Fallout from energy deregulation continues

Californians hit by sharp rise in electricity rates

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On May 15 the California State Public Utility Commission (PUC) approved a sharp increase in retail electricity prices, which will result in most consumers paying between 12 and 47 percent higher rates. Beginning in June, residents and businesses in the state will pay $5.7 billion more for electricity in what amounts to a further bailout of the utility giants who pushed for the deregulation of the state's energy market.

The rate hikes were agreed upon after several weeks of wrangling between utility executives, heads of big industrial companies, Governor Gray Davis and other state politicians over the size and distribution of a long-expected hike. Concerned with the political fallout over an across-the-board rate hike, the Democratic governor packaged the increase as an incentive for those who “conserve” energy because the rate hikes fall disproportionately on so-called heavy-users.

The increases are targeted for residential consumers who utilize more than 130 percent of a “baseline” amount arbitrarily set by the state, which is far below the normal usage for most residential customers. Consumers using up to 200 percent of the baseline will face a 12 percent increase and those exceeding the baseline by 300 percent will pay 47 percent higher rates.

Southern California Edison—one of the state's two largest utilities—estimates 65 percent of its customers regularly use more electricity than the baseline. This reporter's household, for instance, uses more than twice the amount. The state's formula will punish larger families and those who live in older, less insulated homes—in most cases low-income families. In addition to producing a wave of utility shutoffs for families who cannot afford the rate hikes, the measure will force many others to drastically cut needed energy usage, because only those who use less than 130 percent of the baseline will escape a price hike. Many, including the elderly and sick, will be forced to do without air conditioning just as summer temperatures rise.

In addition to the devastating effect this will have on working people, senior citizens and the poor, agricultural firms can expect to see 20 percent increases, small businesses will see an average 37 percent hike and industrial users anticipate an increase of 49 percent.

This will result in a chain reaction of higher prices for consumer goods, small business bankruptcies and the loss of tens of thousands of jobs as businesses trim costs to meet higher operating expenses. By some estimates, 135,000 workers will be sacked as a consequence of higher energy costs to industry, as well as the expected blackouts that will hit the state this summer as energy usage peaks.

Big business was able to gain concessions from the PUC in the form of a rate cap, set at approximately 12 cents per kilowatt-hour, beyond which their rates will not be allowed to rise. Representatives from large corporations have been applying pressure to the PUC in an attempt to reduce the proportion of the total increase to be paid by the industrial and corporate sectors in comparison to the amounts outlined in earlier plans.

The 3-2 vote at the PUC in support of the rate schedule fell along party lines, with the Democratic commissioners—who hold the majority—arguing that the rate hikes were necessary to keep the lights on in California and would encourage conservation. Although the rate plan reportedly shifted more of the burden onto residential users than previous proposals, the Republican minority said they weighed too heavily on businesses. Republican Commissioner Richard Bilas complained that the residential increases were not enough, and that the higher rates for the business sector would send the state's economy into a "recessionary death spiral."

By emphasizing the need for "conservation" Davis and other politicians are suggesting that the energy crisis is the result of a shortage of electricity or negligent residents who keep their lights on and refrigerator doors open all night. This is a deception aimed at covering up how masses of people are once again paying for the consequences of the deregulation scheme, which from the beginning subordinated the public interest to the profit drive of the energy conglomerates, brokers and big investors.

The rate hikes will result in a further transfer of wealth from working people and small businesses to these corporate interests. Initially the state's 1998 deregulation plan was a boondoggle for Southern California Edison, Pacific Gas & Electric (PG&E) and other regional energy monopolies, which made billions from the sale of unprofitable plants to power brokers, as well as the resale of electricity purchased from out-of-state suppliers.

This continued until April 2000 when the suppliers' prices jumped sharply, rising in some cases 600 to 700 percent. The utilities, unable under the deregulation plan to immediately pass on the costs to consumers, ran up billions of dollars in debts and stopped paying for further purchases of power. With the utilities holding the state hostage—and beginning a series of rolling blackouts—Governor Davis agreed to subsidize the utilities by using public funds to buy energy supplies. The bailout of the utilities led to the depletion of the state's surplus and created a fiscal crisis.

The PUC plan will help to shore up the financial status of the state treasury and the utilities, but blackouts are still expected this summer. While the construction of plants has been expedited by the scrapping of environmental protections over the coming months, the state's energy deficit is still estimated to be as much as 5,000 megawatts during high usage hours. This shortfall is equivalent to the power demands of 5 million families.

There is no statewide contingency plan for the blackouts, which are expected to occur up to 30 days this summer. A *San Jose Mercury News* survey reports that only three counties, San Mateo, Napa and Riverside, report plans that include lists of residents who depend on electrical medical equipment, and maps of areas that require specific measures to rescue people from stuck elevators and to prevent traffic accidents. Many other communities have either failed to take such precautions or trail far behind in those efforts, planning instead to use procedures developed in case of an earthquake.

The longer the duration of blackouts, the more serious the impact on those who are medically dependent on air conditioners, ventilators and other medical devices. "I'm so worried," said Gloria Nicolau, whose 98-year-old mother, Leonor Nicolau, is required by her doctor to have air conditioning and her electric oxygen machine on at all times in their San Jose home. They have a backup oxygen tank, but if the power goes off, Gloria said, "I don't know what I'll do—maybe just fan her with my hand."

As the crisis worsens there have been further revelations about the deliberate price-gouging by energy suppliers. Ray Hart, the State Water Authority official in charge of purchasing electricity, recently observed that the electricity suppliers "clearly don't care. Their job is to extract as much money from us as they can." Hart accused a "cartel" of energy suppliers of artificially idling plants to keep 1,200 megawatts off-line, thereby forcing up prices.

Hart's allegations are well grounded. On May 18, PUC head Loretta Lynch presented evidence that strongly suggests manipulation and criminal collusion by the electricity suppliers and brokers to artificially raise prices. One tactic used by these firms is to shut down plants in the middle of the day, forcing the state to declare a power emergency and causing a price spike, at which point the plants are brought back into line, to rake in maximum profits from the new spot price. "We certainly see a pattern," Lynch told the committee, which is investigating manipulation of the state's wholesale power market by energy suppliers.

The instability of the power flow expressed itself in early May when unseasonably high temperatures coincided with a number of unscheduled maintenance shutdowns in energy plants. Spot-market electricity prices rose to $2,000 a megawatt, the highest ever, and rolling blackouts occurred for the first time in several months.