



Why would a major utility corporation agree to remove four of its hydroelectric power plants and pay hundreds of millions of dollars for the privilege? As the San Francisco Chronicle [reports](#), that is exactly what would happen under a tentative agreement between [PacifiCorp](#) and various other parties, including several American Indian tribes. The dams in question are along a stretch of the Klamath River that crosses the California-Oregon border. One goal is to restore migratory pathways and habitat for California salmon. Another is to accommodate tribal water rights.

In trying to figure how this could happen, it is important not to discount an environmental stewardship ethos within the company, and the negotiation skills of the stakeholders. But ultimately, the PacifiCorp board reports to its shareholders, and shareholders are thinking about profits. It gets down to dollars and cents, federal licensing requirements, low-cost government bonds, and the opportunities provided by traditional economic regulation.

Under federal law, a license to operate a hydroelectric facility has a fixed term. In order to renew that license, an operator must comply with environmental laws and respond to conditions in existence at that time. PacifiCorp says that it would cost more to meet current standards than to tear the dams down. The State of California can help contain the restoration costs by floating tax-free bonds, and PacifiCorp can put a surcharge on its utility rates in California and Oregon to get its money back.

While some continue to push for the deregulation of electric service, it is important to note that a Klamath deal probably would not stick without the protection of traditional cost-of-service rate making. When a utility has a defined service territory and a predictable

customer base, regulators can support its efforts to conduct business in an environmentally responsible way, and make sure that costs aren't out of line. But when customers can come and go, and a utility has to fight off competitors, it is the values of the marketplace that ultimately prevail. Maybe an unregulated hydro plant operator would lose its license renewable battle, but it would be less likely to produce the funds to tear down the dams and restore the streams.