at least an assignment. Furthermore, to the extent that this transfer will affect recorded ownership, tax responsibility to local government and assessed value of lands and improvements, it must also be considered a transfer.

*"...any part of its property necessary or useful in the performance of its duties to the public..."* It is our assertion that nearly all of the hydroelectric facilities being considered in this proceeding are dual or multi purpose (electrical generation, water supply, recreational and environmental) facilities. Furthermore, they may also have the sole purpose of water conveyance for water supplies and many of PG&E's water rights were granted by the state with the express purpose of public service. It is difficult to imagine anyone seriously questioning that these facilities are used in the performance of duties to the public. The lands associated with these facilities are critical to the health of the watersheds of this state and are major factors in determining water quality throughout the water supply system of the state.

Should the SCE and PG&E applications be combined?

We believe that the issues pertinent to this question are: 1) the  
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method of the valuation and appraisal of these facilities, 2) the valuation of these facilities and the disposition of these facilities. RCRC believes that the valuation method and procedure should be the subject of this docket and that a separate proceeding should investigate the ultimate disposition and operation of the hydroelectric assets. We believe that the method of valuation should be on a project specific basis rather than on a "watershed" or project "lumping" basis. The latter approaches deny a clear picture of each projects value to the system and blur the options available for potential acquisition by local governments. We do believe that it would be efficient to combine the PG&E and SCE applications into this docket with regards to the valuation method and process. Both are dealing with valuing hydroelectric assets and the Commission should desire consistent methodologies with regards to valuation of similar assets.

We believe that the process of appraisal (on a project specific basis) should be handled separately and sequentially to the disposition process. While we agree with SCE's point on other issues being raised in the PG&E transfer scheme, we also wish to point out that the processes cannot be successfully carried out concurrently. Appraisal, as proposed here, must precede and conclude prior to transfer.

## Conclusion

We believe that it is clear that transferring assets from a regulated utility to another entity requires a § 851 review, particularly assets inextricably linked to providing water to the people and environment of California.

This proceeding should focus on the appraisal process and valuation

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procedure for utility hydroelectric assets (including appurtenant improvements, and lands) and that both the PG&E and SCE assets should be considered simultaneously, to ensure a consistent process and valuation outcome. A separate and sequential proceeding should investigate the disposition and operation of these assets.

Dated: January 8, 1999

Respectfully submitted



Michael Jackson and John S. Mills  
Regional Council of Rural Counties