California energy crisis continues as state moves to bail out utility firms

Gerardo Nebbia, Andrea Cappannari
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Despite extended negotiations and repeated state government interventions, California's energy supply remains in a precarious position. In an attempt to stabilize the ongoing crisis, a series of legislative actions and financial arrangements have been undertaken or proposed by the state over the past two weeks. While California Governor Gray Davis has expressed optimism, a number of pressing issues remain unresolved.

Davis announced February 6 that he had arrived at a long-term contract with one of the power companies that control the state's energy supply. The purpose of the agreement with Calpine Energy of San Jose is to lock in the price that utilities pay for electricity at a lower rate than that which currently prevails on the wholesale hourly spot market. In exchange for a decreased profit margin, the company receives guaranteed sales for a three- to ten-year period at a set rate, regardless of the fluctuations in the market price for energy. The agreement initially covers 500 megawatts, and is set to increase to 5,000 megawatts in two years. With negotiations among other power brokers still under way, Davis stated it was the state's ultimate intention to purchase 95 percent of its electricity through long-term contracts.

Davis has come under fire for failing to reveal the details of the talks, with both legislators and consumer advocates arguing that the public has a right to know how much money the state is preparing to dole out, which companies are involved, and other specifics of the contracts. One of the governor's spokespeople, Steve Maviglio, argued that the level of secrecy was necessary to prevent attempts by suppliers “to manipulate the market.”

Without public disclosure, many of those concerned argue that decisions on the energy destiny of California, which will have substantial economic and social impact on all residents of the state, are being restricted to the involvement of only a small layer.

According to the *Los Angeles Times*, since the state stepped in well over a month ago to purchase electricity for California's two financially-strapped utilities, Southern California Edison and Pacific Gas and Electric (PG&E), the California government has been spending at a rate of over $1 billion a month on electricity purchases. This amounts to between $40 million and $50 million a day from the stopgap allotment for energy that lawmakers approved two weeks ago.

In order to further support the state's bailout of the private energy utilities, the legislature passed a bill one week ago authorizing the sale of $10 billion in state bonds. The legislature included a provision to raise rates for consumers who use more than 130 percent of the state's baseline level of energy consumption. Statistics indicate that a majority of Californians will see their energy costs increase as a result, on top of the 9 percent increase already approved by the Public Utilities Commission.

In addition to these financial measures, a proposal is circulating within the California legislature that would allow the state government to purchase the thousands of miles of power lines that crisscross the region. The bill introduced by State Senate Leader John Burton (Dem.) would reestablish a degree of public ownership over California's energy system. This would leave Edison and PG&E with a much-reduced role in the delivery of electricity.

While PG&E refuses to publicly discuss the issue, Edison announced on Thursday that the sale price for its portion of the grid was $6 billion. California lawmakers are considering a price more within the range of $2 billion to $4 billion. Because of the utility's multibillion-dollar debt, analysts believe it unlikely that Edison will lower its asking price.

Also last week a US District court judge issued a restraining order against three of the state's main electricity suppliers, Reliant Energy, Dynergy and AES, temporarily forcing the companies to continue selling energy to California's nearly bankrupt utilities. In spite of the court order affecting the three brokers, hydroelectric providers from the Pacific Northwest may cut back supplies to California in order to safeguard low water levels at many of their dams.

Late last week US Energy Secretary Spencer Abraham announced that the Bush administration would not support the imposition of price caps on wholesale electricity, rejecting an appeal from the governors of several Western states affected by the California electricity crunch. The position taken by Abraham is in line with the pro-corporate agenda of the Bush administration with regard to energy resources.

A central aim of the new administration in Washington is to open up the Alaskan Wildlife Refuge to oil and gas exploration. With rising electricity costs in California and dwindling energy supplies in the region, the Bush administration feels it has added leverage to demand the lifting of environmental and conservationist restrictions on the energy monopolies.

On top of the electricity crisis, PG&E's near bankruptcy has seriously affected its ability to purchase natural gas for its customers. The utility currently has only one week's supply, and only five of its twenty suppliers have indicated a willingness to supply the utility with gas. As a result, PG&E could be required to divert gas from large industrial users such as power plants, hospitals and universities before cutting off gas to residential customers.

With supplies dwindling, PG&E has asked the state Public Utilities Commission to order Los Angeles-based Southern California Gas (SoCalGas), part of the Sempra energy conglomerate, to act as its buyer for this vital fuel. SoCalGas has so far refused.

J. Aron & Company, a gas trading division of the New York investment bank Goldman Sachs, and Western Gas Resources of Denver Colorado announced on February 6 that they would stop providing PG&E with natural gas on February 8. The two companies provide 10 percent of the gas that the utility requires for its operations. The Texas-based Enron Corporation has also indicated that it might stop selling natural gas to PG&E.

While the approach of the summer months may somewhat alleviate the natural gas crunch as demand for gas heating drops, the increasing demand on the power grid from air conditioners will put further strains on the capacity of the utilities to meet electricity demands.