STATE OF CALIFORNIA GRAY DAVIS, *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Notice of Preparation (NOP)

Environmental Impact Report
for the
Proposed Valuation and Divestiture of Hydroelectric Generation and Related Assets
by Pacific Gas and Electric Company
Application No. 99-09-053

INTRODUCTION

This Notice of Preparation (NOP) initiates the preparation of an Environmental Impact Report (EIR) under the direction of the California Public Utilities Commission (CPUC). Pacific Gas and Electric Company has specifically proposed to sell by auction its hydroelectric generation assets and other related assets including associated water rights and watershed lands. The "project" for purposes of CEQA is the transfer of ownership, and the possibility that ownership change, and perhaps ownership by multiple entities, would result in changed operation of Pacific Gas and Electric Company's hydroelectric generation assets, including the lands for sale. These assets are located on rivers and streams throughout Northern and Central California, and the way in which they are operated suggests there are important hydrological issues at stake, as well as related biological, recreational and other environmental issues. For this reason, the characteristics and motivations of new owners and the way in which multiple new owners would manage the hydroelectric assets deserve careful consideration. The CPUC will consider the effect of the project on public interest values, including the protection of environmental resources. In this EIR, the CPUC will fully disclose all of the potential significant physical environmental consequences of the divestiture as it has been proposed by Pacific Gas and Electric Company. In addition, in the EIR, the CPUC will present feasible measures that could be undertaken to avoid or lessen the magnitude of the impacts of Pacific Gas and Electric Company's proposal. Finally, the CPUC will present an evaluation of a reasonable range of feasible alternatives to Pacific Gas and Electric Company's proposal.

In order to ensure the EIR addresses all appropriate environmental concerns, this NOP is intended to seek all relevant comments pertaining to the scope of analysis in the EIR. Comments in response to this NOP are required to be submitted no later than June 1, 2000.

PROJECT DESCRIPTION

On September 30, 1999, Pacific Gas and Electric Company filed an application (Application No. 99-09-053) with the California Public Utilities Commission (CPUC) to market value and sell (divest) its hydroelectric generating facilities and related assets through an auction. The facilities Pacific Gas and Electric Company proposes to divest include 68 powerhouses, 110 generating units totaling a normal operating capacity of 3,896 megawatts (MW), close to 2.3 million acre feet of reservoir capacity, certain land and non-consumptive water rights associated with the powerhouses, consumptive water rights, and other lands included in the generation rate base. These facilities stretch from the Pit River in the north to the Kern River in the south (see Figure 1). With the exception of three facilities and some of the associated lands, Pacific Gas and Electric Company has authority to operate the facilities it proposes to divest under licenses granted by the Federal Energy Regulatory Commission (FERC). The expiration dates of these licenses range from 1975 to 2033.[1]

Pacific Gas and Electric Company proposes to transfer all powerhouses, reservoirs, water conveyances, equipment, support facilities and land used to support the generation function of the hydroelectric powerhouses, as well as other associated watershed lands. In some cases, Pacific Gas and Electric Company proposes to retain certain lands, or support facilities, and grant access to the new owners through appropriate easements, leases, or shared services agreements. Pacific Gas and Electric Company proposes to retain ownership of transmission and distribution assets and lines from each generating facility. Pacific Gas and Electric Company also proposes that the new owners would be expected to reach agreements with the utility that would cover shared access to facilities or services and allocation of responsibility for maintenance and environmental issues.

PACIFIC GAS AND ELECTRIC COMPANY ASSETS TO BE TRANSFERRED

The following provides further explanation of the assets proposed to be divested by Pacific Gas and Electric Company. Attachments 1 and 2 include a description of the assets and lands that are included in the proposed sale.

Hydroelectric Facilities and Equipment

Pacific Gas and Electric Company's hydroelectric system consists of 110 generating units at 68 powerhouses with a total generating capacity of 3,896 megawatts. This system includes 26 FERC licenses, and three projects not covered by FERC licenses. It includes 99 reservoirs, 76 diversions, 174 dams, 184 miles of canals, 44 miles of flumes, 135 miles of tunnels, 19 miles of pipe and five miles of natural waterways. The system also includes switching centers that remotely control the generation facilities, centralized service centers, fleet vehicles, multiple modes of communications, materials and supplies inventories, office equipment and other miscellaneous instrumentation and monitoring equipment. The locations of the facilities are depicted on Figure 1. The typical features of a hydroelectric plant are shown in Figure 2. As part of the EIR, Pacific Gas and Electric Company's operational constraints (i.e., minimum stream flows, and reservoir operation requirements) will be evaluated to determine the flexibility in operations available to new owners of the hydroelectric plants.

