

**Miscellaneous
Information/
Correspondence**

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E-005017

February 16, 1999

James M. Stubchaer, Chair
State Water Resources Control Board
901 P Street
Sacramento, CA 95814

Dear Mr. Stubchaer:

As members of California's environmental, fishing, and river recreation communities, we request that the State Water Resources Control Board participate in the California Public Utilities Commission (CPUC) proceedings that will determine whether and how Pacific Gas and Electric (PG&E) and Southern California Edison (SCE) may divest their hydropower systems. Your active participation is critical to protect the public interest in the associated waters. Because these proceedings are on a fast track (including critical deadlines in March), we make this request on an urgent basis.

AB 1890 (1996) committed California to open our electricity market to competition. It encourages regulated distribution utilities to sell or otherwise transfer their generating assets to other entities; and provides that the CPUC will establish the market value of all such assets before December 31, 2001. PG&E has proposed to transfer its entire hydropower system, including associated water rights and lands, to an affiliate, USGen. SCE is considering a comparable transfer.

In the ongoing proceedings, the CPUC will establish the principles for appraisal of these hydropower projects by July 8, 1999. Under a scheduling order issued earlier this month, submittal of evidence, briefing, and hearing of expert testimony will occur next month. We are confident that you will agree that the Board is uniquely qualified to help establish the principles for accurate appraisal of the water rights.

In further proceedings that will occur shortly after these appraisals, the CPUC will consider PG&E and SCE's applications to divest their hydropower projects. It will undertake environmental review under CEQA. That review will be accurate and complete only if the Board participates. Divestiture will cause two significant impacts within your jurisdiction: changes in the discretionary operations of these projects, and in land ownership.

Together, PG&E and SCE own most of the state's hydroelectric generating capacity. PG&E's system - which is the nation's largest concentration of hydropower in single, private ownership - includes 68 powerhouses, 174 dams, and some 136,000 acres of associated lands in watersheds throughout the Sierra Nevada. The licenses issued by the Federal Energy Regulatory

Commission (FERC), and the associated water rights, establish maximum rates of storage and diversion, and minimum rates of release for environmental protection; but often leave considerable operational discretion between those extremes.

Before the CPUC and in a February 9, 1999 hearing before the State Senate Energy Committee, ratepayer, agricultural, rural-county, and environmental stakeholders expressed our shared concerns about how these valuable hydroelectric projects will be operated by successors in the newly competitive market. Given the absence of any rate guarantee for the generated energy, there is great potential for changes in discretionary operations that could adversely impact water supply, water quality, and fish and wildlife resources. The State cannot count on FERC to address any of these impacts. FERC recently refused to consider such impacts resulting from the transfer of the Connecticut River Basin hydropower system from its historic owner, New England Power Company, to an unregulated successor, USGen.

We understand that the Board will undertake its own proceedings on any applications for transfers of the associated water rights. There is a great risk that the CPUC, in the CEQA document or otherwise, will make decisions that constrain your discretion, if the Board does not participate in the CPUC's proceedings. In sum, we ask that the State - through the CPUC, which regulates energy generation and distribution, and the Board, which regulates water rights - coordinate your respective reviews of divestiture of these hydropower systems.

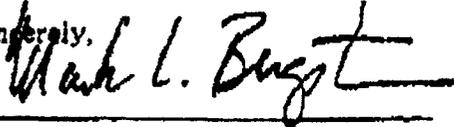
We specifically request that the Board:

1. immediately file an appearance in the CPUC's proceedings to establish the principles for appraisal of PG&E and SCE's hydropower projects; and participate as appropriate in the briefing and hearing that follow. We further request that staff economists expert in appraisal of water rights submit evidence and testimony.
2. authorize Division of Water Rights staffer Jim Canaday and other appropriate staff now involved in licensing proceedings, to participate in the Utility Lands Working Group, in which other state and federal agencies are discussing with PG&E the future management of project lands;
3. participate in any subsequent CPUC proceedings on divestiture of these projects. Specifically, we request that the Board participate as a co-lead agency in the development of the Environmental Impact Report.

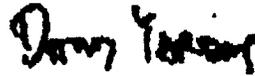
We look forward to working with the Board to ensure the proper protection of all beneficial uses of these lands and waters. If you have any questions, call Mark Bergstrom, Chair of the California Hydropower Reform Coalition at 415/392-8887, Johanna Thomas, Environmental Defense Fund at 510/658-8008; or Richard Roos-Collins at 415/288-0550, with regard to any legal issues.

Thank you for your consideration of this request.

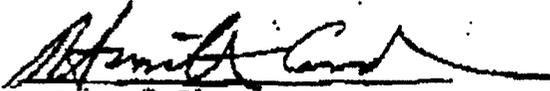
Sincerely,



Mark Bergstrom
Chair, California Hydropower Reform Coalition
Executive Director, California Trout



David Yardas
Water Resources Analyst
Environmental Defense Fund

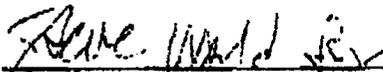


Hamilton Candee
Senior Attorney
Natural Resources Defense Council

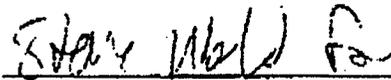


Sheryl Carter
Senior Policy Analyst
Natural Resources Defense Council

Members of the California Hydropower Reform Coalition



John T. Gangemi
Conservation Director
American Whitewater Affiliation



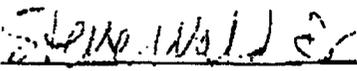
Dan Buckley
California Outdoors



Jim Crenshaw
Executive Director
California Sportfishing Protection Alliance



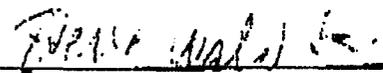
Craig Thomas
Conservation Director
The Center for Sierra Nevada Conservation



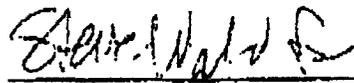
Pete Bell
Foothill Conservancy



Steve Evans
Conservation Director
Friends of the River



Chris Nuthall
Kern River Alliance



Rick Dancing
Kern Valley Community Consensus
Council

Richard Roos Collins

Richard Roos-Collins
Senior Attorney
Natural Heritage Institute

Deanna Spooner

Deanna Spooner
California Projects Director
Pacific Rivers Council

Paul Martzen

Paul Martzen
San Joaquin Paddlers

Lloyd Carter

Lloyd Carter
Save Our Streams

Tim Derry

Tim Derry
Conservation Director
Sequoia Paddling Club

Kevin L. Lewis

Kevin L. Lewis
Conservation Director
Shasta Paddlers

Laurel Ames

Laurel Ames
Sierra Nevada Alliance

Steve Trafton

Steve Trafton
California Policy Coordinator
Trout Unlimited

Tim Ramirez

Tim Ramirez
Resource Science Director
Tuolumne River Preservation Trust

Stephen Wald

Stephen Wald
Coordinator
California Hydropower Reform Coalition

Frances Spivy-Weber

Frances Spivy-Weber
Mono Lake Committee

cc: Walter Pettit, Executive Officer, SWRCB
Winston H. Hickox, Secretary for Environmental Protection

Enclosures: PG&E Project Location Map