

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
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November 3, 2004

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: **SACRAMENTO MUNICIPAL UTILITY DISTRICT**
SPHERE OF INFLUENCE AMENDMENT and CONCURRENT
SMUD ANNEXATION OF SACRAMENTO REGIONAL
COUNTY SANITATION DISTRICT LOWER NORTHWEST
INTERCEPTOR SOUTH RIVER PUMP STATION SITE
[IN YOLO COUNTY] (06-04)
[CEQA: Addendum to Environmental Impact Report]
[Sch Nos. 200001112085 and 2002092071]

RECOMMENDATION

1. *California Environmental Quality Act Findings:*
 - a. *Find that the Sacramento Local Agency Formation Commission is a responsible agency with respect to CEQA for this proposal;*
 - b. *Find that the Sacramento Regional County Sanitation District previously prepared and certified an Environmental Impact Report for the project, of which the Sacramento Municipal Utility District Sphere of Influence Amendment and Concurrent Annexation of 15 acres is a component;*
 - c. *Find that the Commission has considered the information contained in the Environmental Impact Report and Addendum prior to its action on the project;*
 - d. *Find that on the basis of the Addendum to the Environmental Impact Report, that no supplemental environmental document is necessary to consider the project;*

- e. *Find that none of the mitigation measures or project alternatives identified in the Environmental Impact Report and Addendum is within the authority of the Commission to implement;*
 - f. *Adopt the Findings of Fact and Statement of Overriding Considerations; and*
 - g. *Direct staff to prepare a Notice of Determination.*
2. *Amend the Sphere of Influence for Sacramento Municipal Utility District to include that area described as the Lower Northwest Interceptor South River Pump Station Site, containing 15 +/- acres, described in the attached legal description and shown on the attached map.*
 3. *Approve the Annexation of the Lower Northwest Interceptor South River Pump Station Site into the Sacramento Municipal Utility District service boundary.*
 4. *Pursuant to Government Code Section 57000 authorize the Executive Officer to hold the Conducting Authority Hearing for this 100 percent Consent Annexation after completion of the 30-day Reconsideration Period.*
 5. *Determine the effective date of the Annexation to be the date upon which recordation of the Certificate of Completion is made.*
 6. *Condition the Sacramento Municipal Utility District Sphere of Influence Amendment, Annexation and the provision of electric service exclusively to the 15-acre +/- Sacramento Regional County Sanitation District pump station site in Yolo County. Adopt the Resolution making these determinations.*
 7. *Forward a copy of the Certificate of Completion to affected cities, counties, special districts, Pacific Gas and Electric Company, California Public Utilities Commission and any interested parties.*

PROJECT DESCRIPTION

Applicant:	Sacramento Municipal Utility District (SMUD). Board of Directors adopted a Resolution of Application based on a formal request from Sacramento Regional County Sanitation District (SRCSD).
Project Description:	Amend Sphere of Influence for Sacramento Municipal Utility District; Concurrently Annex Project Site to SMUD
Project Purpose:	Annex Project Site to SMUD to provide electrical power to the SRCSD South River Pump Station for Lower Northwest Interceptor Sewer Project
Project Location:	Approximately 15-acres located in Yolo County, south of the City of West Sacramento.
CEQA:	Addendum and Initial Study of Environmental Significance
Land Use:	Previous to Pump Station Site, Agricultural. Current, Exempt/ Public Utility Pump Station.
Registered Voters:	None/ Uninhabited
Current Electric Service Provider:	No service currently provided to Pump Station Site. Pacific Gas & Electric Company franchise territory.

EXECUTIVE SUMMARY

Sacramento Regional County Sanitation District desires that the Sacramento Municipal Utility District provide electric service to the 15-acre pump station site in Yolo County to be constructed as part of the District's Lower Northwest Interceptor Project.

The pump station site has been approved by the District Board of Directors and will be constructed by the date of December 2006. Provision of electric service to the pump station site is available only through only two possible service providers, Pacific Gas & Electric Company or Sacramento Municipal Utility District. It is the responsibility of your Commission to determine whether or not SMUD should be the service provider of electric service to this pump station. The impacts identified in this report that result from development of the pump station site will occur, no matter which service provider supplies electric service to the site.

Benefits to SRCSD for SMUD Electric Service Provision

Numerous benefits to Sacramento Regional County Sanitation District can be cited if SMUD provides electric service to the proposal site. The benefits include:

- *Reliable service (fewer outages for shorter periods of time than P.G. & E. service provision).¹*
- *Lower costs.*
- *Integrated electric service to SRCSD infrastructure system.*
- *SMUD has capacity to control which entities are subject to outages.*
- *SMUD has committed to meet SRCSD's construction schedule.*
- *No P. G. & E. facilities will be idled or under-utilized if SMUD serves the proposal site.*
- *Local control (SMUD Board of Directors is a locally elected special district body).*

With SMUD service provision to the SRCSD pump station, the only fiscal impact to Yolo County will be the loss of future franchise fees that would have been paid by Pacific Gas & Electric Company to Yolo County. That impact is estimated to be approximately \$35 per \$1,000,000 in gross revenue.

The California Public Utilities Commission has determined that service provision by SMUD will not negatively impact Pacific Gas & Electric Company or its ratepayers.

The following table summarizes the fact that impacts that occur as a result of siting the pump station on this parcel will be substantially the same regardless of which electric service provider serves the proposal site.

¹ See Appendix I, Correspondence.

Summary of Impacts to Yolo County

<i>IMPACT</i>	<i>SMUD Service Provision</i>	<i>P. G. & E. Service Provision</i>
<i>Impact to P. G. & E. Co. Customers/ Ratepayers</i>	<i>No Change</i>	<i>No Change</i>
<i>Impact to SMUD Customers/ Ratepayers</i>	<i>No Change</i>	<i>No Change</i>
<i>Impact to P. G. & E. Future Revenue Loss Exit Fees Facilities/Equipment</i>	<i>Yes Impact Not Known² No Change</i>	<i>No Change No Change Install New Facilities</i>
<i>Impact to SMUD</i>	<i>Revenue offset by Service Costs</i>	<i>No Change</i>
<i>Franchise Fees to Yolo County</i>	<i>No</i>	<i>Yes</i>
<i>Infrastructure Development Impacts Associated with Pump Station³</i>	<i>No Change</i>	<i>No Change</i>
<i>Growth Inducing Impacts of Pump Station</i>	<i>No Change</i>	<i>No Change</i>
<i>Property Tax Loss to Yolo County & Special Districts</i>	<i>No Change</i>	<i>No Change</i>
<i>Agricultural & Open Space Issues</i>	<i>No Change</i>	<i>No Change</i>
<i>Land Use Issues</i>	<i>No Change</i>	<i>No Change</i>
<i>Municipal Service Delivery⁴ Impacts to Yolo County and Special Districts From Pump Station Operation</i>	<i>No Change</i>	<i>No Change</i>

² PUC has not yet determined whether or not Exit Fees will apply in this situation.

³ Roads, sewer, water.

⁴ Fire, police, parks, animal control.

Price and Service Delivery Comparison

Pacific Gas & Electric letter dated October 19, 2004, via FAX:

P.G. & E. believes that the proposed SMUD annexation is unjustifiable because P. G. & E. has the ability to provide service to the pump station and that P.G. & E. rates and service levels are similar to SMUD. P.G. & E. also asserts that the following three factors are important for Commission consideration in its deliberations: Price, Reliability and Restoration.

P.G. & E. believes the proposed annexation should not be approved because "the differences between service alternatives ... do not justify the annexation."

It is difficult to provide a simple side by side comparison of the proposed service alternatives because the electric system designs are not similar. The cost of service includes operations and maintenance charges, capital costs, exit or cost recovery fees, etc. Total costs to Regional Sanitation District are dependent upon the type of system design and type of equipment.⁵

SRCS D has evaluated its electric service delivery options with respect to its operations and sanitation service mission. P. G. & E.'s estimated costs in system design have changed since SMUD's application was submitted to LAFCo. The various cost estimates were based on many different assumptions. These estimates and assumptions have been debated between SRCS D, SMUD and P.G. & E. After conducting its analysis, SRCS D believes that SMUD has the ability to provide the best possible service at the best possible rate to the South River Pump Station. Moreover, SMUD has a track record of better reliability (fewer outages/ shorter duration) than investor-owned utilities. With respect to the restoration and outage management, SRCS D believes SMUD will be more responsive to District needs.

