From power shortage to power surplus

California's energy debacle continues

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Despite the fact that California was spared the many days of rolling blackouts that experts predicted would hit the state during the summer of 2001, the region's energy supply has failed to stabilize. As the new year begins, the energy crisis in California has simply taken on a new form: a vast oversupply, the cost of which is being disproportionately borne by working people.

According to a report issued in November by the state's Department of Water Resources (DWR), California will have a gross surplus of energy for the next nine years. The reason for this lies with the costly contracts negotiated by Governor Gray Davis with energy wholesalers in the spring of 2001. These deals commit the state to purchasing power well in excess of the actual needs of the population. The DWR estimates that the wasted supplies will cost California residents $3.9 billion.

California previously spent $11.7 billion in the space of nine months to purchase energy to halt shortages that had been plaguing the area for almost a year. The present surplus further reveals the irrationality of a system of energy production and distribution, which is based on the profit interests of huge conglomerates and energy-speculators, such as the now bankrupt Enron Corporation.

In the year 2004, when the financial impact of the supply imbalance is expected to be its worst, 25 percent of the electricity purchased by the state under its contract obligations will have to be resold. In that year alone, California will lose $772 million by reselling power that was purchased for $72 a kilowatt-hour at an expected market rate of about $16 a kilowatt-hour. The cost of the excess purchases will be put on the backs of residential consumers who are already paying rates that have risen by 12 to 47 percent.

The squandering of billions of dollars in public funds for long-term energy contracts has severely drained the state treasury, which is also being hit by the loss of revenue from the economic slowdown. The news about future energy expenditures was accompanied by announcements of state budget cuts.

On November 14, Governor Davis announced a plan to freeze spending in a number of state programs. The bulk of the proposed cuts will come in education, which will see its funding slashed by $1.2 billion. The governor is also asking that nearly $54 million set aside to assist low-income families pay their rising energy bills be shifted back to the state's general fund. In addition, over $200 million in expansion funds for California's program for uninsured children—Healthy Families—will be permanently delayed.

The last of these cuts in the state budget has particularly negative implications because job losses have been on the rise for several months as the recession deepens in California. In November alone, 53,400 jobs were eliminated in the state, the highest amount in any single month since 1992. Because many employees receive health benefits as part of their employment, increasing numbers of people will be turning to state-run programs such as Healthy Families. Precisely at this point, however, fewer resources will be made available. One indication of the mounting economic pressure on working families is a recent report in the *Los Angeles Times*, which notes that California's charities have reported a 20-40 percent increase in demand over the previous three months.

Reports indicated that through August, over 50 percent of households actually saw their power bills decrease. This reprieve was of a temporary character, however, and was the direct result of a state program instituted during the summer months to provide residents with a discount if they reduced energy

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consumption. The summer season, moreover, was cooler than normal. The longer-term impact on everyday consumers is only beginning to manifest itself.

A major factor contributing to the excess of energy scheduled to flood into the state through 2010 is the long-term protections Davis gave to large industrial users. Big business, along with certain smaller manufacturers and grocery stores, were allowed to establish their own contracts directly with energy suppliers, thereby permitting them to bypass the higher prices the state was locked into. Because the 54 contracts with energy brokers were sealed prior to the government knowing how many businesses would choose to seek private arrangements of their own, the supply levels set down in the state contracts exceed actual needs by about 33 percent.

The negotiations between the state and major energy suppliers took place behind closed doors, despite continued appeals by consumer advocates for the public to be informed of the content of the agreements. Apparently the California Public Utilities Commission (CPUC) did not strictly enforce the timeframe allotted to businesses to broker their own arrangements with power suppliers. This allowed larger businesses to find an escape route from their preexisting relationships with the state's utilities, Pacific & Electric and Southern California Edison.

In addition to the opt-out option provided to large industry, many of the arrangements set in place by Governor Davis also commit the state to purchasing energy on a 24-hour-a-day/7-day-a-week schedule that does not accommodate for either daily or seasonal fluctuations in need.

In principle, the establishment of long-term schedules for energy production and distribution is a sensible arrangement, particularly given the ability to track shifts in demand and population growth, and the inability to store electricity. However, as the loophole for businesses demonstrates, the contracts were never intended to develop a system of energy production and distribution fundamentally oriented to meeting the needs of California's population in a rational manner. Instead they were a stopgap response to the disastrous consequences of the deregulation of the state's energy market. There was never any question in the minds of Democratic or Republican politicians that the working class would have to pay for the crisis.

The state administration, which had been defending the contracts for months, finally requested renegotiations in November. These are still under way, although the energy suppliers are reportedly resistant to making modifications.

While the volatility of the previous year's skyrocketing spot-market has receded for the moment, California's energy supply still remains susceptible to the profit drive of large corporations scrambling to maintain and expand a foothold in the highly lucrative energy market.

The energy disaster in California produced billions in profits for energy traders and speculators. One such company was Enron, which has been charged with price-gouging during last summer's crisis. The sudden collapse of the company last month—an institution widely hailed by Wall Street commentators as a model of the new business opportunities opened up by deregulation of energy markets—reveals the anti-social character of the capitalist system and its free market proponents.

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