

# The North American blackout: deregulation, profit and the decay of the social infrastructure

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Within 24 hours of the resumption of electrical power in New York, Cleveland, Detroit, Toronto and a large swath of the East Coast and Midwest of the US and Canada, the Bush administration was declaring that the cost of securing the electrical grid would be borne by ordinary consumers.

“The people who benefit from the system have to be part of the solution here,” Secretary of Energy Spencer Abraham said on a Sunday morning television news program. “That means the rate-payers are going to have to contribute. We think the rates need to be sufficient to incentivize the building of new transmission.” Abraham estimated that the future cost to consumers would be in the tens of billions of dollars.

In announcing that rate increases will be imposed to pay for the upgrade of the electrical transmission system, the administration is repeating a familiar pattern: policies pursued in the interests of an elite section of the population have created a social disaster—this time in form of a blackout that affected 50 million people. But it is ordinary people who will pay for the disaster. Working people and small businesses have already been hit hard by the blackout. Instead of compensation, the government is promising higher costs.

Whatever the immediate causes of last week’s blackout, it has become clear that deregulatory policies pursued over the past decade have undermined the reliability of the nation’s electrical power system. Over 150,000 utility workers have been laid off since 1990, as utility companies cut back on maintenance in the electrical grid that carries energy from power plants to homes and businesses. The transmission system has become fragmented, involving a patchwork of competing private firms and different oversight agencies—some state, some federal, some corporate and voluntary—with disparate standards, various reliability requirements. There exists no rational and integrated control over a resource vital to the daily functioning of the entire population.

## Fragmentation and competition in the energy industry

The energy industry today consists of a patchwork of companies with different and competing interests. Even though the electrical grid on the North American continent is now split into two large sections plus Texas, the responsibility for producing, distributing and maintaining energy is distributed among thousands of power companies and utilities. The *New York Times* reports, “The 6,000 or so power plants, owned by 3,000 utilities, pour power into 140 regional ‘control areas,’ which communicate with one another to coordinate moving the electricity as it is bought and sold.”

“We have fragmented and balkanized our electronic power system,” noted John Casazza, who has written a number of books critical of energy deregulation. “No one is taking a look at what is best for the grid and our nation. Instead, you have 1,000 different entities just looking out for themselves and how to make the best profit.”

With the constant pressure on companies to meet the demands of investors for short-term profit, investment in the transmission grid has been cut back sharply in recent years. This is because companies are more focused on keeping their stock values up and their earnings reports on target than on ensuring the reliability of their own electrical systems. Moreover, the greater source of profit lies in deregulated power generation, not in transmission. While power generation and the wholesale energy market have been deregulated, transmission and the sale of electricity to consumers is as yet still partially regulated. This means that companies that own both generating plants and transmission networks are more likely to cut back spending on the latter and invest more in the former.

Moreover, it is often difficult for utilities that own networks to receive permission from local authorities to build new lines or raise consumer rates. “If you can’t raise rates,” noted Rick Bush, editor of *Transmission and Distribution World*, “the only thing you can do to give money back to shareholders is to cut costs” on transmission line maintenance. He told the *Wall Street Journal* that investments in new technologies like firewalls and modern switching mechanisms could have helped prevent the spread of the blackout.

Energy demand has grown by 35 percent over the past decade, but investment in the grid has increased by only 18 percent. The total investment of utility companies in transmission infrastructure in the United States is about the same as in the United Kingdom, even though the electrical grid in the US is 15 times as large. “If you adjust for inflation,” noted Clark Gellings, vice president of the industry-funded Electric Power Research Institute, “today we’re making the lowest yearly investment in [transmission] since the Great Depression.”

Adding to these burdens on the transmission grid is the fact that in areas where deregulation has gone ahead, utilities that own transmission lines are required by law to open their grids to other companies, meaning that while the utilities will have to bear the brunt of the cost, the benefit goes to any company that uses the lines. Thus, there is a disincentive to invest.

Concurrent with the breakup of the old regulatory mechanisms, there has been a vast expansion in the amount of energy being pumped through the grid and a major lengthening of the distance through which it passes between buyer and seller. This has placed added strains on the physical capacity of the system, and has also exacerbated the problems associated with the balkanized character of ownership and regulation in the grid.

There is no regulatory authority that has the power to oversee the entire

system and enforce standards on utility and power companies. The North American Energy Reliability Council (NERC) is an industry-sponsored group that sets some guidelines, but has no mechanism for enforcement. NERC describes itself as a “voluntary organization, relying on reciprocity, peer pressure and the mutual self-interest of all those involved.” As part of the deregulatory fervor, over the past several years the limited regulatory authority possessed by the Federal Energy Regulatory Commission has been cut back.

All of these factors came into play in the events that led up to the blackout on August 14. The utility that owned four out of the first five lines that failed on that day, FirstEnergy, is one of the largest utility holding companies in the country. It has been responsible for numerous blackouts and other problems related to the decay of its transmission systems and power plants [See: A profile of Ohio-based FirstEnergy: Enron was no aberration].

But the company exists within a broader system characterized by chaos and a lack of rational coordination. For example, energy used in New York may be produced in Canada or by one of FirstEnergy’s plants in Ohio. In order to get to New York, it may pass through not only FirstEnergy’s lines—which are subject to the local authority of three different state commissions, in addition to the FERC—but also the lines of several other utilities. Each of these has its own set of standards on such things as how much reserve power to keep on hand. Communication by the different utilities—by means of a telephone hotline set up after the Northeast blackout of 1965—is often lacking or insufficient.

