Edison threatens blackouts

Electrical utilities hold California hostage

Gerardo Nebbia
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On December 22 the California State Public Utilities Commission (PUC) announced it would raise electricity rates on January 4, in response to ultimatums from Edison, the giant electric utility that dominates Southern California.

Edison had threatened to begin rolling blackouts within days unless Governor Gray Davis "speedily" approved higher rates for its 11 million customers. The blackouts would sequentially cut electricity for hours to consumers and industry. Already, as a result of 34 "Stage 2" energy alerts this year, water-pumping stations, some industrial sites and many colleges and universities across the state have had their service interrupted.

Edison claims it is nearing bankruptcy and lacks the money to purchase electricity to re-sell to customers. Pacific Gas and Electric (PG&E), the utility that controls the Northern California market, is also losing millions of dollars every day. Together they have spent $8 billion since last summer purchasing high-cost electricity from a cartel of electricity brokers that are manipulating the supply of power and charging exorbitant rates. Both utilities claim that they are only recovering one fourth of the wholesale price of electricity.

The crisis is a consequence of the deregulation of the market for electricity in California. Beginning in March of 1998, California's private utility companies were freed from price controls as a result of sweetheart agreements between the state legislature and the utilities. Although they may be hurting now, they aggressively lobbied for the present system as a way of freeing them from unprofitable investments.

Many warned about the consequences of deregulating an industry dominated by giant regional monopolies. Industry critics pointed out that California's electricity supply was "not workably competitive," and predicted that price competition among producers would not take place. If there had been many producers, the price of electricity would be close to its marginal cost (the cost of producing the last unit of electricity generated). However, a handful of large producers would charge prices that assured them maximum profits.

The regulation of utilities was a legacy of reforms instituted in the Progressive era at the turn of the century. To prevent monopolies from gouging the public, state and municipal governments were empowered to regulate the prices these companies could charge. This system is being overthrown in line with the general assault by big business on all restrictions on the realization of profit.

The three main utilities in California—Edison, PG&E and San Diego Gas and Electric (SDG&E)—had for years built up debt from the high cost of building and maintaining power plants. The deregulation plan, passed over the objections of consumer-rights groups and publicly owned utilities, provided for the selling off of most of the privately owned power plants and the abolition of price controls no later than March 2002. The utilities would then have to purchase electricity on the open market and re-sell it to consumers.

The price of electricity, formerly capped by the Public Utilities Commission, was thereby deregulated. A market for electricity was established, based on a daily bidding system. Rates could change hourly. According to the proponents of the plan, competition from many producers would keep prices low and make for more efficient production and delivery of electricity.

Initially, Edison, PG&E and SDG&E made millions by selling off their power plants at several times their book value to electricity brokers. In addition, they were able to buy low-cost electricity and sell it very profitably to their customers at rates that had been set artificially high by the PUC, as part of the transition to uncontrolled prices.

Things began to change in April, however. Prices for electricity skyrocketed. In the San Diego region, the only area where prices had already been uncapped, rates tripled and consumers were faced with draconian electricity bills, in some cases matching their monthly rent or mortgage payment. Elderly residents on fixed incomes had to give up using air conditioning, a health hazard during the city's hot summers. Under intense protest, the legislature was forced to impose a rate cap of $500 per megawatt-hour.

Edison, which last year was paying $35 per megawatt hour, recently had to pay $1,400, a 40-fold increase.

Companies such as Southern Energy, Dynegy Inc., NRG Energy and Reliant Energy, now operating as a price-fixing cartel, have such market power that they can withhold electricity until buyers agree to pay exorbitant rates. The *Los Angeles Times* quotes Bob Foster, a senior vice-president of Edison, as saying, “Why are prices on a Sunday in 1999 seven times lower than prices on a Sunday in 2000?... Same load, no plants are out or anything like that. What would do that?... As demand started going up, the marketers figured out a way that they could exercise market power.”

This strategy enabled Houston-based Reliant Energy to register a 600 percent rise in profits this summer, with about $100 million coming from California. For Edison's Foster, the problem is not that exorbitant profits are being made off of the impoverishment of thousands of Californians, but that his company is prevented from cashing in until rates are fully deregulated.

Technically, cartels and price-fixing are illegal in the United States. But encouraged by business-friendly Democratic and Republican administrations and courts, the electricity brokers are able to strike with impunity against electricity users.

One of the biggest friends of the utilities is Governor Davis, a Democrat. He was the recipient of $239,000 in electricity industry money in campaign contributions between January 1999 and June of this year.

Even though Davis has the power to seize the generating plants in the state to meet the demand for electricity, he has locked himself in negotiations with the utility companies to try to work out a deal that will protect their profits. Under consideration is a plan to use the state's budget surplus to rescue Edison and PG&E. These meetings, from which the public is excluded, will undoubtedly result in higher rates and other economic blows to ordinary consumers. There are no plans to demand that the electrical monopolies rebate a part of their super-profits, let alone efforts to prosecute them for price-fixing.

California is not the only state that faces a crisis. A July report by Robert Varela, editor of *Public Power Weekly*, revealed that conditions in New England give “every generating unit the market power to set whatever rates it may desire as a market clearing price, no matter how absurdly high.” For example, the New Hampshire Electric Cooperative reported to the Federal Energy Regulatory Commission that Hydro-Quebec has a standing bid to sell into New England at $20,000 per megawatt hour.