Rolling blackouts continue in US's largest state

What underlies the energy crisis in California?

Andrea Cappanari, Gerardo Nebbia
22 March 2001

More than 1.5 million California residents lost power Monday and Tuesday as state officials ordered 90-minute rolling blackouts to cope with electricity shortages caused by the deregulation of the state's energy market. The blackouts—the first since mid-January—began with virtually no warning Monday morning and left schools, businesses, traffic lights and elevators without power. San Francisco, Sacramento and other cities, from the Oregon border in the north, to San Diego in the south, were affected, including Los Angeles, which lost power for the first time since the outages began several months ago.

Officials of the Independent System Operator, the agency set up to manage the state's power grid, pointed to a number of factors for the electricity shortages that led to this week's blackouts, including the unusually warm weather statewide that had caused an increased use of air conditioners. Officials warned that the crisis could become worse this summer when air conditioner use peaks. Energy levels were also reportedly depleted because of a reduction in power from the Pacific Northwest, where hydroelectric output is being reduced by a severe drought, and a sharp decline in output from energy suppliers who have not been paid by the state's utility companies. Officials also said the loss of electricity from a power plant on the California-Nevada border, which had been shut for repairs, contributed to the critical shortage.

Before this week's power outages, California Governor Gray Davis's efforts to secure adequate supplies of electricity appeared to have stabilized the situation, at least until summer. The state is paying $45 million a day to subsidize energy purchases by the state's two major utility companies—Southern California Edison and Pacific Gas and Electric (PG&E).

Recently the governor announced that some long-term contracts have been negotiated in the $70-80 per megawatt range. This is twice last year's price but less than a third of what the state currently spends on the spot market. The contracts, however, only cover about one third of energy needs. The state has already spent some $3 billion of its $10 billion surplus. Still, the situation remains critical, with more energy shortages predicted for the summer months.

The 1998 deregulation legislation had nothing to do with the needs of small and medium consumers—as claimed by the utility companies and politicians who sponsored it. The reform was spurred by the profit interests of big business, including large industrial users, who wanted to lower their electricity costs by buying electricity in bulk from the cheapest sources rather than from utilities whose prices were regulated by the state.

In addition, the major utilities pushed deregulation as a means of freeing themselves from the debt burden, left over from building and operating power plants, including nuclear plants. Under the arrangement the utility companies sold off most of their power plants and largely took on the function of distributors of energy, which they purchased from other suppliers.

The state legislators who crafted the deregulation law largely ignored warnings about the detrimental impact of potential shortages on people's lives. They also underestimated the cost of the resulting transition from regulated to unregulated prices. Consequently, virtually no provisions were made to protect broad layers of the population, including the very young, the elderly, the infirm and the poor, from the impact of deregulation measures.

As an enticement to consumers, rates were lowered across the board by 10 percent and a rate cap was imposed until March 2002. While consumers were also given the option to purchase cheaper power from other companies, the utilities, which had been ordered to sell off most of their power plants, still controlled transmission lines and imposed fees that insured that consumers would see no savings.

Consumer rates were frozen, but only to insure stable—and high—prices for the utilities during the transition period. Long-term contracts were disallowed. Electricity was contracted 24 hours in advance, giving the utilities the opportunity to make windfall profits from the difference between low spot wholesale and high retail prices.

Who profited from deregulation?

The entire arrangement proved to be very profitable for the utilities. Between 1998 and September 2000, Southern California Edison, PG&E and San Diego Gas and Electric transferred more than $6.7 billion to their stockholders and parent companies, including a third-quarter dividend paid out shortly before they announced layoffs and cost-cutting measures at the end of the year.

Things took a turn during the summer of 2000. The seasonal drop in Northwestern hydroelectric power came alongside rising natural gas prices, increased demand by industry and high summer consumer demand. By July 2000, wholesale spot prices were sharply higher than retail prices, putting a question mark over the decision not to enter into long-term contracts.

The wholesale spot price skyrocketed, from $35 to $600 a megawatt hour after July. In one instance, Edison paid $1,500 per megawatt-hour. Adding to the shortage of electricity, there are also strong suspicions that power brokers artificially restricted the supply of energy on the market by taking power plants out of service for “unscheduled maintenance” in order to further drive up prices.

A significant portion of energy supplies to California is in the hands of giant producers such as Reliant Inc., Dynegy Inc., Southern Inc. and Duke Inc., which own power plants in California and other states. Another major player is Enron Corporation, which controls vast supplies of gas and electricity through long-term contracts with producers. In the last two years Enron's stock has gone up 175 percent.

All these large companies were poised to benefit from deregulation either because they bought many of California's power plants or because, like Enron, they had effective control over supplies. The super-profits that Edison and PG&E made previous to the summer of 2000 shifted upstream to commodity speculators and to the owners of power plants.

Eager for some of the action, Bank of America, Union Bank, Morgan and other banks readily lent the utilities billions of dollars. The sharp price increases charged by the suppliers, which the utilities could not by law immediately pass on to customers, brought Edison and PG&E to the brink of collapse and posed a severe threat of a reverberating financial crisis. Bank of America's exposure alone was $1.2 billion. Last December, the stocks of these banks fell nearly 40 percent out of concern by Wall Street over these non-performing loans. The banking industry now refuses to grant additional loans to the utilities. The state government's bailout of the utilities, which is being paid for by consumers, is also aimed at shoring up the major banks.

