California energy crisis deepened by bankruptcy filing of utility company

Andrea Cappannari
12 April 2001

On Friday, April 6, Pacific Gas and Electric (PG&E), one of California's major energy utilities, filed for Chapter 11 bankruptcy. The collapse of the $24 billion company—the third largest bankruptcy filing in US history and largest ever for a utility—will deepen the energy and financial crisis in the state, where residents are already threatened with soaring rates and up to 34 days of rolling blackouts this summer.

The bankruptcy filing was widely acknowledged as PG&E's answer to the emergency plan put together by Governor Gray Davis to manage the fallout from the state's 1996 energy deregulation law. The announcement was made the morning after Davis said he would allow the utility to increase its rates, but only if PG&E agreed to sell their transmission system to the state and provide regulated power for 10 years. PG&E officials denounced the governor's plan as unacceptable and blamed the governor for driving the company into bankruptcy.

PG&E has been hovering on the edge of bankruptcy, along with the state's other main energy utility, Southern California Edison, for several months. After first making millions from the sale of several of their generating facilities, the utilities were caught by the high cost of energy they purchased from outside suppliers. Under the state's deregulation scheme, they were unable to immediately pass on the price hikes to consumers. PG&E accumulated $9 billion in debt, while SoCal Edison owes $5.4 billion in power costs. Although SoCal Edison has not filed for court protection, analysts say PG&E's move might pressure it to follow suit.

PG&E says it will be able to continue delivering energy, albeit an unstable supply, to its 13 million customers while it is protected from creditors, including major financial institutions and energy suppliers.

The state of California, which began purchasing energy for the utilities several months ago, will now be only one of many institutions lining up in federal court to recover its resources. Although Governor Davis has refused to release information about how much the state government has spent to subsidize the utilities, it is estimated that California is spending $50 million a day on power purchases, with total expenditures thus far reaching $5 billion. This has produced a severe financial crisis for the US's most populous state.

The bankruptcy filing effectively removes the state government from decisions affecting the utility. All deals involving the financial status of the company, such as how much it can increase consumer rates, or how it will handle the repayment of debt and sale of assets, are now under the jurisdiction of Judge Dennis Montali. PG&E's corporate management hopes to reach a more favorable arrangement in bankruptcy court than it could in negotiations with the state government in terms of raising rates and protecting the interests of big shareholders.

During a April 5 telecast, delivered on the eve of the bankruptcy filing, the governor said his rate increase plan was the only alternative to the one announced by the Public Utilities Commission (PUC) on March 27, which called for a 40 percent increase. Davis—concerned about the political backlash from massive rate hikes—called that plan "premature." Although he cannot override the PUC's decision, he urged the government-appointed board to adopt a different plan whereby customers who consumed more energy would see larger rate increases. According to the governor, the tiered system would encourage "conservation" because high-volume users would see a 37 percent jump in rates, while the average consumer, he claimed, would see somewhere between a zero and 26.5 percent rate hike. While reversing his previous opposition to rate hikes, Davis has increasingly tried to downplay the corporate interests behind the state's crisis by suggesting that Californians consume too much electricity.

Earlier the company had said the PUC rate increase failed to earmark any money for the payment of debt PG&E had previously accumulated. Instead, they complained, the plan only allotted increased revenues for future purchases of energy by PG&E and to replenish the drained coffers of the state treasury. Davis's plan would have directed 10 to 15 percent of the monies accrued from the rate increase to the utilities without restrictions similar to those of the PUC.

© World Socialist Web Site

However, this agreement was made contingent upon PG&E agreeing to sell their portion of California's extensive power grid to the state, a measure which the company—as well as the Bush administration—has opposed.

PG&E Chairman Robert D. Glynn Jr. acknowledged that the company's decision followed the governor's April 5 proposals. “We listened to the statement and the commentary that followed and this decision is the result,” Glynn told a news conference following the bankruptcy filing. “The regulatory and political processes have failed us, and now we are turning to the court” to protect the company's shareholders, he said.

Davis—who has sought to maneuver between the conflicting interests of various utility companies, big banks, energy suppliers and other corporate entities—could do nothing but issue a meek protest after PG&E's decision, saying the company had “plunged themselves into bankruptcy for their own strategic advantage.” A leading member of the Public Utilities Commission called the filing “a self-serving and cynical move by PG&E's management to protect shareholders at the expense of the company's ratepayer.” In the end, however, the verbal protests could not hide the fact that the state government was prostrate before the decisions of the energy giant and its financial backers.

Both the immediate and long-term effects of the PG&E bankruptcy will be extensive. The energy rate plan proposed by Davis is now null and void, as it will be up to the bankruptcy court to determine the scale of future consumer rate increases, which are expected to be higher than anything previously proposed.

Within hours of the utility's announcement the effects of the Chapter 11 filing were being felt on the New York Stock Exchange. Stock trading in PG&E's parent company was temporarily suspended just prior to the bankruptcy pronouncement. Upon resumption, the share price slid 37 percent to $7.20. The market also battered the stock of Edison International, of which SoCal Edison is a subsidiary, with its share value plunging 35 percent. Major bondholders, lending institutions and energy brokers whose finances are tied into the utility also felt the effects of the bankruptcy filing, with the stocks of JP Morgan, Bank of America, Duke Energy, Calpine, MBA and others undergoing percentage point drops of between 4 and 9 percent.

Two major credit-rating agencies, Moody's and Standard and Poor, responded to the situation by reducing the bond status of the entire state of California from stable to negative. Such a move calls into question the viability of the multibillion-dollar bond sale authorized by the legislature to shore up the state's finances.

PG&E has also ceased paying dividends on its stocks. Several articles in major newspapers have pointed out that a number of middle and working class families have savings tied into stock in the company, as utilities are often perceived as a relatively safe investment.

While the protections afforded under Chapter 11 provide some degree of immediate stability for PG&E, as creditors are unable to sue the company, smaller energy suppliers that lack large cash reserves are in an extremely vulnerable position. Many may shut their doors because they are unable to wait months, if not years, for the bankruptcy judge to make payment arrangements.

If these producers are forced to close, or if they refuse to sell their power, the state's energy supply will be further restricted, driving up wholesale energy prices even more as demand peaks during the summer months. The Bush administration has refused to compel suppliers to continue selling power to California or to cap the prices they charge.

In addition to the extensive job losses that are expected at PG&E, it is anticipated that the various companies whose business operations are intertwined with the utility will also see cutbacks as the financial fallout reverberates throughout the economy.

Before filing bankruptcy the utility made sure big investors, executives and senior managers were handsomely paid off. According to the *San Francisco Chronicle*, PG&E issued bonuses—later estimated to be around $50 million—to 6,000 higher-level employees one day before the company filed for bankruptcy. Although his total compensation for 2000 is not yet available, according to the company's last proxy statement in 1999, corporate chief Robert Glynn made $2 million in salary and bonuses.

PG&E is also currently under investigation by the Public Utilities Commission to see if it transferred billions of dollars to its parent company, PG&E Corporation, which then disbursed it as dividends to shareholders, even as its California subsidiary was accumulating a growing mountain of debt. Whatever the findings of this inquiry, due to the Chapter 11 status of the company the PUC will be virtually powerless to enforce any corrective measures on the utility.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site