With the exception of certain facilities and equipment to be retained and shared with new owners, Pacific Gas and Electric Company proposes that all of these assets would be market valued through the auction and transferred to new owners. In the auction, Pacific Gas and Electric Company has proposed that the assets would be grouped together and sold in bundles. According to Pacific Gas and Electric Company, the proposed bundling is designed to keep the existing FERC licenses intact and keep together generation facilities and contracts that are hydrologically linked or rely upon the same water rights (see additional discussion of bundling under Asset Bundling, page 4).

[1] **The facilities that operate with licenses, which previously expired, continue to operate under temporary licenses that are renewed annually.**

Water Rights

Pacific Gas and Electric Company claims numerous consumptive and non-consumptive water rights to support its hydroelectric operations, including pre-1914 appropriative rights, riparian rights, permitted and licensed rights governed by the State Water Resources Control Board (SWRCB), and rights to use water based on agreements with third parties. These rights are described, in part, in 161 current statements of water diversion and use, 84 licenses, 9 permits, and 2 contracts. Pacific Gas and Electric Company also has three water rights applications pending before the SWRCB. Research for the EIR could reveal other water rights or entitlements. Pacific Gas and Electric Company would deed its water rights and/or assign its water rights contracts associated with a particular facility to the new owner(s) of those assets.

Pacific Gas and Electric Company's operations also are subject to more than 45 separate contractual obligations to supply and/or deliver water to third parties for a variety of consumptive and non-consumptive uses. These contracts allow parties to divert water from Pacific Gas and Electric Company's facilities, use water based on Pacific Gas and Electric Company's consumptive water rights, or require Pacific Gas and Electric Company to release water to satisfy downstream rights. The EIR will identify any additional water supply or delivery obligations not included in Pacific Gas and Electric Company's application. Pacific Gas and Electric Company's water-related obligations would be transferred along with the assets with which they are associated.

As part of the EIR process, Pacific Gas and Electric Company's water rights and contractual obligations will be evaluated to ascertain the extent to which they constrain Pacific Gas and Electric Company's operations, as well as the range of Pacific Gas and Electric Company's operational flexibility. This analysis will help determine whether third party purchasers could legally operate Pacific Gas and Electric Company's hydroelectric facilities in a manner that could cause significant environmental effects.

Land Interests

Pacific Gas and Electric Company owns approximately 140,000 acres of land that are in the generation rate base and are part of this proposed sale. Pacific Gas and Electric Company's proposal is to sell all lands to the new owners of the generating facilities. The Proponent's Environmental Assessment (PEA) prepared by Pacific Gas and Electric Company indicates that approximately 95,000 of these acres contain major components of the generating facilities (e.g., powerhouses, lakes, reservoirs, dams, intake structures) and are within FERC boundaries or are otherwise necessary or appropriate for the operations and maintenance of the facilities. Pacific Gas and Electric Company has referred to these as "FERC" lands. As part of the EIR process, these classifications and calculations will be evaluated. The term "FERC" lands is confusing, because it is clear that only a portion of the 95,000 acres are within the FERC boundaries and many of the remaining acres are probably not necessary or appropriate for the operations and maintenance of the facilities. A substantial portion of the 95,000 acres is land on parcels that are partially within the FERC boundaries and partially outside the FERC boundaries. The EIR will consider bundling and mitigation for the portion of these parcels that are outside of the FERC boundaries and are not necessary or appropriate for the operations and maintenance of the facilities.

The remaining lands owned by Pacific Gas and Electric Company, approximately 45,000 acres, are referred to as "watershed" lands. Pacific Gas and Electric Company indicates a portion of these lands (6,800 acres) contain linear features within FERC license boundaries, such as canals, flumes, or roads. Other than the land potentially containing linear features, the watershed lands are located outside FERC license boundaries. The EIR will look at potential changes in the use of these lands. The watershed lands are now in common ownership, but if bundles are sold to different owners, there would be an increase in fragmentation of land ownership within a watershed. The greater the numbers of landowners, the greater the potential for competing management goals and the complexity of managing the watershed in a way that benefits environmental quality and downstream uses.

The watershed lands are largely undeveloped, with the exception of linear project features and some minor improvements such as roads and recreation home-sites. Pacific Gas and Electric Company has granted licenses and permits and has entered into leases and other agreements with third parties for land uses such as grazing, agriculture, recreational activities, recreational home-sites, and installation of culverts and bridges. In addition, Pacific Gas and Electric Company conducts timber management pursuant to timber harvest plans (THPs) on some of the lands. These THPs are approved and enforced by the California Department of Forestry and Fire Protection.

Informal Agreements, Contractual Obligations and Other Encumbrances

Pacific Gas and Electric Company has many informal agreements with regard to the hydroelectric facilities and lands that would not automatically transfer as a result of the sale. Examples of such informal agreements are management of reservoir pool levels to benefit recreation and altering of instream flows to accommodate recreational boating. The EIR will identify these agreements and discuss the effect of these agreements possibly being terminated through the transfer of ownership of the facilities and lands.