The following table attempts to summarize these factors and compare service providers. P.G. & E. and SMUD have each provided detailed letters discussing these issues.

⁵ Similar arguments can be made when comparing reliability and restoration factors. Both overhead and underground electric systems have advantages and disadvantages.

<i>Issue</i>	<i>P. G. & E.</i>	<i>SMUD</i>
Price	<i>12 KV Service: Regional Sanitation assumes cost of installation step down transformer and associated replacement cost.</i>	<i>SMUD rates for industrial users are lower. 4 KV Service: No cost to Regional Sanitation District. No future risk to Regional Sanitation District.</i>
<i>Public Utilities Commission has not yet rendered an opinion on whether or not exit fees will apply to the proposed SMUD Annexation. If the PUC determines that exit fees apply to SMUD, the exit fee surcharge is not permanent.</i>		
Reliability	<i>Overhead facilities more susceptible to storm and third party damage. Latest P.G. & E. proposal provides a backup circuit. It is likely easier and quicker to repair overhead lines and equipment. Visual issues may impact surrounding parcels.</i>	<i>SMUD proposed to install two dedicated underground circuits and backup transformers. The Havenside Substation is loop fed. SMUD argues underground is more reliable. Pump station served by two circuits. However, circuits will be located in parallel conduits. Backup line not coming from a different direction. Overall SMUD has a history of fewer outages and outages of shorter duration than P.G. & E.</i>
Restoration/ Outage Management	<i>P.G. & E. asserts that it has available resources to restore services in a timely manner and that it routinely coordinates service restoration with other utilities.</i>	<i>SMUD asserts that it also has resources to restore services quickly. In addition, critical pumps and sumps have been identified on SMUD service maps. Coordination appears to be more direct. Access to elected directors and management.</i>

Conclusion of Executive Summary

Overall, it appears that the Sacramento Regional County Sanitation District South River Pump Station will be better served by the Sacramento Municipal Utility District. Since 1992, SMUD's sustained outages per customer per year have been significantly lower than those of Pacific Gas and Electric Company.⁶ SMUD has already developed an operational relationship with Sacramento Regional County Sanitation District by identifying key service needs during critical situations. Also, the District has access to SMUD directors and management personnel in the event that SMUD staff is not responsive to District needs during emergencies.

Based on initial discussions with P.G. & E., Sacramento Regional County Sanitation District determined P.G. & E. could neither commit to the proposed construction schedule nor provide a firm cost estimate. Rate comparison between SMUD and P.G. & E., as well as the responsibility of the provider for the purchase and replacement of equipment, needs to be factored into your Commission's deliberation. It appears that under the P.G. & E. proposal, Sacramento Regional Sanitation District will be required to purchase, maintain and repair step down transformers and related equipment. Under the SMUD proposal, SMUD will be responsible for these costs. The benefits of lower costs and better service will be passed on to the ratepayers of Sacramento Regional County Sanitation District.

⁶ "City of Davis Municipal Electric Utility Options Analysis, Phase-1 Report," Navigant Consulting, Inc., Unpublished work May, 2002.

LAFCo MANDATE/ POLICIES

Local Agency Formation Commissions are charged with encouraging orderly growth and development. LAFCo is responsible for encouraging the logical formation and determination of boundaries. LAFCo must exercise its authority to ensure that affected populations receive efficient governmental services. LAFCo is required to exercise its authority to guide development away from open space and prime agricultural land uses unless such actions would not promote planned, orderly and efficient development. LAFCo encourages the use of service providers which are governed by officials elected by the citizens. The applicant must demonstrate that adequate services will be provided within the time frame needed. LAFCo will approve a proposal only if the proposed service provider is the most efficient provider of services with an acceptable cost. LAFCo will approve changes of organization or reorganization only if the proposal is consistent with the general plan and relevant specific plans of the applicable jurisdiction.⁷ Generally, LAFCo should not create service islands. LAFCo policies have allowed the following exceptions: (a) is rendered necessary due to unique circumstances; (b) results in improved quality or lower cost service; (c) there exists no feasible and logical alternative.

The proposed project will not serve a development project, commercial, residential or industrial. The proposal is the annexation of a single 15-acre parcel; the site will be used for municipal service to a regional sanitation collection and treatment system that includes the City of West Sacramento. The proposed project to serve the pump station is part of a regional infrastructure system. No direct services or connections will be permitted to surrounding lands. In fact, the surrounding territory cannot be served by either Sacramento Regional County Sanitation District or SMUD because it is not located within the boundaries of either District.

FACTORS TO BE CONSIDERED BY LAFCo

Government Code Section 56668 and Sacramento LAFCo policies and standards require your Commission to consider the following factors in the review of this proposal.

1. Population and population density; land area, land use, per capita assessed valuation, topography, natural boundaries, drainage basins, likelihood of significant growth in the area during the next 10 years.

These issues are not applicable to the SMUD proposal. The proposal before your Commission is not the broader issue of the SRCSD LNWI project, or any of its affects on the 15-acre parcel known as the pump station site. The proposal before your Commission is whether or not SMUD should serve electricity to the pump station site.

⁷ Yolo County Planning Department has issued a letter of consistency with the General Plan to Sacramento Regional County Sanitation District.

2. Need for organized community services; the present cost and adequacy of governmental services and controls in the area; probable future needs for those services and controls; probable effect of annexation on the cost and adequacy of services in the area and adjacent areas.

These issues are not applicable to the SMUD proposal.

3. The effect of the proposed action and of alternative actions, on adjacent areas, on mutual social and economic interests, and on the local governmental structure of the county.

These issues are not applicable to the SMUD proposal.

4. The conformity of both the proposal and its anticipated effects with both the adopted Commission policies on providing planned, orderly, efficient patterns of urban development and the policies set forth in Government Code Section 56377.

These issues are not applicable to the SMUD proposal.

5. The effect of the proposal on maintaining the physical and economic integrity of agricultural lands.

This issue is not applicable to the SMUD proposal. The economic and environmental impacts have previously been analyzed and evaluated in the Environmental Impact Report for the SRCSD pump station project.

6. The definiteness and certainty of the boundaries of the territory, the non-conformance of proposed boundaries with lines of assessment or ownership, the creation of islands or corridors of unincorporated territory, and other similar matters affecting the proposed boundaries.

A new Assessor's Parcel will be created for the 15-acre +/- pump station site.

7. Consistency with City or County General and Specific Plans.

The Yolo County Planning Department has issued a letter stating the SRCSD project is consistent with the Yolo County General Plan. The issue of which service provider will serve the pump station is not applicable to the issue of Yolo County General or Specific Plans.

8. The Sphere of Influence of any local agency which may be applicable to the proposal under review.

No SOI impacts on local agencies are applicable to the SMUD proposal.

9. The comments of any affected agency.

Comments addressing the SMUD annexation proposal have been received from Yolo County, Yolo Local Agency Formation Commission, Pacific Gas and Electric Company and the California Public Utilities Commission. These comments are incorporated into this report and included in Appendix I.

10. The ability of the newly formed or receiving entity to provide the services which are the subject of the application to the area, including the sufficiency of revenues for those services following the proposed boundary change.

Upon analysis, SMUD has the resources to provide adequate services at a lower cost than Pacific Gas & Electric Service.

11. Timely availability of water supplies adequate for projected needs.

This issue is not applicable to the SMUD proposal.

12. The extent to which the proposal will affect a city or cities and the county in achieving their respective fair shares of the regional housing needs as determined by the appropriate council of governments.

The staff report addresses each of the above stated issues, except water and housing, in more detail. Issues connected to water and housing do not apply to this proposal; therefore, they have not been included in this analysis.

13. Any information or comments from the landowner or landowners.

The property owner has consented to annexation of the site to SMUD. The landowners of surrounding territory have made no comment on the annexation proposal.

14. Any information relating to existing land use designations.

The SRCSD pump station is a public works project exempt from local zoning. The purpose of the proposed SMUD annexation is so that SMUD's service territory will include this parcel and SMUD may serve electricity to a site that has been determined to be an authorized use.

