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Subject: OC Register: Editorial: Energy investors' eyes on California

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OC Register
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The California Public Utilities Commission has devoted this week to five days of public hearings on the San Onofre Nuclear Generating Plant, which could go a long way to determining whether the state regulatory agency allows plant owners Southern California Edison and San Diego Gas & Electric to at least partially recover from ratepayers the up-to-$4 billion cost of shuttering the plant.

Meanwhile, in Northern California, Pacific Gas & Electric is facing a potential fine proposed by PUC staff of as much as $4 billion stemming from a 2010 natural gas explosion of its San Bruno pipeline. That's on top of the $565 million in legal settlements and other claims to which the utility agreed last month.

The financial travails of SCE, SDG&E and PG&E elicit little sympathy among much of the public, including their ratepayers, who are primarily concerned that the billions of dollars the utilities ultimately pay out not be reflected in higher electricity bills.

Yet, California's big three utilities do have at least one unexpected sympathizer – PUC commissioner Mark Ferron.
It's not because Mr. Ferron, appointed by Gov. Jerry Brown in 2011, is soft on the state's power companies. It's because he's concerned about the deleterious consequence of saddling Edison, SDG&E and PG&E with billions of dollars in unrecoverable costs.

In a report made public last week, the PUC commissioner related that he recently met with three groups of investors, collectively representing more than $3 trillion in assets under management.

They "eat, sleep and breathe public utilities across the country and around the world," he said. And "they were very focused on learning more about the two big 'headline issues' in California: San Bruno and San Onofre."

The investors were concerned that California might return to the bad old days of the state's 2001 energy crisis, which saw the bankruptcy of PG&E and near-bankruptcy of Edison International, parent company of SCE.

The Golden State was viewed then, the investors told Mr. Ferron, as a "capital-unfriendly, 'banana republic.'" That period, read the PUC commissioner's report, "represented a kind of 'lost decade' for investors in California utilities."

In more recent years, the investment climate for California utilities has markedly improved, according to Mr. Ferron, who attributed that to the "cumulative actions" of the PUC, which resulted in the state's improvement, in the eyes of utility investors, "from being a high-risk outlier to being somewhere in the middle of the pack in terms of risk perception."

That improved perception among investors could be undone by forthcoming decisions by Mr. Ferron's colleagues on the PUC.

If the agency hits PG&E with a multibillion dollar fine, if it prevents Edison and SDG&E from recovering any of the massive cost of shutting down San Onofre, the Golden State may once again be viewed by the investment community as a capital-unfriendly, banana republic.

If that happens, warns Mr. Ferron, there almost certainly would be an increase in the cost of financing capital for the state's utility sector, which, in turn, "would cost ratepayers billions of dollars in added expense." That's why we urge PUC to resist the temptation to sock it to Edison, SDG&E and PG&E.