

OVERVIEW

A [takeover](#) by the State of California of **Pacific Gas & Electric** (PG&E) may not be the most likely outcome for the utility, but given PG&E's status as a company that "[Californians hate from deep in their guts](#)", it remains a possibility.

And as [Edward Randolph](#), Deputy Executive Director of the [California Public Utilities Commission](#) said earlier this year regarding a state takeover, "[everything's on the table](#)."

Electric utilities owned and operated by state or local government, though uncommon in many parts of the US, have a long history in California. The [Los Angeles Department of Water & Power](#), which says it is the [largest municipal utility in the US](#), began electric service in 1916.

[Numerous](#) local and regional electric utilities, among them the **San Francisco Public Utilities Commission**, operate in the state. The San Francisco utility is [considering its own takeover](#) of PG&E facilities that provide service to the city.

Although a California takeover of PG&E would dwarf similar municipal acquisitions of the last 30 years, state policymakers are likely to consider [those examples](#) as they assess the merits of a state acquisition.

FINDINGS

Case study – Long Island Power Authority

Of successful private-to-public utility transactions [cited](#) by the [American Public Power Association](#), the [Long Island Power Authority](#) (LIPA) may be most relevant to California and PG&E.

Although LIPA's operations and customer base are not nearly as large as PG&E's, the LIPA transaction is the largest such acquisition of the last 30 years. In addition, LIPA's predecessor, the [Long Island Lighting Company](#) (LILCO), might have been as disliked by its ratepayers in its day as is PG&E.

LILCO's problems began with construction of the Shoreham nuclear plant, which was [located](#) on the north shore of Long Island. Construction began in 1973 and public opposition to the facility increased after 1979's [Three Mile Island](#) (TMI) accident. Major construction ended November 1983, at which point Shoreham was [15 times over budget and 10 years behind schedule](#). LILCO was also criticized for where it decided to construct Shoreham, as the plant's location may have made it difficult to evacuate Long Island in case of a nuclear accident.

LILCO's situation was not entirely of its own making, as Shoreham's location also required approval of regulatory bodies such as the [Nuclear Regulatory Commission](#). Similarly, cost overruns were due to a degree by higher safety standards required following TMI. Despite these mitigating factors, LILCO management bore the blame for the highly unpopular facility.

Commercial operation of the plan was contingent on an emergency evacuation plan, which in turn required the cooperation of local officials. Those officials [refused to participate in such a plan](#), and [Shoreham never began commercial operation](#). The facility was decommissioned, [sold to the state of New York for USD 1](#), and [sits idle](#).

The final event that led to LILCO's demise and LIPA's creation was LILCO's response to [Hurricane Gloria](#) in September and October 1985. The utility was criticized for not being prepared for the hurricane and for long [delays in restoring service](#). Adding to public outrage was the failure of LILCO's chairman during recovery efforts to return to Long Island from his vacation.

LIPA was [created by the New York State legislature in 1986](#) but did not become active until 1998, when it issued about USD 5bn revenue bonds. [Bond proceeds](#) were used primarily to purchase LILCO common and preferred stock and to redeem or refinance LILCO debt. Additional funds were used to obtain the total amount, USD 6.295 bn, paid by LIPA for LILCO.

The 12-year gap between LIPA's creation and its bond issue was due to a number of factors, including the need for [regulatory approvals](#) and [questions about the tax-exempt status](#) of any LIPA bonds that were to be issued for the LILCO acquisition.

Upon its inception, LIPA's day-to-day operations were accomplished via management and other agreements with a new entity staffed with former LILCO employees.

PG&E

The [near-total collapse of public support for PG&E](#) began with different types of incidents than those that affected LILCO. Among these were:

- September 2010 - [a natural gas transmission pipeline owned and operated by PG&E ruptured](#) in the city of [San Bruno](#), California. Gas released as a result of the rupture ignited, resulting in eight deaths, 58 injuries, and 108 homes that were either damaged or destroyed. In 2016, a jury found PG&E [guilty of violating pipeline safety regulations](#) prior to the San Bruno explosion, and earlier this year a federal judge [ruled](#) that PG&E violated its probation that was part of the guilty plea.
- October 2017 - A series of wildfires (see [map](#)) occurred throughout northern California. The [California Department of Forestry and Fire Protection](#) (CalFire) [determined](#) in June 2018 that 12 of the fires were caused by PG&E equipment. CalFire also found that the Tubbs Fire, the [most destructive](#) of the 2017 wildfires, [was not caused by PG&E](#).
- November 2018 - The Camp Fire, the [most destructive](#) wildfire in state history, occurs. On 28 February 2019, PG&E [said](#) it was likely that its equipment caused the fire.

CONCLUSION

LILCO's and PG&E's problems had different origins, but each utility reached a point where it had no popular or political support. PG&E's failures are worse than LILCO's in that they resulted in numerous deaths and destruction of urban and rural areas.

California could create an entity like LIPA to refinance the debt of and replace PG&E, but there are numerous obstacles to such a plan. Regulatory and other concerns were a factor in the 12-year gap between LIPA's creation and its assumption of LILCO's duties, and a similar acquisition of PG&E would face the additional uncertainty posed by PG&E's Chapter 11 status.

PG&E is a much larger utility, both in terms of operations and service area, than LILCO was, and there's the question of who would operate a newly municipalized utility. LIPA retained former LILCO employees for this task, but there's no indication that LILCO's corporate culture tolerated safety violations of the type committed by PG&E.

Californians should also consider whether a municipal utility is the best solution for their problems. Ironically, South Carolina officials [are considering whether to sell](#) the **South Carolina Public Service Authority**, better known as Santee Cooper, to an investor-owned utility.

LIPA and PG&E - Key Data ¹		
	LIPA	PG&E
Customers (millions)	1.1	5.4
Operating revenues (USD bn)	3.576	16.759
Long-term debt (USD bn)	10.9	18.6
Owned generating capacity (MW)	224	7,686

¹ In the table, LIPA long-term debt includes other non-current liabilities. PG&E's long-term debt includes current amounts payable, as its long-term debt was re-classified to a current payable due to the utility's January 2019 Chapter 11 filing. Dates of information in the table are from recent documents but may not be for comparable periods.

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DEBTWIRE MUNICIPAL RESEARCH

Greg Clark
Head of Municipal Research
+1 646 412 5314
greg.clark@acuris.com