

Restructuring in the Rearview Mirror – a 10-Year Retrospective of California’s Doomed Experiment with Electric Deregulation. By The Energy Overseer

How California’s Energy Crisis Became Front-Page News, Part I

As we approach the tenth anniversary of the start of California’s disastrous energy crisis, here’s a different way of looking at the situation than the usual post-mortems for a failed competitive market. What follows is a revised version of a series that originally ran in the *California Energy Markets* newsletter in 2001, recounting how the state’s major newspapers covered the earliest days of the power crisis.

No single reporter or publication “owned” the crisis story. Significant contributions to the public’s comprehension of the energy market and what went wrong were made by dozens of individual journalists and teams pressed into service as the magnitude of the crisis became apparent.

A few journalists provided an early glimpse into the potential problems with California’s landmark restructuring plan that began in 1998. As the initial problems of high prices and power-supply shortages lingered past summer and into the fall of 2000, many had to mount a steep learning curve before they could explain to their editors and readers exactly what had caused the mess.

“It was a disaster...the Hindenburg,” said Dale Kasler, a business reporter for the *Sacramento Bee*, who had been working the high-tech beat before helping to document the debacle starting in December 2000. “It’s unlike anything I’ve ever covered.” That’s saying a lot, given that the collapse of the Internet economy and the associated crash of the dot-com kingdoms of Silicon Valley were on Kasler’s story list during the prior months.

There was not a single event that brought recognition that the energy story was going to be “a big, big deal,” Kasler observed. “Over time, there was a gradual dawning that we needed to pay attention to this.”

“Most stories don’t last this long,” added Nancy Vogel, the Sacramento correspondent for the *Los Angeles Times*. “It evolved from deep inside the business pages to become a national story that every newspaper’s DC bureau had to follow,” she said.

San Francisco Chronicle business editor Ken Howe likened the story to the 1980s’ savings and loan crisis for complexity and consumer impact. Helping keep the story on the front pages was the strong competitive drive among reporters and news outlets to deliver the next major scoop.

These journalists admitted initially being caught by surprise by the crisis, in part because they were pursuing other beats at the time. Howe had covered the initial restructuring story four years earlier but had moved over to special projects at the *Chronicle* until July 2000, when he was promoted to business section editor. Vogel was on the *Times*’ special reports team, assigned to dig into whatever story appeared to offer the next big challenge -- which is how she was recruited into the energy story beginning in July 2000.

Howard Fine, a government affairs reporter at the *Los Angeles Business Journal*, offered no excuses for failing to see the looming crisis. “I was asleep at the switch along with every other reporter when it really counted -- back in 1998,” Fine said. When the competitive marketplace first opened, Fine’s focus was on retail service offerings under

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the state’s “direct-access” program and the potential for “fly-by-night” operators to scam utility customers with false promises of energy savings.

“I didn’t start covering it with a sense that this could all go haywire. I didn’t really wake up until four years later,” he said. “Nobody asked the question, ‘What happens when prices go up?’”

However, a select few journalists -- those who had been reporting regularly about energy deregulation ever since the state opened the monopoly utility system to competition -- did foresee the possibility of bad things ahead. Some, like Craig Rose, were right on the scene when the market turned sour in 2000.

“I began with skepticism,” recalled Rose, the energy reporter for the *San Diego Union-Tribune*. “My working theory was that deregulation would look good in times of surplus, but it would never look good when things got tight. It’s Economics 101. Essentially, when you have a commodity in short supply, the price goes up.”

Rose picked up early warnings from the California Independent System Operator, the agency created in 1998 to manage the state’s transmission system. During a little-noticed public forum sponsored by the California Public Utilities Commission, California ISO officials said that the San Diego area was headed for very tight supplies because of a constrained power-delivery system -- if not in summer 2000, then certainly in the year after. “My instinct was that this was like a car being test-driven on a nice day,” Rose said. “But if you take it out in the rain and hit on the brakes, you might hit a wall.”

Rose’s resulting article, “Energy Market Headed for Failure, Experts Warn,” appeared on page one of the *Union-Tribune* on January 26, 2000.

The cautionary piece was the earliest of Rose’s many crisis-oriented dispatches, as San Diego residents were the first to feel the full effects of price volatility in the power marketplace. “I guessed right,” Rose said in retrospect. “I told everyone it had the potential for being the biggest story you ever saw” **[Arthur O’Donnell]**.

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