BACKGROUND OF PROPOSAL

The proposal site is under acquisition by Sacramento Regional County Sanitation District (SRCSD), to be used as a pump station. The pump station is part of a larger project known as the Lower Northwest Interceptor (LNWI). The LNWI is a 19-mile sanitary sewer transmission pipeline that begins in the Natomas area of Sacramento, heads through West Sacramento and terminates at the Sacramento Regional Wastewater Treatment Plant (SRWTP) in Elk Grove. The LNWI facilities are currently under construction and are planned to be operational by December 2006 to serve the northern portion of Sacramento County and the City of West Sacramento.

The creation of two pump stations is necessary for the operation of the LNWI: (1) New Natomas and (2) South River Pump Stations. The fundamental objective of the LNWI is to support the urban and economic growth that is occurring in Sacramento County and the City of West Sacramento.

The specific objectives of the LNWI project are to:

1. Convey wastewater flow of the Upper Northwest Interceptor to the Sacramento Regional Wastewater Treatment Plant.
2. Provide sewer service to the City of West Sacramento.
3. Provide relief for the existing Northeast Trunk System, the Dry Creek Interceptor, the Arden Pump Station, the City of Citrus Heights, and the communities of North Highlands and Antelope.
4. Provide capacity for planned growth in the Rio Linda, City of Sacramento (Natomas) and City of West Sacramento areas consistent with adopted land use and general plans of the affected agencies.

Project Description

Determine whether or not the Sacramento Municipal Utility District is the most cost-effective, efficient and reliable service provider of electrical service to the SRCSD pump station. Electrical service will be provided by either SMUD or P.G. & E. **The pump station site has been approved by the SRCSD Board of Directors and will be constructed regardless of which entity provides electrical service.** If your Commission determines SMUD is the best service provider to this site, the only fiscal impact of this proposal on Yolo County will be the loss of **future** franchise fees that would have been paid by Pacific Gas & Electric Company. It is estimated that this impact is very small.

COMMISSION ACTION AND PROCESS

Definitions

Principal County. Sacramento County is the principal county for this proposal. As defined by Government Code, if a district is located in more than one county, the Commission of the principal county shall have exclusive jurisdiction over the proposal. The principal county is defined as the county having all or the greater portion of the entire assessed value as shown on the last equalized assessment role. Consequently, Sacramento LAFCo is responsible for processing this Sphere of Influence (SOI) Amendment and Concurrent Annexation proposal.

Under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, your Commission has the power to approve, with or without modification, or deny annexations/reorganizations, and to impose reasonable conditions, pursuant to Section 56000. The proposal is a SOI Amendment and a concurrent annexation of territory to SMUD. The proposed project does not require any detachments; however, the proposal does impact the current service area for Pacific Gas and Electric Company (P. G. & E.).

Affected Territory means territory for which a change of organization or reorganization is proposed or ordered.⁸

Annexation means the annexation, inclusion, attachment, or addition of territory to a city or district.⁹

Contiguous means, in the case of annexation, territory adjacent to, or territory adjoining territory within, the local agency to which annexation is proposed.¹⁰

Inhabited Territory means territory within which there reside 12 or more registered voters. The date on which the number of registered voters is determined is the date of adoption of a resolution of application by the legislative body pursuant to Section 56654, if the legislative body has complied with subdivision 9b) of that section, or the date a petition or other resolution of application is accepted for filing and a certificate of filing is issued by the Executive Officer. All other territory shall be deemed uninhabited.

Overlap or Overlapping Territory means territory which is included within the boundaries of two or more districts or within one or more districts and a city or cities.¹¹

Subject Agency means each district or city for which a change of organization is proposed or provided in a reorganization or plan of reorganization.¹²

As a matter of disclosure, SMUD, in conjunction with the Cities of Davis, Woodland, and West Sacramento and the Yolo County, is in the process of analyzing the feasibility of SMUD electric service provision to one or more of these areas. The proposed project to

⁸ Government Code Section 56015.

⁹ Government Code Section 56017.

¹⁰ Government Code Section 56031.

¹¹ Government Code 56061.

¹² Government Code 56077.

annex SRCSD pump station into the SMUD service territory is separate and apart from this study and not related whatsoever to the project before your Commission. No application is pending before Sacramento or Yolo LAFCo, nor have any of agencies listed above taken any action to submit any application regarding an expansion of SMUD electric service provision.

SUMMARY OF LAFCO PROCESS

Send Notice to PUC
PUC Hearing/ Adoption of Findings
LAFCo Public Hearing
Commission Action
30-day Reconsideration Period
Conducting Authority Proceeding (Protest Hearing)
File Certificate of Completion

Commission Action

The Commission may approve, modify or deny the proposed annexation application submitted by SMUD.

30-day Reconsideration Period

If your Commission approves the proposed annexation, a 30 day reconsideration period is in effect prior to issuance of a Certificate of Completion. Government Code Section 56895 sets forth the legal process for filing a request for reconsideration:

In sum, after the Commission adopts a Resolution Making Determinations, any person or affected agency may file a written request with the Executive Officer requesting amendment to or reconsideration of the resolution. The request shall state the specific modification to the resolution being requested and shall state what new or different facts that could not have been presented previously are claimed to warrant reconsideration.

Written request shall be filed within 30-days of the adoption of the Resolution Making Determinations. The Executive Officer shall place the request on the agenda of the next meeting of the Commission for which notice can be given.

At the conclusion of its consideration, the Commission may approve, or disapprove, with or without amendment, wholly, partially, or conditionally, the request. The Commission may adopt a new Resolution Making Determinations.

Conducting Authority (Protest) Hearing

Government Code Section 57000 et seq specifies the Conducting Authority process. This process may be delegated to the Executive Officer.

Uninhabited Areas

If the subject territory is uninhabited, the reorganization provides for submission of written protests by any property owner within the territory.

Notice of the protest hearing shall be given within 35 days following the adoption of the Commission's Resolution Making Determinations. The date of the hearing shall not be less than 21 days, or more than 60 days, after the date the notice is given.

Election Process

The Commission has the authority to approve the SMUD annexation into areas served by P. G. & E. The Public Utilities Commission has been notified and has issued its findings. (Copy attached). The Commission may waive the election process because 100 percent of the landowners (in this case a single landowner) have consented, in writing, to the annexation. Also, no protest has been filed by an affected agency.¹³ The area to be annexed is a single parcel; the property owner has signed a consent letter stating that he does not oppose the annexation to SMUD. There are no registered voters; therefore, this is an uninhabited annexation. **No election is required.**

Elections

For annexations, the Commission **may** authorize an election as described below. Government Code Section 56876 states:

- In any order approving a proposal for an annexation to, or detachment from, a district, the Commission **may** determine that any election called upon the question of confirming an order for the annexation or detachment shall be called, held, and conducted upon that question under either of the following conditions:
- (a) Only within the territory ordered to be annexed or detached.
 - (b) Both within the territory ordered to be annexed or detached and within all or any part of the district which outside of the territory.

The Commission has the option, **not the mandate**, of ordering an election for the affected territory or both the affected territory and all or any part of the district that is located outside the affected territory. ***Because the proposed annexation will not negatively impact existing SMUD ratepayers, it is neither cost-effective nor necessary to call an election within any portion of SMUD.*** Since the affected territory is not inhabited, the property owner consented in writing, no election should be necessary.

¹³ Government Code Section 56663: In the case of uninhabited territory, the commission may waive protest proceedings pursuant to Part 4 (commencing with Section 57000) entirely if both of the following conditions apply: (1) All of the owners of land within the affected territory have given their written consent to the change of organization or reorganization and (2) All subject agencies have consented in writing to a waiver of protest proceedings.

PROJECT JUSTIFICATION

SRCS D needs to construct a sewer pump station in Yolo County, located just south of the West Sacramento city limits. SRCS D evaluated both P. G. & E and SMUD as electrical service providers to the South River Pump Station and has determined that it would be in the best interest of the SRCS D and its ratepayers to obtain electric service from SMUD for the following reasons:

- SMUD provides service to the northern LNWI pump station (the New Natomas Pump Station); provision of electric service to the southern LNWI pump station (the South River Pump Station) allows SRCS D to integrate the operations of both the northern and southern LNWI pumping stations.¹⁴ This is especially useful during emergencies when large power outages occur and there is a need to coordinate with a single power supplier to bring these facilities back on-line.
- SMUD provides a more reliable service option due to the fact SMUD is an independent service provider and not subject to Stage III blackouts.
- SMUD rates are lower than P. G. & E, which would benefit SRCS D ratepayers.
- SMUD's service plan, provided for within the LNWI Project Environmental Impact Report, was provided in a timely manner, consistent with project planning and construction schedules, and included consideration of material selection, availability and production lead-times.