Pacific Gas and Electric Company proposes to transfer to the new owners contractual obligations, land encumbrances (e.g., leases or easements granted to third parties or retained by Pacific Gas and Electric Company to support utility functions), and obligations to supply or deliver water or services. Also, Pacific Gas and Electric Company proposes to transfer (or the buyers would seek reissuance of) all environmental permits.

Ownership transfer could affect 11 FERC-licensed hydroelectric projects that are presently in some phase of relicensing. The relicensing process is designed to encourage participation by state, local and federal resource agencies, environmental groups and individual citizens. Recent changes in relicensing procedures encourage collaborative agreements among the relicensing participants and Pacific Gas and Electric Company is now using the collaborative processes in many of its relicensing proceedings. Another concern about the transfer of ownership is that the sale could disrupt progress in the collaborative process and result in further delays in FERC relicensing.

ASSET BUNDLING

Pacific Gas and Electric Company has proposed the hydroelectric assets be sold in groups, or “bundles”, of assets rather than as individuals assets themselves. Pacific Gas and Electric Company has proposed a specific bundling of the assets to be sold. The bundles include hydroelectric facilities and equipment, water rights and land interests. It has proposed the assets be sold in five “watershed” region bundles, claiming that the five bundles reflect its current management of the assets. Pacific Gas and Electric Company has also identified smaller bundles that could be sold separately, thus breaking up the five watershed bundles into potentially 20 individual bundles of assets.

Pacific Gas and Electric Company proposes bidders be allowed to bid on any or all of the bundles it has identified, or on any other groupings of the assets the Commission determines are appropriate. Pacific Gas and Electric Company also proposes that the bundles be sold to the owner or owners whose collective bids result in the highest overall value for the auctioned assets. For example, if a single bid for the Motherlode Watershed Region is higher than the aggregate total of the highest bids for the three smaller bundles in the region, then the watershed region would have one owner, if all approvals were granted. However, if the bids in aggregate for the three smaller bundles are higher than any single bid for the entire Motherlode Watershed Region, there could be up to three owners in the Motherlode Watershed Region (assuming all approvals were granted), potentially one owner each for the Mokelumne River Bundle, Stanislaus River Bundle and the Merced River Bundle. The CPUC will evaluate the size and nature of the bundles proposed by Pacific Gas and Electric Company and will consider alternative bundling approaches in the EIR.

In addition to the above-described facilities, a series of switching centers and service centers are proposed to be included in each bundle (or shared between bundles). Attachment 1, attached to this NOP, provides a summary of the Pacific Gas and Electric Company proposed bundling of their hydroelectric assets, including powerhouses, reservoirs, switching centers and service centers. Attachment 2 provides a summary of acreage calculations within each of the proposed bundles.

CEQA PROCESS

The "project" for purposes of CEQA is the transfer of ownership, and the possibility that ownership change, and perhaps ownership by multiple entities, would result in changed operation of Pacific Gas and Electric Company's hydroelectric generation assets, including the lands for sale. A necessary component of the EIR will be the consideration of alternatives to the proposed project, including the "no project" alternative. The fundamental question to be addressed in the EIR will be whether the change in ownership, and attending changes in operation, of Pacific Gas and Electric Company's hydroelectric generation assets would create environmental impacts locally or regionally that would not occur should the assets be retained by the utility. The EIR will consider whether any expansion, modification or dismantling of facilities would be reasonably foreseeable as a result of divestiture.

ENVIRONMENTAL EFFECTS

The environmental analysis must consider a broad range of ownership interests that may affect the operation of, and therefore the impacts from, the proposed transfer of assets. For example, an entity may purchase an asset or bundle of assets because of its interest in consumptive water uses, power generation, or dismantling the plant and restoring the site. The environmental analysis will include, among other things, consideration of the effect of a change in ownership, and perhaps multiple ownership, of the assets within Pacific Gas and Electric Company's existing system on water systems and watershed management, agriculture, recreation, and biology.

The EIR will address both site-specific and cumulative effects. The following scenarios will be described:

- Existing Conditions,
- No Project Condition, and
- Project Conditions After Divestiture

The EIR will focus on the topical areas that could be affected by the project, including: land use and planning, population and housing, geology and soils, hydrology and water quality, air quality, transportation and traffic, biological resources, mineral resources, hazards, noise, public services, utilities and service systems, aesthetics, cultural resources, and recreation. A preliminary description of the types of impacts to be considered in the EIR is presented in Attachment 3 to this NOP.

