

## **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 II**

Ever since the CPUC first broached the idea of restructuring in April 1994, there had been generalized concerns expressed by energy insiders and consumer groups about the potential for adverse consequences of electric deregulation. Media attention to the subject waxed and waned in the subsequent years. Mostly the papers covered the passage of AB 1890 in September 1996, the creation of new market agencies, and the prospects for “direct-access” competition among marketers and the traditional utilities.

After California opened its competitive market -- delayed from January 1 to April 1, 1998, because of computer difficulties -- there was very little sustained interest. Most reporters and their editors viewed energy deregulation as too complex an issue, lacking in either personality or the drama necessary to propel the story off the business pages.

**A rare exception was Rebecca Smith**, now a staff writer for the *Wall Street Journal*, who had previously worked as a consumer affairs and business reporter for Northern California dailies the *Oakland Tribune*, the *San Jose Mercury News* and the *San Francisco Chronicle*.

To cover the field, Smith said, she spent “hundreds of pointless hours at CPUC meetings and working group sessions,” trying to understand the directions of the change and what it would eventually mean for consumers.

All the homework paid off in July 1999, when Smith got hold of a draft report from the California Energy Commission that projected a serious and growing gap between power supply and electric demand in the state.

“It looked to me like we were going to be having a real problem,” she said. Her interest was piqued further when it appeared the CEC was holding back from releasing the study, and its conclusions were “being politically massaged” to downplay potential problems.

Her front-page story for the *Chronicle*, dated July 22, 1999, ran under the headline “Electric Users Could Be in for a Jolt.” Smith bolstered her warning with a broad array of expert opinions and backed it with analysis of a recent record peak for electricity consumption and an associated price spike on the California Power Exchange’s wholesale power market.

“Energy experts fear that California is veering toward shortages of electricity that could cause rolling brownouts or outright blackouts,” the story began. Smith’s assertion that “a tightening supply of electricity in a deregulated world means more volatile energy prices” proved to be exactly the formula for market disaster that California would face less than a year later.

**The article was the first accurate and relevant public warning** about problems with the new power marketplace, and in fact, it went much further in predicting specific problems than the final CEC resource report that was eventually released.

When she moved to *Journal* that September, Smith carried her suspicions about looming power-market problems with her. As another summer approached, Smith and colleagues, including John Fialka, began assessing the prospects for future reliability

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problems. Smith contributed to the story line with a piece, “Northeast Faces Electricity Price Surge,” that ran on the paper’s second page on March 20, 2000.

She also wrote a front-page article on May 11 under the banner “Gloom and Doom: New Rules, Demands Put Dangerous Strain on Electricity Supply.” Though consisting of a national survey of potential trouble spots, the crux of the article was about transmission constraints in the San Diego area, the limiting factor of California’s stringent air-quality rules on power generation and the prospects for an uncomfortable summer to come. In a statement that proved to be unfortunately prescient, Smith wrote, “San Diego is a good illustration of how deregulation isn’t working out as expected.”

The *Wall Street Journal’s* bold-face statement of “gloom and doom” now stands out as a clear early warning, but reporter Smith said she had to work diligently to satisfy editors and herself that she was on solid ground. “There wasn’t much evidence of a problem at the time,” she said. “I did what seemed to be an exhaustive amount of work, looking at ISO forecasts and all the other stuff I had to do to say what we said.” Much of the data did not make it into the final story, but it provided an authoritative foundation to the piece that helped put California’s looming problem on the front page of the nation’s most influential financial publication.

Still, Smith confessed to being “slow” to recognize the full impacts of the San Diego situation after a price spike less than two weeks later triggered the first market disturbances. Part of her reticence was that the *Journal* has a national, indeed international, readership that might not be so interested in what seemed at the time to be a local problem. “I should have done a Page One on San Diego,” Smith said. “But I was afraid I would be too parochial.”

**Most other newspaper and wire service reports** were giving the public mixed messages about the upcoming summer. When the US Department of Energy warned of potential reliability problems, the story was generally downplayed and countered by optimism among regulators and system operators.

Among the few newspapers that highlighted the DOE warnings was the *Sacramento Bee*, putting Carrie Peyton-Dahlberg’s article, “State Facing Energy Crunch,” on the front of the local news section on April 29. Peyton supplemented her story with cautionary statements from officials of the California ISO.

Earlier in the month, *Oakland Tribune* staff writer Matt Carter had done an extensive front-page article on the local transmission system and generation situation that forecast, “Hot Days Could Bring Power Woes.” However, the story concluded, “There’s only a 5 to 10 percent chance that temperatures will get hot enough to create the worst-case demands” studied by California ISO **[Arthur O’Donnell]**.

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