New York utilities and Canadian authorities have complained that in the hours leading up to the blackout last week, FirstEnergy failed to inform them of the escalating problems that were developing in the Midwest, preventing operators in the East and Canada from putting in place safeguards to stop the problem from spreading.

The fact that the electrical grid in the region is unreliable has been known for some time. Over the past several years, the frequency of transmission bottlenecks and failures has increased, particular in the Lake Erie region that was at the center of last week’s problems. The Industrial Energy Users of Ohio, an industry group, had previously complained of a fivefold increase in such bottlenecks between 1999 and 2000, the first year of major utility deregulation in Ohio.

## **Deregulation and the crisis of capitalism**

The present condition of the electrical system in the United States has its roots in the contradictions of capitalist development over the past several decades.

In the United States, electrical utility regulation has its origins in the first decades of the 20th century and was instituted at a federal level in the 1930s. Utility companies were vertically integrated. They were given a regulated monopoly over both the production of electricity at power plants and its distribution through the electrical grid. Each utility had a monopoly over a localized region and was responsible for supplying energy to that region. Prices were set by government authorities, allowing for a certain profit over whatever costs a company incurred.

More farsighted sections of the American ruling class understood that because of its crucial role in economic life, the stability of the electrical system was critical to the stability of capitalism as a whole. It was necessary, therefore, to safeguard it from the unconstrained play of market forces and private interests. This was done not only for electricity, but for other crucial industries as well, particularly in transportation and communication.

The move to deregulate began in the 1970s, initially under the

Democratic administration of Jimmy Carter. During this period, the old system of regulation and reform began to break down under the impact of the accumulating contradictions of American and world capitalism. The seventies was a decade marked by inflation, a growing crisis of profitability and the collapse of the post-war monetary system. The American ruling class demanded a free hand to increase its profit rate by removing government restrictions on its operations, and intensifying its exploitation of the working class. Deregulation began with the airline industry, which was bound up with the crushing of the PATCO air traffic controllers strike—carried out by the Republican Reagan administration following plans originally drawn up by Carter.

Deregulation of the electrical industry began somewhat later, mainly under another Democrat, Bill Clinton. A crucial step came in 1992 with the passage of the Energy Policy Act, which gave the Federal Energy Regulatory Commission (FERC) the power to force utilities to open their transmission networks to independent power producers. This provided the basis for breaking the monopoly of utilities over both production and distribution. The Clinton administration took more direct action in 1996, when FERC issued an order stepping up pressure on states to deregulate.

During the next several years, a number of states began carrying out this order. In 1996, California was one of the first to deregulate. It was followed by 24 states, mainly in the Midwest and Northeast, including Ohio in 1999. The late 1990s also saw the development of a national wholesale energy market for the purchase and sale of bulk energy contracts. Until its bankruptcy, Enron was the market’s dominant player. A national, unregulated market in the sale of electrical power was superimposed on a locally segmented system of utilities. This is the source of the patchwork character of the present system, where electricity can flow from one region to another without any unified controls or standards.

The deregulation of the electrical system was bound up with an enormous increase in the pressure of big investors and financial institutions—a pressure exerted through the stock market—for the highest possible short-term returns on their investments. Long-term investment in plant, equipment, maintenance, training, research and development have all been sacrificed on the altar of immediate profits and bullish financial reports that will boost the price of company shares. This has encouraged not only neglect and recklessness, but also criminality, as corporate CEOs resort to accounting fraud and similar means to pad the bottom line.

The Bush administration is responding to the blackout in a predictable manner: in addition to demanding that consumers bear the cost of any upgrades in the transmission system, the administration is using the crisis to push through even further deregulation. In the wake of popular anger at the blackout, the administration has focused attention on some proposals for federally mandated transmission guidelines, guidelines that would replace the existing patchwork of state and local authorities.

These standards, however, would be part a broader plan being pushed by Pat Wood, the head of FERC and a fervent supporter of deregulation. The plan is designed to further break up state regulation of the transmission system and place utilities under the supervision of regional grid organizations, some of which have already been set up. The plans have been stalled because states that still have regulated utility monopolies, especially in the southern part of the country, are reluctant to give up their control. The opposition has stiffened, given that those regions that have begun deregulation—California and now the Northeast and Midwest—have experienced the most trouble with their electrical systems.

The administration’s energy bill also includes a repeal of the Public Utility Holding Company Act. Repeal of this Depression-era legislation will further open up the electrical system, including transmission systems, to the domination of energy giants.

Repeal is being pushed by the larger utility holding companies, such as American Electric Power of Columbus, Ohio. AEP is part owner of one of the transmission lines that failed early on the day of the blackout. Repeal

is also supported by energy giants such as Exxon Mobil and General Electric, which want access to utilities. As price restrictions on energy are progressively eliminated, utility ownership will become a very lucrative business.

This policy will only exacerbate the contradictions that led to the blackout earlier last week. What is required is a nationally—and indeed internationally—integrated electrical system that is organized rationally and subject to strict control.

The subservience of the energy system to unconstrained market forces has created more than one social disaster. In addition to the blackout in the Northeast and Midwest, California residents were subjected to the consequences of energy deregulation in 2000 and 2001. Market manipulation by energy giants produced a power shortage that led to rolling blackouts and rising costs for consumers.

Electrical production has run into one of the fundamental contradictions of capitalism: that between the social character of production—in which millions of people vitally depend on reliable energy—and the private control of the means of production. More these catastrophic events will undoubtedly follow, so long as such an important social resource remains subordinated to a system based upon production for profit.



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