The social impact of deregulation

The human toll of deregulation was first felt last summer when electric bills in San Diego, where utility rates were not frozen, shot up by 240 percent before a public outcry forced them back down. During those hot summer weeks, elderly citizens living on fixed incomes were forced to do without air conditioning, resulting in a major health threat to a vulnerable section of the population.

Most residential customers have yet to see draconian rate increases. The utilities obtained state approval for a 19 percent price increase. This is now seen as just the beginning. California will have to impose even higher rates, both to guarantee payment of the $10 billion bond and to restore the utility companies to financial health. Residential rates could increase by more than 40 percent, putting California way ahead of all the other states in the cost of electricity.

An article in the March 16 issue of the *San Jose Mercury News* begins to paint a picture of what California consumers will face. Very high gas bills have doubled the rate of utility shutoffs. Bills, which used to represent between 7 and 15 percent of a low-income family's earnings, now demand a chunk as high as 45 percent. The 15,000 families that had their power shut off in January in Santa Clara County, a 15 percent increase over a year ago, are just the tip of the iceberg. Many more families managed to squeak by with aide from charitable agencies and from the Low-Income Home Energy Assistance Program at Economic and Social Opportunities (ESO), a nonprofit social service agency.

"This is absolutely, positively the worst I've ever seen it," said Tommy Fulcher, ESO president. "There's been nothing close in my 20 years here. It's the worst both in numbers of people affected and in the size of the bills they're having to deal with." The agency was so swamped with requests for help that it stopped mailing out applications midway through February and again this month. It couldn't process the overload.

One family, the Borrayos, saw their winter PG&E bill rise from $125 a month to $480. Economic and Social Opportunities and the Red Cross combined to help the family pay off more than $700. Mrs. Borrayo said that the family no longer turned on the heater: "At night, it's very cold in the house, but we don't turn it on." Average bills, according to the agency, are running $200 to nearly $500 a month, with cumulative totals from two or three months doubling that amount.

REACH, an assistance agency funded until recently by PG&E donations—the utility, near bankruptcy, is no longer making contributions—is also at the limit of its resources. Besides the overwhelming number of requests they are receiving and the shortage of funds to meet the demand, there's another limit for the REACH and ESO programs: they can only help each household once in a 12-month period. This portends a dire situation for low-income families with the onset of summer and once electricity rates catch up to natural gas prices.

The energy crisis has exacerbated the disruptions that have already occurred due to the downturn in the US economy. Major computer companies in Silicon Valley have been affected by power shortages and tens of thousands of workers across the state have been hit by layoffs, shorter working hours, or have been switched to night shifts. A number of companies have announced permanent layoffs, including Miller Brewing Co., which moved some of its production to Texas, firing 600 workers, and California Steel , which sacked 1,000 workers.

The crisis is also putting an enormous strain on state funding for social services and infrastructure. A report in the March 12 issue of the *Fresno Bee* gives a picture of what California cities currently confront: "'If this is going to be a long, hot summer, then rolling brownouts are going to be common,' says Kingsburg City Manager Donald F. Pauley. 'I'm thinking we're going to start seeing more and more activities not being funded by the state.'

"Pauley noted that the state already has borrowed $30 million from the $75 million designated for local park projects. He also says information relayed at a conference early this month reveals the state already has spent about half of the surplus for next fiscal year, or about $3 billion, on energy.

"'That could deplete county and city money for roads, parks or annual subvention money like for vehicle-license-fee rebates and gas-tax rebates," Pauley says. 'If those funds aren't forthcoming, it could negatively impact our ability to deliver services.'"

Many other cities are making emergency plans for the summer. A Huron City spokesperson said, "We're trying to designate four shelters that will not be affected by a power outage. We have a lot of elderly and children, and if we have rolling blackouts during the summer, we want places they can go so they can be cool and not get sick."

Other cities are planning to reduce street lighting, raise water and sewage fees, and buy emergency generators to keep essential services going.

The events in California have exposed two things. First is the socially destructive consequence of deregulation, which has been employed throughout the US economy since the 1970s. The breakdown in the provision of electricity in California, the country's largest state, is the most acute expression of a general phenomenon as witnessed with the anarchy of the airline industry.

The crisis in California also underscores the fundamental contradiction between the interests of broad masses of people in a modern, complex and highly developed society, and the principle of private ownership of the productive forces and the subordination of social needs to the accrual of private wealth.

Neither side in the official debate—the faction around Governor Gray Davis that wants to restore some degree of regulation, or those forces being championed by the *Wall Street Journal* who want complete deregulation—offer any viable perspective. What the debacle in California raises is the need for the rational development and distribution of energy resources and other basic necessities in the interest of society as a whole. This requires that the energy industry be placed under public ownership to provide adequate and low-cost power to all, rather than higher profits to wealthy stockholders and speculators.

See Also:

California energy crisis continues as state moves to bail out utility firms
[13 February 2001]
Rising fuel costs in US punish consumers, boost profits for big oil companies
[29 January 2001]
Edison threatens blackouts
Electrical utilities hold California hostage
[28 December 2000]

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact