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By Bill Ragsdale

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California Energy Crisis Heats Up

The match of deregulation lit the firestorm of rate increases and blackouts in California. Here is a look at the key issues building this climax. These same issues are smoldering across the United States.

The partial deregulation in 1996 in California of electric power has its roots in, of all things, the earth satellite business. You see, the long distance telephone business was efficiently and properly deregulated about fifteen years ago as earth satellites allowed many new companies to under-price the protected utilities (AT&T).

About six years ago a growing body of utility analysis suggested that the combination of a nearly national, interconnected power grid along with a growing number of small power generating companies would result in electric utility price competition similar to the long distance telephone case.

A California legislative committee, led by State Senator Steve Peace of San Diego, worked nearly two years crafting a master plan for power. In reality the legislation was crafted nearly single handedly by Sen. Peace. Other legislators recently commented, "It was so complex, we barely looked at the legislation. We just took Senator Peace's word it would work."

Each participating interest got part of the pie. Utilities wanted to divest nuclear power and some older plants as being financially non-competitive. Consumer groups wanted caps on prices and to foster multi-vendor competition. A couple of legislators wanted their name on showpiece legislation with national exposure. Academics wanted their theoretical auction pricing models validated.

The plan was authorized in 1996. The market was split into power producers, transmission companies and local delivery. Local utilities would sell their power plants and receive above market, subsidized compensation until they recovered their cost of sold facilities. The public got a 10% price reduction.

So why do we face the prospect of rolling blackouts? 1) Only a few power suppliers have the major portion of generation capacity and can "game" the system, 2) local utilities many not buy power on long term contracts, 3) they must pay the highest daily rate offered rather than the lowest, 4) power usage grew at 4% a year rather than the forecast 2%, 5) local utilities pay a floating rate for electricity they buy but must sell at a fixed price to the consumer, 6) continued tightening of environmental limits forces new power plants to use natural gas.

Governor Davis compounded the problem with an eight point program targeted at imposing pain on the utilities. Not one of his proposals increases power availability nor reduces consumption. The confirmation of seriousness is that Intel has blocked all further expansion in California.

Well, we are now into our second series of rolling blackouts. I hope you all saved your Y2K bottled water, packaged food and candles (just joking, but I do carry a small flashlight on my belt).

In the last month the situation became 1) the two major state utilities are technically bankrupt, 2) their cash and credit have been exhausted, 3) PG&E did petition for bankruptcy, 4) their debt is "junk" rated blocking refinancing, 5) the state legislature authorized $800,000,000 to buy power for resale to the utilities and 5) this emergency funding lasted a few weeks and 6) subsequent authorizations now threaten the solvency of the state. Our legislature now sees why the utilities ran through $8 billion dollars in six months.

I have never seen such a lack of leadership in a situation affecting so many people at once. Our Senator Dianne Feinstein advocates converting PG&E debt into bonds, selling them to some suckers and continuing business a usual. Maybe her financier husband, Robert Blum, will syndicate the bonds and take the fiduciary liability.

Oregon Senator Gordon Smith was resolute, "You folks are entitled to your life-style. But I think my state in being turned into an energy farm for California. I think Washington state feels the same."

Governor Davis went to Washington, D.C., hat in hand as a supplicant. The outgoing and incoming Federal folks said, "You got into this trouble on your own; work it out."

The local utility executives have become invisible. The CEO of PG&E should be on national TV news saying, "The way out of this mess is X, Y and Z. We have an answer; support us." Instead we see only the system network control room operators phoning neighboring states begging for supply. Then PG&E declares insolvency.

The worst example of a pea-brained politician is San Francisco City Attorney Louise Renne. At the time others are scrambling to court out of state providers to "please, please, cooperate and support us," she describes the coordinated lawsuits she is filing against key firms accusing them of collusion. I might see prosperous companies colluding for market share and pricing power; it totally escapes my ability to fantasize to see CEOs colluding their way into bankruptcy.

Consumers are now subsidized by state money and have no incentive to conserve. The present pricing shortfall amounts to $24 monthly per Californian; rather than bust the system the short-term solution is to recover the true costs and motivate conservation by a power bill surcharge. The long term solution is a coordinated commitment to both new supply and conservation.

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