

News

MAYOR'S ADDRESS ROILS PG& E

UTILITY 'NOT A WILLING SELLER' IN CITY'S PLAN TO ENTER ENERGY MARKET

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STOCKTON - Stockton has the right to oust Pacific Gas and Electric Co. and take over the local electric market, a measure that could reduce rates and generate millions of dollars in revenue, Mayor Ed Chavez said Thursday in his State of the City address.

His remarks, which followed by one day his outlining of the city's intent, roiled PG&E.

A spokeswoman, Nicole Tam, warned a takeover would pose a "significant financial risk" to the city and that a legal battle PG&E would likely wage could be lengthy and expensive.

PG&E is "not a willing seller," Tam said.

That PG&E isn't willing does not matter, Chavez said. The city's franchise agreement with the company - signed in 1954 and having no expiration date - includes a provision allowing the city to purchase PG&E's property at a price set by the state's Public Utilities Commission. Chavez and other officials said it is unclear what the cost would be.

Tam said PG&E is reviewing that portion of the agreement.

In a letter from PG&E to the city in 1954, PG&E said, "The right is reserved to the city to go into the public utility business or to purchase the public utility facilities of the company within the city at a reasonable price at any time the city shall see fit," according to a copy of the letter provided by the city in response to a California Public Records Act request.

Chavez said he will propose to the City Council the formation of a joint powers authority between the city and the Port of Stockton to address electricity. The new entity would be separate from the city and the port, with a separate governing board or boards.

In his speech, Chavez said revenue from operating a utility could be used to fund law enforcement and other city services. He also said reduced rates could attract businesses to Stockton.

Forming a joint entity with the port would be significant to the city not only because the port has experience in electricity management - the port formed its own utility in 2003 - but because the City Charter prohibits the city from issuing bonds to acquire a public utility without obtaining either the utility's approval or the approval of the electorate in a public vote. A joint agency, if formed, would not be so restricted, City Attorney Ren Nosky said.

PG&E has spent heavily protecting its turf elsewhere. In 2006, it spent millions of dollars opposing a bid by the Sacramento Municipal Utility District to expand into Yolo County, claiming the expansion was fraught with risk. Voters rejected the bid.

Chavez said a consultant's preliminary study of the matter concluded the city could reduce rates and generate

revenue if it were to acquire the utility.

In a prepared statement, PG&E challenged that claim.

"To pursue this hostile takeover of PG&E's business, the city of Stockton will pay full value for the entire electric system, pay current market cost for energy and pay to separate from our grid, ensuring that electric rates will be raised," the statement said.

Dozens of public agencies across the state operate their own utilities. The average retail price of electricity per kilowatt-hour in California in 2005 - the last year for which data were available - was 11.74 cents, according to the California Energy Commission. PG&E's average price was 12.68 cents. In the city of Lodi, which operates its own utility, the rate was 11.8 cents, according to a commission report. PG&E serves about 105,000 customers in Stockton.

City Council members reacted favorably to the mayor's proposal, though calling for a detailed study of it.

San Joaquin County Supervisor Victor Mow, a former member of the Stockton City Council, was not impressed.

"I think it's a dumb idea," he said.

He said PG&E has done a reliable job and that Stockton ought to focus instead on managing essential services, such as police.

About 1,000 people heard Chavez speak at the Port of Stockton on Thursday. It was his final State of the City address. He announced in December he will not seek a second term.

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STATE OF THE CITY

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In his final State of the City address, Mayor Ed Chavez on Thursday:

- Proposed that the city consider a bid to take over Stockton's electricity market, a measure he said could reduce rates and generate revenue but that Pacific Gas and Electric Co. is likely to bitterly oppose.
- Announced the planned opening of an Olive Garden restaurant in north Stockton and said that a revised plan for a shopping center in Weston Ranch would include a Wal-Mart, one small enough to comply with the city's big-box ban.
- Criticized the city's contract with International Facilities Group, the manager of Stockton Arena and Stockton Ballpark, among other Stockton facilities. He said he is "interested in correcting" a situation that is "favorable in almost every aspect" to IFG. Stockton Arena lost \$2.1 million in 2007.

After his first State of the City address in 2005 "" a largely stay-the-course speech in which he touted the accomplishments of the previous administration and called for the current one to "get the job done" "" Chavez has used the occasion to announce major initiatives.

- 2006: In his second State of the City address, Chavez announced the most expensive public borrowing campaign in city history, a \$114 million initiative to pay for parks, community centers, roads, housing and other infrastructure citywide. The City Council later that year authorized the mayor's Strong Neighborhoods Initiative, which has come to define the Chavez administration. Chavez also that year proposed the most significant reorganization of City Hall

since the mayor's position became full time in 2000. His proposal to install two administrators "" a city manager to oversee daily business and an independent manager to direct spending on revitalization "" has since been abandoned.

- 2007: Last year, the mayor announced an expansion of the Strong Neighborhoods Initiative, a "Neighborhood Renaissance" program in which local neighborhoods would be turned into politically charged bodies to which the city's government would afford unprecedented input over services and spending. The city intends to name pilot neighborhoods in April.