ALTERNATIVES

The EIR will contain an analysis of alternatives to the sale of the assets and bundles of assets proposed by Pacific Gas and Electric Company. A number of parties have proposed alternative approaches to Pacific Gas and Electric Company's preferred divestiture approach, including, for example, different bundling of assets, no bundling of assets, retention of assets by the utility, conservation easements on the lands, decommissioning of facilities that are uneconomic to run on a stand-alone basis or where environmental damages of a change in ownership outweigh the energy-associated economic benefits, and limited-time State ownership. These and other alternatives will be considered in the EIR, and the potential environmental effects of a reasonable range of feasible alternatives will be studied in the EIR.

PUBLIC SCOPING MEETINGS

The CPUC has scheduled several Public Scoping Meetings in May at locations throughout the Pacific Gas and Electric Company hydroelectric system. The purpose of these meetings is to present information about the proposed project and the CPUC's decision-making process, and to listen to the views of the public on the range of issues relevant to the preparation of the Draft Environmental Impact Report. The dates and times of the meetings are as follows:

PUBLIC SCOPING MEETINGS

Shasta Watershed		DeSabla Watershed	
Redding Holiday Inn 1900 Hilltop Drive May 15, 2000 7:00 p.m.	**Cassel** Volunteer Fire Dept. Cassel & Kern Roads May 16, 2000 7:00 p.m.	**Chester** Wildwood Senior Center 366 Meadowbrook Loop May 17, 2000 7:00 p.m.	**Oroville** Oroville Recreation Center 2260 6th Street May 18, 2000 7:00 p.m.

Drum Watershed		Motherlode Watershed	
Grass Valley Elks Lodge 109 S. School Street May 9, 2000 7:00 p.m.	**Fortuna** The River Lodge 1800 Riverwalk May 15, 2000 7:00 p.m.	**Jackson** Jackson Civic Center 33 Broadway May 11, 2000 7:00 p.m.	**Sonora** Best Western Sonora Oaks 19551 Hess May 10, 2000 7:00 p.m.
Ukiah Ukiah Valley Conference Ctr 200 S. School Street May 16, 2000 7:00 p.m.	**Truckee** Best Western Inn 11331 Highway 267 May 18, 2000 7:00 p.m.	**Modesto** Holiday Inn 1612 Sisk Road May 17, 2000 7:00 p.m.	
Folsom Lake Notoma Inn 702 Gold Lake Dr. May 8, 2000 7:00 p.m.			

Kings Crane-Helms Watershed		All Watersheds	
Fresno Holiday Inn Airport 5090 East Clinton Avenue May 24, 2000 7:00 pm	**Bakersfield** Holiday Inn - Convention Center 801 Truxtun Avenue May 8, 2000 7:00 p.m.	**San Francisco** San Francisco CPUC Auditorium 505 Van Ness Avenue May 25, 2000 7:00 p.m.	**Sacramento** (emphasis on Drum Watershed) 1401 Arden Way May 8, 2000 1:00 p.m.
Porterville Paul Bunyan Lodge 940 W. Morton Avenue May 9, 2000 7:00 p.m.			

The CPUC is also conducting agency scoping meetings at several locations. Please call 877-779-2782 for more detailed information.

COMMENT ON THIS NOP

This Notice of Preparation has been sent to interested State, local, and federal agencies, to the State Clearinghouse, and to parties that have informed the CPUC of their interest in this project. Affected agencies should identify the issues within their statutory responsibilities that should be considered in the Draft EIR. Similarly, other interested agencies, organizations and persons should comment on the scope of the Draft EIR.

In order to ensure the EIR addresses all appropriate environmental concerns, this NOP is intended to seek all relevant comments pertaining to the scope of analysis in the EIR. Comments in response to this NOP are required to be submitted no later than June 1, 2000. All written responses must be sent to:

Mr. Bruce Kaneshiro
CPUC EIR Project Manager
c/o Public Affairs Management
101 The Embarcadero, Suite 210
San Francisco, CA 94105

Messages for Mr. Kaneshiro may be left at (877) 779-2782. His fax number is (415) 291-8943.

By Electronic Mail: E-mail communications are welcome; however, please remember to include your name and return address in the e-mail message. E-mail messages should be sent to:

cpuc-pgehydro@pamsf.com

By Fax: You may fax your comment letter to our information line at (415) 291-8943. Please remember to include your name and return address in the fax.

Information about this divestiture will be made available on the Internet on the CPUC World Wide Web page at:

http://www.cpuc.ca.gov/divisions/energy/environmental/info/aspen/pgehydro/pgehydro.htm

Additional information regarding the overall electrical utility restructuring process is available at:

http://www.cpuc.ca.gov/electric_restructuring/er_home_page.htm

The California Public Utilities Commission has issued this Notice of Preparation of an EIR.

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Paul Clanon, Director
Energy Division