SRCS D determined the P. G. & E proposed service options were not adequate. SRCS D entered into an agreement with P.G.& E. which involved paying P.G. & E. \$20,000 to perform an engineering study to determine the best means for providing electric service to the proposed site. P.G.& E. reported that it could not provide a firm cost estimate or schedule for two potential service options. P.G. & E. determined it would need to extend power lines to the pump site, using either the Deep Ship Channel Substation or it could tie into an existing 115 kV transmission line.

Each of P.G. & E.'s proposed options were unacceptable to SRCS D: (1) The Deep Ship Channel substation had a history of service reliability issues; (2) the proposed delivery date for the 115 kV option did not meet the SRCS D schedule; and (3) connecting to the 115 kV transmission line was too expensive.

SMUD Plan for Services to South River Pump Station

The South River Pump Station is proposed to be served by extending 12 kV power lines from SMUD's existing Havenside Substation (no additional substation required) within SMUD's existing service territory. Power lines are proposed to be extended underground within existing roadways including, but not limited to, a number of roadways along Gloria Drive, Spinnaker Way, Rivergate Way, Pocket Road, Oaks Way, Rivertrek Way and Arlington Road in the Pocket area of Sacramento. The power lines will extend west to a

¹⁴ SMUD also provides electric service to all of the Sacramento Regional County Sanitation District pumps in Sacramento County as well as the treatment facility located just north of the Elk Grove city limit line.

proposed tunnel pit next to the Sacramento River and be tunneled under the River to the Yolo County (west) side of the River. The line would continue to extend underground to the pumping station property. At the pump station site, the 12 kV circuit will feed 12 kV - 4.16 kV transformer(s) through outdoor 12 kV switches. Service will be provided under SMUD's GS-TOU-1 tariff, rate category GUS_L and Metered at 4.16 kV. SMUD will procure and install, at SRCSD's cost under SMUD's Rule 16 guidelines, required pump site 12/ 4.16 kV transformers. SMUD will maintain on site transformation equipment under standard rates and rules as appropriate and applicable. As described in Exhibit C, SMUD will meet the customer load for the South River Pump Station through its existing diverse mix of generation (i.e., SMUD owned generation, long term power purchase contracts, short term power purchase contracts and conservation (demand side) resources).

ANALYSIS OF PACIFIC GAS & ELECTRIC SERVICE ALTERNATIVES

Preferred Option: South River Pump Station initial full load amperage at 4160 volts is estimated to be approximately 280 amps. The proposed (upgraded) **Deep Ship Channel Substation** will be at its service capacity limits above 280 amps. P.G. & E. has indicated that South River Pump Station loads may cause "flickers" for other customers on the circuit and if this occurs, P.G. & E. will require changes to the pump station operation and/or possibly shut down supply to the pump station. Such changes or shut downs are not acceptable, as they would likely occur during high flows and result in massive sewage overflows.

The outage history for the Deep Ship Channel substation reflects excessive failure rates with sustained outages of more than 60 hours in 2002. Reasons for these outages include unknown causes, improper construction and miscellaneous equipment failures. The substation's marginal capacity to serve South River Pump Station loads and its poor reliability record indicate it is not a viable service option given the pump station's function and concerns for the public's health and safety.

Alternate Option: P.G. & E. would change its preferred option to provide service from its **115 kV Transmission System** if SRCSD could guarantee load limits above 280 amps.

- The estimated cost to extend the service is \$5.1 million. If South River Pump Station loads fall below 280 amps, SRCSD would pay the incremental cost of \$3.7 million (rounded to \$4 million).
- Estimated lead-time is three years (best case).
- P.G. & E.'s "plus or minus 50%" caveat applied to "costs and timelines" yields potential cost and lead time as high as \$6 million and 4.5 years.
- Landowners have expressed their opposition to a 115 kV transmission line being extended through their property. SRCSD would have to acquire an easement and condemn if necessary, lengthening implementation lead time.
- SRCSD is concerned the LNWI construction schedule does not allow for the lead time required to implement this option.

Correspondence between SRCSD and P.G. & E. has not resolved the concerns identified above. Notwithstanding SRCSD's good faith efforts to seek a viable service alternative for the South River Pump Station through the incumbent electric service provider, P.G. & E., has failed to demonstrate its ability and intention to provide adequate service in a timely manner to meet the overall LNWI project timeline.

If the LNWI is not completed by December 2006, the existing sewer system will reach capacity and sewer overflows may occur, risking the health and safety of the community. For these reasons along with the justifications presented below, on July 3, 2003, SRCSD formally requested that SMUD annex and extend electric service to the fifteen acre South River Pump Station site. SMUD is willing and able to provide service; SMUD has agreed to initiate the SOI Amendment and Concurrent Annexation application because SRCSD has not yet acquired the real property.

SMUD and SRCSD provide the following justification for the proposal:

1. SMUD has the ability to serve the proposed pump station. SMUD will extend a dedicated 12 kV powerline from it's Havenside Canal substation. SMUD can supply the initial and projected capacity needs to serve the South River Pump Station. SMUD has committed to provide service within two years after it receives notice to proceed.
2. SMUD currently provides service to the entire SRCSD system. SRCSD has worked closely with SMUD to determine which areas are most critical to come on line first in the event of a large scale power outage. Restoration of power to the pump station during such a power outage must be integral with these plans if the LNWI is to be operated in concert with the entire SRCSD system.

SUMMARY OF PACIFIC GAS & ELECTRIC COMMENTS¹⁵

P.G. & E. strongly opposes the proposed annexation. It asserts the following:

- i) P.G. & E. has lines both near and around the proposed pump station;
- ii) P.G. & E. has a Certificate of Public Convenience and Necessity;
- iii) P.G. & E. has a County franchise to place power lines in Yolo County road rights of way.

P. G. & E believes it can provide service that is reliable, equally timely and more cost-effective than SMUD. **Please see correspondence in Appendix I for further details.**

¹⁵ Please refer to the Correspondence section in Appendix I for complete details.

**PUMP STATION ENERGY DEMAND
AND PROJECTED REVENUE**

The pump station should be constructed by 2006. It will operate 24 hours a day/ 7 days a week. This type of load is preferred by utility companies because the demand is constant. The load for the pump station will increase as the demand for services increases.

Pump Station Projected Load

<i>Year</i>	<i>Kilowatt Hours</i>	<i>Megawatts</i>
2007	2,698,000 Kwh	2.7 MW
2010	4,441,000 Kwh	4.4 MW
2020	6,509,000 Kwh	6.5 MW

Estimated Revenue

The projected annual revenue for SMUD and P.G. & E. is shown below.

**Annual Estimated Energy Cost to SRCSD
to Operate the Pump Station**

	<i>2007</i>	<i>2050</i>
P.G. & E.	\$493,476	\$2,198,871
SMUD	\$337,008	\$1,501,668
SMUD ¹⁶	\$445,332	\$1,984,347

The total net present value (cost) is estimated to be:

<i>SMUD</i>	<i>P.G. & E</i>
\$14.88 M	\$20.69 M
\$15.30 M ¹⁷	

¹⁶ Includes exit fees.

¹⁷ Includes exit fees to be paid to P.G. & E.

PACIFIC GAS & ELECTRIC HISTORY & STATISTICS

The Pacific Gas and Electric Company, Inc., formed in 1905, is one of the largest combination natural gas and electric utilities in the United States. The Company is a wholly owned subsidiary of P.G. & E. Corporation.

\$10.4 Billion in Revenue in 2003

\$30.2 Billion in Assets

P. G. & E is regulated by the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

Population Served	14 Million
Area Served	70,000 Square Miles
Employees	19,575
Services	Gas and Electricity
Electric Customers	4.8 Million
Electric Lines	136,500 Circuit Miles

Generation Sources 2003 Portfolio:

Nuclear	29%
Fossil	5%
Conventional Hydro	36%
Helms Pumped Storage	16%
Hydro	<u>14%</u>
Total	100%

SMUD HISTORY & STATISTICS

SMUD serves a 900 square mile area covering most of Sacramento County and a very small portion of Placer County. SMUD was created on July 23, 1923 by voter approval. SMUD began providing electricity to customers on December 31, 1946. It took SMUD twelve years to settle litigation with P. G. & E to acquire P.G. & E.'s electric distribution system for \$13 Million. In terms of customers served, SMUD is now the nation's sixth largest community owned electric utility.

