

Agenda Report

DATE: August 10, 1998

TO: ATTENTION DEREGULATION COMMITTEE
CITY COUNCIL

FROM: CYNTHIA J. KURTZ, Acting City Manager

SUBJECT: OPPOSITION TO PROPOSITION 9 - THE 1998 ELECTRIC
UTILITIES VOTER INITIATIVE BALLOT MEASURE

RECOMMENDATION:

It is recommended that the City Council adopt the attached resolution in opposition to Proposition 9 - the 1998 Electric Utilities voter initiative ballot measure.

BACKGROUND:

Proposition 9 is the voter initiative ballot measure which would disallow the recovery of electric utility stranded costs through taxes, rate reduction bonds, or surcharges while providing a 20 percent rate reduction to residential and small commercial customers by January 1, 1999.

It is the opinion of legal counsel that this measure would not directly affect the Pasadena Water and Power Department because it amends sections of the Public Utilities Code which apply only to the state investor owned utilities. It does not appear to limit the authority of municipal utilities to set rates locally. However, the measure precludes investor owned utilities ("IOUs") from levying taxes and surcharges upon their customers to pay for certain costs associated with rate reduction bonds, nuclear generation plants and other uneconomic costs. This may likely have an indirect impact on Pasadena residents.

Proposition 9 would prohibit the recovery of stranded costs from electric customers which could shift the burden of the previously issued bonds from the IOU ratepayers to all California taxpayers. The State Legislative Analyst and Director of Finance have estimated that if Proposition 9 indeed makes the state liable for the repayment of rate reduction bonds already issued, then this would result in a \$6 billion state

budget deficit. Such a budget deficit could result in a significant reduction in key services, less money available for local governments, or other tax increases.

The state investor owned utilities are also in opposition to Proposition 9. In the attached letter, Southern California Edison Company has requested that the city become a member of Californians for Affordable and Reliable Electric Service ("CARES"), a coalition formed to oppose Proposition 9. There is no cost for membership and the city's name would be listed in their advertisements opposing the measure.

Additionally, Orrick, Herrington & Sutcliffe LLP has concluded " If proposition 9 is included on the ballot and approved by the voters, it unquestionably will result in further litigation. If Proposition 9 is sustained by the courts, depending upon the legal analysis applied, local governments could face additional hurdles in issuing their own bonds, notes, certificates of participation and other financial instruments due to an increase in perceived risks associated with the California initiative process" (full report attached).

For these reasons, it is recommended that the City Council adopt the attached resolution in opposition of Proposition 9.


FISCAL IMPACT:

There is no direct fiscal impact associated with this action, however if Proposition 9 were to be approved by the voters there may be a state budget deficit which could adversely impact the state funds received by Pasadena.


Respectfully submitted,


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