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## S.M. explores creating municipal utility

By Malia Spencer/STAFF WRITER

The Santa Maria City Council is poised to establish a utility that has the potential to bring millions of dollars to the city's general fund and become one more money-making venture that city staff has established in an effort to offset rising costs of municipal services.

The council is set to hear city staff's recommendations on the establishment of a municipal electric utility at tonight's meeting. It is anticipated council will also hear from PG&E representatives about the risks associated with the proposal.

The proposed utility would only service new development in Santa Maria, said City Manager Tim Ness. Currently, areas that could see electric service from a municipal utility would be customers in the proposed Mahoney Ranch and Bradley East developments. Those two areas have the possibility of bringing 8,000 new housing units plus schools and commercial space to the city, said officials with the Community Development Department.

Current residents who get their power from PG&E would continue to do so, Ness said.

Though the project would have significant up front costs, city staff is estimating that over the long term the venture would cover start-up and operation costs and provide a profit that would then be funneled into the general fund to pay for city services such as public safety and recreation and parks, Ness explained.

It is also estimated to take five years before the pay-off is realized, officials said.

Those who would be served by the proposed municipal utility would pay the same rates as PG&E customers, Ness said. Even if the city can buy the electricity at a cheaper price, the rates for customers will be the same.

"(The difference in purchase price and customer rates) will not become a profit, it's a way to generate money to help offset the costs that we are going to be incurring for providing other services," Ness said. "We are not putting the money back into lower rates but using it to augment the general fund. We are not charging any more or any less than what existing customers are paying to PG&E."

If the council decides to proceed with the project, the city would have to construct a connection to PG&E's lines in the area of future development, said Paul Karp, director of Public Works.

The connection would be metered and would serve a small load, he said. It would draw power from PG&E's grid through the company's lines and then distribute the power through a system of city-owned lines. The city's lines will be underground.

As growth occurs in the areas, Karp said, the city will have to construct substations to more efficiently draw from the system.

The initial construction is estimated to cost about \$250,000 in the first calendar year of the project, Karp said.

Establishing a utility is only an option for dealing with the city's rapid growth, Ness said. With Santa Maria's predicted one to two percent growth rate each year, officials said they believe this is a viable option.

In researching the feasibility of the project, city officials have been visiting other municipalities that have established electric utilities. Ness said he has been working with officials in Lompoc who have been in the electricity business for decades.

However, officials with PG&E, which currently serves Santa Maria customers, plan to attend the meeting and present possible risks that can be associated with the project.

"We respect the city of Santa Maria's desire to look at available energy alternatives but our concern here is that they are moving forward with little or no public comment," said Sharon Gavin, a company spokesperson. "From what we have seen, we feel that this is a questionable scheme based on a flawed model and the tax payers could be paying for millions of dollars in new city debt."

A large error in the feasibility study is the city's assumption that the new utility will have 100 percent of the market share, Gavin said. That is the wrong assumption, she said, because PG&E will have the right to compete for those customers.

She added that the company would "fully intend" to do so.

"The city's expectation of revenue may be overly optimistic," she said, "and raise false hopes of potential benefits."

Establishing an electrical utility is just one more way city staff is trying to raise revenue in order to provide service without raising municipal taxes.

"About two or two and half years ago we had a goal setting workshop with the council and one of the things they asked us to do is to look at creative ways to create funding and to create financing to help offset the continuing cost of providing municipal service without increasing taxes," Ness said.

To achieve that Ness and other members of city staff have been challenged and as a result the city has begun a number of other revenue-generating projects.

The city spent five years permitting the Santa Maria Regional Landfill to be able to accept non-hazardous impacted soils. Last fiscal year, this project generated \$4.6 million in revenue for the general fund, Ness said.

Another project allowed for the retrofit of the Waste Water Treatment Plant to accept what is called septige and treat it in small quantities with the rest of the waste water, he said. Septige is the contents pumped out septic tanks and other waste that can't go down the drain. That project has generated hundreds of thousands of dollars for the city, he noted.

A third project is the selling of surplus water to other agencies such as Nipomo and Orcutt. That program earned the city \$1.5 million last year.

"That's what this is all about, it's taking advantage of opportunities that present themselves, thinking sort of outside the box, thinking of ways to provide additional revenues to help offset the cost of municipal services and expanding municipal service," Ness said.

The City Council will meet tonight at 6 in City Council Chambers at City Hall, 110 E. Cook St.

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