Population Served	1.2 Million	
Service Area	900 Square Miles	
Total Customers	533,387	[472,666 Residential 60,721 Commercial]
Full Time Employees	2,130	
Transmission Lines	482 Miles	
Peak Demand	2,779 Megawatts	
Total Operation Revenues	1.5 billion	
Total Operation Expenses	<u>1.4 Billion</u>	
Operating Income	76.9 Million	

<u>Customer</u>	<u>Annual Usage¹⁸</u>	<u>Average Cost Per kWh</u>
Residential	8,476	9.63 cents
Commercial/Industrial	92,620	8.7 cents

SMUD Supply

SMUD gets its electricity from diverse and competitively priced resources:

- Hydro-generation
- Co-generation
- Advanced and renewable technologies such as wind, solar, and biomass/ landfill.
- Power purchased on the wholesale market.

Comparison of SMUD Rates (January 2004)¹⁹

Roseville	\$67.08
SMUD	\$69.99
LA Power	\$78.11
So. Cal Edison	\$97.07
P.G. & E.	\$101.55
San Diego Gas & Electric	\$111.51

¹⁸ Average annual use in kilowatt hours (kWh).

¹⁹ Average [annual] residential monthly bill for usage of 750 kilowatt hours.

SMUD Resources

SMUD plans for customer local growth through a diverse mix of generation (supply side) and conservation (demand side) resources. The addition of 3 MW to 11 MV of pumping load beginning in 2006 would have minimal impact on SMUD's resource acquisitions. The added annual energy requirement of approximately 90 GWH's from the base load pumping plant represents less than one percent of SMUD's projected load of approximately 11,000 GWH's in 2006.

SMUD has adequate resources to serve the projected load and would most often serve the load with surplus energy. Less often, SMUD would serve the load with purchased energy from the market during peak demand periods. SMUD works proactively with its customers and is already working with SRCSD to conserve energy and to implement energy efficiency measures that reduce demand and energy requirements. The pumping site represents a single customer, consequently service calls should be minimal. Nonetheless, any work or maintenance on the dedicated line is critical.

ROLE OF THE CALIFORNIA PUBLIC UTILITY COMMISSION

Requirements for a district to provide service to an area that is being served by a public (investor-owned) utility [Pacific Gas and Electric Company]: The district shall not furnish service within territory served by an investor owned utility except upon approval by both of the following:

1. The Commission, after receipt and consideration of the report of the Public Utilities Commission made as provided in Government Code Section 56131.
2. The voters within the territory approve the annexation at an election.

Section 56131

The Executive Officer shall file with the Public Utilities Commission a certified copy of any proposal for a change of organization, or a reorganization which provides, as part of the change of organization or reorganization, that gas or electric service, as defined in subdivision (c) of Section 56129, be furnished by a district within any of the territory affected by the change of organization or reorganization. The certified copy need not contain any signatures if the proposal is by petition. After that change of organization or reorganization has been ordered, the clerk of the district shall file with the Public Utilities Commission a certified copy of any ordinance, resolution, or order made by the board of directors of a district proposing to furnish gas or electric service, as defined in subdivision (c) of Section 56129, within the territory.

After that filing, the Public Utilities Commission shall cause an investigation to be made and may conduct any hearings in connection with the proposal. Upon completion of the investigation and not later than 90 days after the date of the filing, the Public Utilities Commission shall make a report to the Commission stating whether in the opinion of the Public Utilities Commission, the proposed service by the district within the territory will substantially impair the ability of the public utility to provide adequate service at reasonable rates within the remainder of the service area of the public utility. The secretary of the Public Utilities Commission shall immediately file a certified copy of that report with the executive officer.

Government Code Section 56875

If any sufficient petition or resolution of application shall propose, as a part of the petition or resolution of application that the district shall furnish gas or electric service, as provided in Sections 56129 to 56131 inclusive, a certified copy of the report of the Public Utilities Commission shall be on file with the executive officer prior to setting that petition a resolution for public hearing by the Commission.

Public Utilities Commission Findings and Comments

The Public Utilities Commission is required to issue an opinion stating whether or not the proposed annexation would substantially impair the ability of the public utility to provide adequate service at reasonable rates within the remainder of the service territory of P.G. & E. *The California Public Utilities Commission has adopted Resolution E-3876 dated August 19, 2004, attached, which states that service to this project by the Sacramento Municipal Utility District will not negatively impact Pacific Gas & Electric Company.*

ISSUES AND FACTORS TO BE CONSIDERED

1. *Reliability of service*
2. *Timely delivery of service*
3. *Rates/ Capital Construction Costs*
4. *Integrated service operation. (SMUD/ SRCSD)*
5. *Impact on Current SMUD Customers*
6. *SMUD is a Public Utility. (Board of Directors elected.)*
7. *Purpose of Annexation*
8. *Growth Inducing (Population, Employment, Housing)*
9. *Impact to Yolo County/ City of West Sacramento.*
10. *Impact to Special Districts*
11. *Creation of an Island*
12. *Impact to Pacific Gas & Electric Company*
13. *Impact to Pacific Gas & Electric Company Customers*
14. *Options/ Alternatives in lieu of Annexation*
15. *Public Utilities Commission Resolution and Findings*
16. *Yolo LAFCo Letter and Comments*
17. *Agricultural/ Open Space Impacts*
18. *Assessor's Parcel/ Legal Description*
19. *Property Owner Consent*
20. *Property Tax Sharing Agreement*
21. *Environmental Issues/ CEQA Analysis and Findings*
22. *Assessed Valuation and Property Tax*
23. *Franchise Fees*
24. *Existing Land Uses*
25. *Municipal Service Delivery Impacts to Yolo County*
26. *Infrastructure Impacts to Yolo County*
27. *Determination of Consistency with Yolo County General Plan*
28. *Delta Protection Commission*
29. *Yolo County Special Districts*

ANALYSIS

1. **Reliability of Service**

Currently, SMUD has a very reliable service delivery system; both the number and length of outages are lower than the industry average. This is **critical** for Sacramento Regional County Sanitation District pump station operations.

2. **Timely Delivery of Service**

SMUD has the ability to construct the required electrical infrastructure to meet the proposed construction schedule for the South River Pump Station.

3. **Rates/ Capital Construction Costs**

SMUD has lower rates than Pacific Gas & Electric Company rates. This is advantageous to SRCSD customers. This advantage will lower the District's cost to operate the pump station. SRCSD will be required to pay for the service line extension from the SMUD substation to serve the South River Pump Station. SMUD will be required to operate and maintain the equipment and facilities pursuant to its standard rate structure for individual uses.

4. **Integrated Service Operation (SMUD/ SRCSD)**

As previously mentioned, the SRCSD system requires a reliable electric system to operate pumps and equipment. It is more convenient to plan and coordinate with a single utility provider than multiple providers. SRCSD LNWI has two pump stations that must be operated as a single system. If this proposal is approved, SMUD will provide service to both pump stations.

5. **Impact on Current SMUD Customers**

SMUD has indicated that the proposed service to the SRCSD South River Pump Station will not impact current or future SMUD customers. The Pump Station demand is less than one percent of SMUD total supply. SMUD has determined there would be no adverse impacts to its power generation resources, customers, or ability to deliver services if the pump station site is annexed to SMUD.

6. **SMUD is a Public Utility**

Ratepayers elect the Board of Directors. The District has seven directors that represent residential, commercial and industrial uses, are elected by ratepayers. The Cortese Knox Hertzberg Local Government Reorganization Act of 2000 and Sacramento Local Agency Formation Commission policies favor the provision of municipal services by public agencies.

7. **Purpose of Annexation**

The area to be served is a single parcel containing approximately 14.948 acres. ***No other territory will be served.*** The pump station will be owned and operated by Sacramento Regional County Sanitation District, a single user, as a waste water pump station. The District is also acquiring access, sewer line and utility easements to the site. The project does not generate population growth to this site.

