THE WALL STREET JOURNAL.

PG&E Shouldn't Leave Its Heart in San Francisco

Lauren Silva Laughlin

September 11, 2019

San Francisco's entrance into the fight over PG&E's scraps may not do anyone, including its own residents, any favors.

The city wants to try its hand at managing the power business currently run by PG&E and has bid for the power lines and transformers that run through the California municipality.

The $2.5 billion offer for parts of the bankrupt utility would take the dense population in the city out of PG&E's portfolio. It doesn't solve much for PG&E, and California's other residents have a lot to lose. San Francisco's own power consumers should be wary as well.

While the city is just one piece of PG&E's very large business, revenue from more densely populated areas can often help subsidize repairs in areas where wires are spread out over fewer customers. In effect, residents in more rural areas, which are prone to wildfires, would lose access to the big coffers of the city's residents, worsening the equation that the bankruptcy court is trying to solve.

Under San Francisco's proposal, the city's residents and businesses would pay about $300 million annually for electricity. Instead of going to PG&E, the money would go to the city, which would use it to repay bondholders and to "invest in improvements in the local energy system."

The California Public Utilities Commission would have to give its stamp of approval, and the proposal has to navigate bankruptcy proceedings. While the deal is a long shot, don't count San Francisco out. It has the authority to decide who provides electricity in its municipality. PG&E may not want to engage the city officials, but it risks alienating an important partner if it doesn't.

If this or a similar municipalization proposal went through, PG&E would lose hundreds of miles of wires and hundreds of thousands of customers, including major power users Wells Fargo and Twitter .

Moreover, once those parts of the utility fell under San Francisco's jurisdiction, the state would no longer have the authority to set rates for that area. The city maintains that its rates should be equal to or lower than those of PG&E. But that "shifts costs rather than changing them," says Peter Van Doren, senior fellow at the libertarian Cato Institute.

California regulators may balk at giving up control as they try to determine how to keep a cap on state residents' power bills, among the highest in the country, while ensuring they can receive power in a safe manner. But San Franciscans might eventually regret not having a larger governing body to watch over them.

Both PG&E and bondholders, including activist hedge fund Elliott Management, have unveiled restructuring plans in bankruptcy. An earlier proposal from the company had it emerging with more than $17 per share in value for shareholders. The creditor group has a proposal with as much as $6 a share.

While the city technically wouldn’t run the utility as a for-profit entity and says it would invest in renewable energy solutions—both politically appealing details in California—its plan is far from being completely benign. It risks leaving other Californians out in the dark.