8. **Growth Inducing (Population, Employment, Housing)**

Neither the SMUD annexation or LNWI is growth inducing to this site or the surrounding territory. The design of the Lower and Upper Northwest Interceptor has been based on growth assumptions of existing general plans as well as current load requirements. New service areas will be required to annex to the District, provided the District has both treatment and sewer line capacity, prior to service. The District cannot serve territory that is not located in the District boundary or service territory. SMUD's proposal to annex this site is for the sole purpose of providing service to SRCSD facilities and equipment. The proposed SMUD annexation does not have growth inducing impacts because it proposes to serve a single customer, SRCSD.

9. **Impact to Yolo County/ City of West Sacramento**

Annexation of this parcel into SMUD's service boundary should not have any significant impact on Yolo County or the City of West Sacramento. The proposed annexation will not directly impact surrounding land uses or change land use. Any change in surrounding property land use is subject to approval by the City of West Sacramento or Yolo County. **The identified development impacts caused by construction and operation of the pump station will occur whether SMUD or P.G. & E. serves this site.**

10. **Impact to Special Districts**

This proposal has no impact on any special district in either Sacramento County or Yolo County. No detachments are proposed; thus, no impact to district property tax revenue is involved in this proposal. In the future, SRCSD could annex this parcel into its District boundary. At that time, the District should be exempt from property taxes and special districts would be impacted. The estimated impacts have not been projected. In addition, if this territory is annexed into the City of West Sacramento, this parcel may be exempt from paying property taxes under the Master Agreement between SRCSD and the City of West Sacramento. Special districts will not be impacted whether SMUD or P. G. & E. serves the pump station. **The potential fiscal impact to special districts as a result of future development exists whether SMUD or P.G. & E. provides electrical service to the pump station.**

11. **Creation of an Island**

The territory proposed for annexation will be an island that is not contiguous to SMUD's boundary. The sole purpose of the proposal is to provide electric service by a public utility district for a public sanitary sewer service.

Generally, the creation of islands is discouraged by state law and LAFCo policies. Islands do exist and there have been non-contiguous service areas created from time to time (i.e., City of Galt has several small unincorporated islands within the city limit boundary and the City's sewer treatment plant is a non-contiguous parcel (allowed by LAFCo statute).

Government Code Section 56744 although it specifically relates to City annexations and incorporations, allows the Commission to make exceptions.

"Unless otherwise determined by the Commission pursuant to Subdivision (m) of Section 56375, territory shall not be incorporated into, or annexed to, a city pursuant to this division if as a result of that incorporation or annexation, unincorporated territory is completely surrounded by that city or by territory of that city on one or more sides and the Pacific Ocean on the remaining sides."

Government Code 56375 (m). "[The Commission may] ...waive the restrictions of Section 56744 if it finds that the application of the restrictions would be detrimental to the orderly development of the community and that the area that would be enclosed by the annexation or incorporation is so located that it cannot reasonably be annexed to another city or incorporated as a new city."

In another example, many cities or unincorporated areas are served by multiple districts or agencies that provide the same service. For example, the City of Citrus Heights is served by at least two different water districts.

12. **Impact to Pacific Gas & Electric Company**

P. G. & E. is not currently serving this 15-acre parcel. If SMUD is allowed to serve the area, there are no facilities, or assets, to be transferred to SMUD. Consequently, there is no valuation in terms of existing facilities or infrastructure to be determined.

SMUD service to this pump station will neither duplicate P.G. & E. facilities nor render P. G. & E. facilities idle. Annexation of the site will not result in excess P.G. & E. generation capacity. It will not overlap P.G. & E. service territory. However, if the territory surrounding the pump station site develops, P.G. & E. facilities may eventually surround the pump station site. SMUD annexation of the pump station site limits future revenue to P.G. & E. for this site. The SMUD facilities will be underground and will not be visible to surrounding properties.

Exit Fees: California Energy Crisis/ Cost Responsibility Surcharge

The allocation of cost responsibility surcharges involving new municipal departing load is pending before the California Public Utility Commission in a limited rehearing of Decision (D.) 03-07-028.

Cost Responsibility Surcharge (CRS). This surcharge has been approved to recover money loaned by the State of California General Fund for power it purchased during the California Energy Crisis. This surcharge is part of the State's Emergency Rate Stabilization Proceedings. The surcharge is passed on to ratepayers of investor owned utilities. It is likely to be imposed until the bonds are paid off (at least ten years).

The PUC will determine how the provision of exit fees will be implemented. Currently, it is uncertain whether or not SRCSD would have to pay exit fees if SMUD becomes the service provider for the proposal site.

P.G. & E. argues that if the California PUC exempts new load taking service from exit fees, P.G. & E.'s remaining customers would potentially have a larger fee because the recovery costs would be allocated to fewer customers. The PUC indicated in its finding that whether or not SRCSD paid the exit fees, the impact to P.G. & E. customers would not be significant.

Municipal utility districts continue to argue that areas not previously served should not be responsible for exit fees. Exit fees were imposed on territory that received service from IOU and which annexed to municipal service providers during the energy crisis.

The California PUC is scheduled to render a final determination on the issue of whether or not new municipal load will be exempt from exit fees by November 19, 2004. If new load areas are not exempt, SRCSD will be required to pay exit fees. It should be noted that if exit fees apply, the total cost (SMUD rate + exit fees) **remains below** the P. G. & E. alternative.

13. **Impact to Pacific Gas & Electric Company Customers**

The proposal does not create any financial or service delivery impacts to remaining P. G. & E customers according to the Public Utilities Commission Resolution E-3876.

14. **Options/ Alternatives in Lieu of Annexation**

SMUD and SCRSD might be able to enter into a contract for service pursuant to Government Code Section 56133. This service option has not been analyzed. "Across the fence" service provision options have not been reviewed because it is not a preferred service alternative.

15. **Public Utilities Commission Resolution and Findings**

On August 19, 2004, the Public Utilities Commission adopted Resolution E-3876. The Public Utilities Commission made the following findings:

- The cost responsibility of "new municipal load" for CRS depends on the outcome of the limited rehearing granted in D.03-08-076.
- This uncertainty means there is a possibility the new municipal load of SRCSD's SRPS would not be responsible for payment of CRS or other charges including those for RA/ DRC.
- Any cost allocation impacts to P.G.&E.'s remaining customers from this particular annexation are minimal, should new municipal load be exempted from having to pay CRS and RA/ DRC charges.
- Allowing SMUD to install its proposed distribution line to provide service to the SRPS site would not duplicate existing P.G.& E. distribution infrastructure, potentially rendering P.G.&E. distribution facilities idle.
- P.G.&E.'s concerns about possible future facility duplication are purely speculative without adequate substantiation at this point in time.
- The SRPS is the only entity in an otherwise currently undeveloped area; thus P.G.&E.'s "cherry picking" argument is unsupported.
- All factors considered, SMUD's annexation of the load at issue here will not substantially impair P.G.&E.'s ability to provide adequate service at reasonable rates within the remainder of its service territory.
- The cumulative impact of additional such proposals may in the future pose a substantial impairment to the utilities' ability to provide adequate service at reasonable rates.

16. **Yolo LAFCo/ County Letters and Comments**

A letter dated September 7, 2004 from Yolo LAFCo states, "While Yolo LAFCo does not believe SMUD should be responsible for the following items, we believe further discussion and evaluation is warranted."

- The pump station is proposed to be built on prime agricultural soil. The environmental document rarely discussed the economical effects the presence of the pump station will have on cultivating the remaining land in Parcel 044-020-050 or adjacent farmland.

Response:

This issue is not relevant to the proposed SMUD annexation. The economical effects of removing this 15 acre parcel from cultivation will occur whether P.G. & E. or SMUD is the service provider for the South River Pump Station. Any impact on cultivation of the remaining 270 acres will be the same whether P.G. & E. or SMUD is the service provider for the South River Pump Station.

- Yolo County LAFCo's Agricultural Conservation Policy requires 1:1 mitigation for the loss of prime agricultural land. As noted in the environmental document and subsequent correspondence, SRCSD paid "in lieu" fees for the loss of 10 acres of farmland. The pump station site is 15 acres.

Response:

This issue is neither relevant to the proposed SMUD annexation nor is it a SMUD responsibility. The landowner, Sacramento Regional County Sanitation District, has agreed to mitigate for the loss of agricultural land on a 1:1 basis for land in the amount of 25 acres.

- We have noted our concerns regarding the growth-inducing effects, the presence of a pumping station, the SRCSD sewer lines and the provision of electrical service to this site on Parcel 044-020-050 and surrounding lands. The preliminary application before the City of West Sacramento for the development of 044-020-050 and its two adjacent parcels seem to lend validity to those concerns.

Response:

This concern is not valid. Collector sewer lines cannot be connected directly to the pump station or the sewer transmission line. In addition, the adjacent parcels cannot receive service from SRCSD or SMUD because they do not lie within the boundaries of these districts. These parcels appear to have been owned and held for some time by Riviera Lakes Joint Venture for future growth. Should these parcels be developed, Yolo LAFCo is the responsible agency for making these determinations.

- The property tax agreement has to be completed as specified in Revenue and Taxation Code 99.

Response:

No property tax exchange will take place in the proposed SMUD annexation. Therefore, there is nothing to negotiate. The property tax base to the County of Yolo and the special districts within the 15 acre site proposed for

annexation will not change. Upon annexation, SMUD is not entitled to any property tax.

17. **Agricultural/ Open Space Impacts**

These issues have been addressed by SRCSD. The District has adopted a Mitigation Monitoring and Reporting Program that mitigates the loss of agricultural land 1:1. SMUD will provide only electric service to this site. Construction of the underground electric facilities will be located within existing easements and rights-of-way. Consequently, no supplemental mitigation should be required. **The same impact to agricultural land will occur whether SMUD or P.G. & E. provides electrical service to the pump station.**

18. **Assessor's Parcel/ Legal Description**

The proposal creates a new parcel. This parcel **will not** be exempt from real property tax unless it is annexed into the boundaries of the SRCSD or the area is annexed into the City of West Sacramento. The boundary is definite and certain. SMUD shall be authorized to provide service exclusively to this 14.948 acre pump station site.

19. **Property Owner Consent**

Sacramento Regional County Sanitation District is in the process of acquiring this 15-acre parcel. The District has a Court Order of Possession and Right of Entry issued by Yolo Superior Court. Moreover, the current property owner, Riviera Joint Venture, agrees to the proposed annexation by SMUD for the purpose of serving the South River Pump Station.

20. **Property Tax Sharing Agreement**

None required for SMUD annexation proposal. SMUD is an enterprise district and will not receive ad valorem property tax revenue as a result of this annexation. SMUD is not acquiring any real property to serve the Regional Sanitation District pump station. Consequently, SMUD's service to the site does not create any change or impact to property taxes within Yolo County or its special districts.

21. **Environmental Issues/ CEQA Analysis and Findings**

The Sacramento Local Agency Formation Commission finds that, with respect to the SMUD Sphere of Influence Amendment and Annexation project, the Commission is a responsible agency for compliance with the California Environmental Quality Act pursuant to Section 15381 of the Guidelines for Implementation of CEQA; and that the Sacramento Regional County Sanitation District, as lead agency, certified an Environmental Impact Report (EIR) for the Lower Northwest Interceptor project, of which the SMUD Sphere of Influence Amendment and Annexation project is a component, on July 23, 2003.

The Sacramento Local Agency Formation Commission further finds that the Commission has considered the previously certified EIR and Addendum prior to its decision on the SMUD Sphere of Influence Amendment and Annexation project as required by Section 15096(f) of the Guidelines for the Implementation of CEQA and has independently made findings of the Commission's environmental conclusions with respect to the project consistent with Sections 15091, 15093, and 15096(h) of the CEQA Guidelines. On the basis of its consideration of the Addendum to the EIR, the Commission finds that even though certain changes have occurred with respect to the project circumstances, such changes do not give rise to any of the conditions set forth in Section 15162 of the CEQA Guidelines that would require preparation of a supplemental environmental document. The reasoning for this conclusion is set forth in an Addendum to the EIR dated August 5, 2004.

The Commission further finds that the Commission has considered the certified EIR, together with the Addendum, in its evaluation of the SMUD Sphere of Influence Amendment and Annexation project, and that no mitigation measures or project alternatives identified in the EIR or Addendum are within the jurisdiction or authority of the Commission to implement pursuant to CEQA Guidelines Section 15096(g).

Based on the foregoing, the Commission hereby directs that a Notice of Determination be filed based on the Commission's action on the SMUD Sphere of Influence Amendment and Annexation project.

22. **Assessed Valuation and Property Tax**

Sacramento Regional County Sanitation District, as a public utility, is acquiring the 15 acre parcel under an eminent domain condemnation action. The District has legal authority by Statute to acquire real property in condemnation proceedings. **The 15-acre site to be annexed to SMUD will not be annexed into SRCSD boundaries.**

Property Taxes

Sacramento Regional County Sanitation District does not propose to annex the 15-acre parcel into its District boundary at this time. This parcel currently is located in the unincorporated area of Yolo County and not within the City of West Sacramento. Thus, Sacramento Regional County Sanitation District will be required to pay property taxes to Yolo County and special districts that serve this site.

The assessed value of the 15-acre site will be determined by the Yolo County Assessor in accordance with State law. Section 11 of Article 13 of the State Constitution sets forth the valuation methodology. [Note: New Improvements for the pump station constructed by the District will be exempt from property tax.]

Generally, public utilities are taxed at a favorable rate. The Yolo County Assessor cannot assess this property until it is acquired by the District. Section 11, Article 13, requires the Assessor to value the property using three different valuation methods and apply the lower value. In the short term, Sacramento Regional County

Sanitation District will pay property taxes that should be equal to at least slightly more than the current taxes. This should result in minimal impact to Yolo County and its special districts. **This impact will not change upon SMUD's annexation and provision of electric service to the site.**

Current Assessed Valuation

Sacramento Regional County Sanitation District is acquiring approximately 14.948 acres from a larger parcel that consists of 288.83 acres. The larger parcel has a current assessed valuation of \$1,685,262 (land and improvements).

The current annual property tax for the parcel is \$17,089.46.

The assessed value per acre is \$5,834.79.

The property tax per acre equals \$59.17.

Based on the current property tax per acre, the proposal site [14.948 acres] at \$59.17 [share of property tax] per acre is \$884.47 per year.

The District property tax will be based on the purchase price of the site and methodology established by Section 11 of Article 13 of the California State Constitution. ***The estimated impact to Yolo County and its special districts should not result in any substantive impact. The proposed SMUD annexation and service to the pump station site does not influence or impact this property tax issue.***

Property Tax Policy Issues [FOR INFORMATION ONLY]

In the future, it is possible that the District will become exempt from paying any property tax under two situations:

1. If Sacramento Regional County Sanitation District annexes the 15-acre parcel into its District boundary, it will no longer be subject to property taxes because it is a public agency.
2. If this parcel is annexed into the City of West Sacramento, under the terms of the Master Agreement between the City of West Sacramento and Sacramento Regional County Sanitation District, the District is not be required to pay property taxes.

A second policy issue concerns the highest and best use of this 15 acre parcel. If this parcel were zoned and developed into other uses, Yolo County and its special districts would likely receive a greater amount of property tax revenue. However, a public utility has the ability to acquire this site for public purposes.

Finally, while this 15 acre pump station site may negatively impact potential property tax revenue, the pump station provides a direct benefit to the City of West Sacramento because it will provide sanitation service to the residents of the City of West Sacramento. In fact, the pump station may enhance property values within the City of West Sacramento and allow the City to issue building permits. The County's share of property tax would also likely increase. **This issue is not a factor or**

impact related to the proposed SMUD annexation. It is a separate and independent issue that should not be addressed during the SMUD annexation process.

Property Tax Sharing Agreement

No property tax exchange is necessary or required for annexation to SMUD because existing tax apportionments will not change.

Revenue and Taxation Code 99.01 does not apply to SMUD because it will not receive any share of the property tax.

- a. For the purposes of Section 99, in the case of a jurisdictional change that will result in a special district providing one or more services to an area where those services have not been previously provided by any local agency, the following shall apply:
 - (1) The special district referred to in this subdivision and each local agency that receives an apportionment of property tax revenue from the area shall be considered local agencies whose service area or service responsibility will be altered by the jurisdictional change. Simply, there is no property tax to exchange.

23. **Franchise Fees**

Public Utility Code Section 2006 provides that cities and counties can collect 2% of the gross annual receipts arising from the use, operation or possession of the franchise. The Pacific Gas & Electric Company pays Franchise Fees to Yolo County to operate and locate its electric and gas lines within public rights-of-way.

Franchise fee is defined: Charges to utilities for exclusive/ non-exclusive rights to operate within municipal boundaries for electricity, telephone, cable television, solid waste, water, etc. The utility typically passes these costs on to their customers/ratepayers.

SMUD, a public entity, is exempt from the payment of franchise fees to Yolo County. If P.G. & E. provides service to the Sacramento Regional County Sanitation District pump station, P. G. & E. would likely be required to pay the franchise fee and Yolo County would likely receive an increase in franchise fees.

Yolo County does not currently receive any franchise fees for this parcel because no service is provided. Therefore, Yolo County would not lose existing revenue. However, potential growth in franchise fees paid to Yolo County may be impacted because P.G. & E. gross revenues from serving the pump station would not be factored into future franchise fee calculations. This is an opportunity loss, not a "real revenue" loss. The opportunity loss in new franchise fees to Yolo County is estimated to be approximately \$35.00 per year per \$1,000,000 in gross receipts. Note: This is an estimated **loss of future revenue only**.

24. **Existing Land Uses**

The existing land use is zoned agricultural located in the unincorporated area of Yolo County. Sacramento Regional County Sanitation District is acquiring 15 acres out of a larger parcel consisting of 288 acres. The proposed pump station site is exempt from zoning because it is territory acquired by a public agency for public utility purposes, specifically a pump station for a sewer transmission line. This project was approved by the Sacramento Regional County Sanitation Board of Directors.

The property surrounding the pump station site is zoned agricultural. However, the property owner has submitted an application to the City of West Sacramento to prezone the area for 2,500 residential units. This application includes a Sphere of Influence Amendment and proposed Annexation to the City of West Sacramento. In addition, if this proposal is approved, it will also need to be annexed into Sacramento Regional County Sanitation District.

The Yolo Local Agency Formation Commission will process the Sphere of Influence Amendment and City Annexation upon request of the City of West Sacramento. The property owner submitted his application to the City in August 2004. The City Planning Director indicates the City's prezone process is likely to take at least one year before the City can make application to Yolo LAFCo.

The District does not propose to build an occupied plant with permanent staffing needs or employees on the proposal site. The pump station will be unmanned with periodic attendance by maintenance staff.

Environmental and economic impacts of surrounding land in agricultural uses should have been addressed in the Environmental Impact Report prior to approval of the SRCSD pump station project.

25. **Municipal Service Delivery Impacts to Yolo County**

The construction and operation of the proposed pump station should not adversely impact any delivery of services, e.g., police, fire, parks, animal control, water, roads, or any other service delivery system. **Any municipal service delivery impacts that may be related to the SRCSD pump station will be the same whether SMUD or P.G. & E. provides electric service.**

26. **Infrastructure Impacts to Yolo County**

The construction of the pump station should not require any immediate infrastructure for schools, roads, water, housing, drainage, etc. This is not a development project that will directly impact public infrastructure as would residential, industrial or commercial development. **Any infrastructure requirements associated with the SRCSD pump station will be the same whether SMUD or P.G. & E. provides electric service.**

27. **Determination of Consistency with Yolo County General Plan**

On August 3, 2003, the Yolo County Planning & Public Works Department provided a letter to Sacramento Regional County Sanitation District that stated a determination of consistency for the Lower Northwest Interceptor Project with the Yolo County General Plan.

The letter stated the following:

"A goal of the Yolo County General Plan is to provide for public health, safety and general welfare. The Yolo County General Plan also does not specify land use or other policies contrary to this goal that would prohibit the proposed public utility use.

The Yolo County General Plan designates the land use of the project area and LNWI alignment as Agricultural (AG). Given that SRCSD will be returning agricultural lands back to their original agricultural state following construction, changes to agricultural lands will be temporary and agricultural activities can resume following construction of the LNWI. For those lands taken out of agriculture on a more permanent basis, i.e., LNWI South Pump Station site and new access service roads to and from the LNWI, it is our understanding that SRCSD will be participating in agricultural land mitigation in the form of in-lieu fees to be coordinated with Yolo County."

28. **Delta Protection Commission**

Your Executive Officer has notified the Delta Protection Commission. The Delta Protection Commission has requested that Sacramento LAFCo readopt the conditions of the original Environmental Impact Report that preclude direct hookups to the pump station and LNWI to prevent growth inducing impacts. Such action is unnecessary by your Commission. SRCSD states that direct hookups to the pump station and force mains will not be allowed. Moreover, Sacramento Regional County Sanitation District cannot provide service to territory that is outside its district boundary.

29. **Yolo County Special Districts**

No substantive comments have been made by special districts. The North Delta Water Agency indicated that the proposed annexation will not impact the operation of the Agency. No other special districts provided comments.

ANNEXATION POLICY ISSUE

**Which public utility is the best service provider for cost-effective, reliable electric service to the SRCSD South River Pump Station?
Should your Commission approve a transfer of service responsibility?**

LAFCo has the authority to approve, modify or deny the proposal. Both SMUD and P.G. & E. are capable of providing service to the South River Pump Station site. Depending upon representations made, each utility believes that it is best suited to provide service to the site at the lowest price.

SMUD is a municipal utility district that provides service primarily to Sacramento County. SMUD came into existence by voter approval in 1923. P.G. & E. is an investor-owned utility. SMUD has a policy of not annexing territory unless the owner (or residents) of the territory bring forth a proposal requesting annexation and only then if SMUD determines there is no negative impact to SMUD customers.

SMUD has made application to Sacramento LAFCo based on a request from SRCSD. SRCSD has conducted an evaluation of service options for the South River Pump Station; based on this analysis, the District believes it is in its best interest to obtain electric service from SMUD. **Based on cost-effectiveness, reliability, and the ability to meet the District's construction schedule, the District has determined that SMUD is the District's preferred service provider.** This proposal will not allow SMUD to provide service to any other portion of Yolo County, or to its cities.²⁰ Annexation of the proposal area to SMUD will not negatively impact the remaining P.G. & E. customers. The proposed SMUD annexation will not change any impacts reviewed and analyzed in the Environmental Impact Report that are associated with the SRCSD pump station project.

At one time, State law encouraged competition and deregulation among energy-producers, primarily those with large customers. The energy environment today is not resolved and remains complicated. P.G. & E. is regulated by the Public Utilities Commission; rates are set by the P.U.C. A portion of the rates charged are used to pay off loans related to P.G. & E.'s bankruptcy settlement. The Commission must decide between these two very capable energy providers, which provider can best serve the proposal territory. The Commission must make determinations and findings regarding the implications of that choice.

EXECUTIVE OFFICER'S COMMENTS

SMUD has the capacity to serve the South River Pump Station. There are numerous benefits to SRCSD, the City of West Sacramento, the cities within Sacramento County and the County of Sacramento. Currently, SMUD provides economical and reliable service to its customers. SMUD has the ability to meet the construction schedule for the SRCSD pump station. The additional load does not have the capacity to negatively impact SMUD's current customers. The proposal site is currently unserved; there are no immediate impacts to P. G. & E. If SMUD serves the 15-acre parcel, P. G. & E will not receive future revenue

²⁰ Note: Underway currently, a study is investigating several SMUD service options within a portion of Yolo County and several cities in Yolo County.

from the site, however, at the same time, neither will it have service-related costs and responsibilities. *After review, I have determined that it is in the best interest of the bi-county public that a public utility district, SMUD, serve the pump station of a public sanitation district, SRCSD.*

RECOMMENDATION

I recommend your Commission approve the proposal for the provision of electric service by Sacramento Municipal Utility District to the Sacramento Regional County Sanitation District's Lower Northwest Interceptor South River Pump Station, as stated in the Recommendation outlined on pages one and two of this report.

Respectfully submitted,

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Peter Brundage
Executive Officer

PB:Maf
(SMUD)

ATTACHMENT I

***Letter faxed to Peter Brundage, Executive Officer,
Sacramento LAFCo, October 19, 2004,
From Randall J. Litteneker,
Pacific Gas and Electric Company, re
Response of P.G. & E. to SMUD's Response***