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 III

You can clearly trace the start of the year-long California energy crisis to a burst of presummer heat on May 22, 2000, that baked the Southwest and pushed energy prices on wholesale markets to more than 20 times the highest retail rate charged by utilities.

Few in the mainstream press noticed at the time, and those who did felt it was probably an aberration. Nancy Rivera Brooks and Zante Peabody of the *Los Angeles Times* combined for a story on May 23 under the headline "Heat Triggers Moderate Power Emergency," but the item ran deep in the paper.

Throughout the spring, Rivera Brooks had been occupied with a different sort of energy crisis, the rising cost of automobile gasoline. In car-dependent Southern California, that story carried far more interest than obscure electricity markets. Starting in March with a front-page warning that gas prices were headed to $2 per gallon, she had written a steady stream of gasoline-related stories along with all the other issues she had to cover in her diverse energy/utilities/workplace beat for the *Times*' business section.

Electricity was by no means her highest priority at the time, she said, but it became her major preoccupation for the rest of the year.

The May 22 incident was also reported by Kate Berry of the *Orange County Register* in a story that ran on the front of the paper's business section. With a readership that dipped into SDG&E's retail customer base, the *OCC* was aware of the warnings about possible reliability problems but was not fully engaged. "As I look back on it," Berry said, "it was a fairly benign piece." She tried to explain to readers what happened without seeing the possibility of a long and troubling summer.

"I was clueless about energy," she admitted. Later, "it became clear to me that something was wrong with the market."

On June 12, the San Francisco Bay Area began experiencing what would become a three-day heat wave that brought record temperatures and the first instance of involuntary "rolling blackouts" to utility customers since World War II. On the third day, PG&E and neighboring municipal utilities cut power to nearly 100,000 customers in order to prevent a more widespread system collapse.

For San Francisco publications, the electricity impacts were secondary to the big-headline treatment given to two deaths that were attributed to the "record scorcher," as reported in the *San Francisco Chronicle*. When the paper did its June 15 story detailing the unprecedented outages, "Searing Heat Tests PG&E Limits" by technology writer Henry Norr, it ran on the second-to-last page of the front section, rather than on page one.

The rival *SF Examiner*'s heat stories had a one-line mention that "PG&E will be on alert," but nothing else to warn readers of a potential reliability crisis.

But the incident made a dent in the *Chronicle*'s consciousness, and the paper enlisted business writer David Lazarus to do a follow-up. His June 16 story, "Tech Firms Take Heat in Bay Energy Shortage," was again pushed to the back of the news section.

In any event, the June 14 blackouts brought more attention to the energy market. The *San Jose Mercury News* gave prominent coverage to the heat and outages during the record week and followed with a 1,100-word feature, "What to Do in Case of Power Failure," on June 18. The *LA Times* featured the San Francisco area outages on the front of the business section, reporting that the event underscored the state's "precarious electricity situation this summer."

Back in San Diego, the mid-June heat wave represented a completely different aspect of the problem than whether the lights would stay on. Unlike utility customers in San Francisco or Los Angeles, San Diegans faced direct liability for volatile power prices because their utility rates were no longer frozen under the terms of the state's electric restructuring law.

San Diego Union-Tribune reporter Craig Rose tracked the first month of high bills with several stories that culminated in a June 29 front-pager, "Electrical Bills Rise Joltingly." The kicker quote in the piece came from Bonita resident Richard Case. "They said, 'It's deregulation, you voted for that.' I said, 'I don't remember voting for that.'"

The quote would later be featured in a public letter by CPUC president Loretta Lynch and fellow regulator Carl Wood that effectively killed off any further efforts to extend deregulation or competitive power markets. They declared the market dysfunctional and bad for consumers given the San Diego experience.

The *Union-Tribune* was not the only paper making the link between market volatility and consumer costs. The *Mercury News* on June 30 also warned of a "Jolt for Utility Bills" in a page-one article that stated power outages "are not the only unpleasant consequence" of the new electrical crisis. The difference was that in San Jose, the prospect of higher retail rates was well in the future, while in San Diego it was a current event.

It was also a political event. San Diego was the home district of state Senator Steve Peace, widely considered the main driver behind California's restructuring law. In short order, Peace was deluged with consumer complaints. Surprisingly, the greatest pressure came from commercial interests. "This wasn't a consumer revolt," Rose observed. "It was a small business revolt." Every elected official was inundated. Rose said soon "the entire political spectrum was saying, 'Wait a minute, this isn't working.'"

The San Diego uprising eventually resulted in a legislative mandate to reinstitute price caps in the region, something Rose said "took the edge off the crisis." The main event moved away from San Diego to Sacramento, but that did not mean Rose worked any less. He remained the *U-T*'s main reporter on the energy story for the duration. "The joke was I killed four or five editors. I put in more overtime [in 2001] than I had in the previous 13 years."

By that time, there was no denying that the situation had become a full-blown crisis. On June 29, Cal-ISO declared its seventh system emergency of the year, four of which were Stage Two alerts requiring "voluntary" load curtailments to customers who had interruptible contracts. The June 14 Bay Area emergency showed how vulnerable the power system could be. The grid operator issued daily news alerts and held regular press conferences at its Folsom headquarters.

The system emergency was overlaid with a political backlash. During a California ISO board meeting that stretched to past midnight June 29, Senator Peace pressured the governors to put a cap on wholesale prices as a way to quell the retail crisis in his district. Peace, as usual, was not subtle in his threats, and one board member soon afterward resigned in protest of the political pressure. The board voted to lower the cap on bids, but not nearly as much as Peace wanted.

Oddly, the price-cap vote was barely noticed by the media, but another agenda topic got much more play. An affiliate of PG&E was interested in bringing a floating power plant up from Central America to San Francisco Bay as an emergency power backup.

Carrie Peyton-Dahlberg, the main utility reporter for the *Sacramento Bee*, said that story more than anything else seemed to capture the severity of the crisis. "If you said 'price caps' back in June, people's eyes would glaze over. But a barge on the bay! I saw that as something that would make readers gasp."

Despite all this, the energy crisis was still not routinely featured on newspapers' front pages. But more and more reporters and editors were getting interested.

The *LA Times* added another writer to the beat when former *Sacramento Bee* staffer Nancy Vogel joined the *Times*' Sacramento in June 2000. Vogel had approached the energy restructuring story in the past but admitted to only a vague sense of its larger implications. In that respect, she reflected the rest of the media.

"This whole structure was all being crafted and the stories were buried in the business section," she said of how the restructuring effort was covered in the press. "It was not put in context of what would matter to the consumer. Instead, we were all lulled into this sense that everything was OK. We didn't want to believe that prices could stay high."

Vogel's first stories for the *Times* mixed environmental aspects with energy; they routinely landed on page 3 under the "California and the West" banner.

Energy beat reporter Nancy Rivera Brooks finally hit the *Times*' front page on July 29 with a consumer revolt story, and both she and Vogel soon followed on August 4 with separate stories under a joint headline, "Electricity Deregulation a Shock to the System."

By the time Governor Gray Davis acknowledged the crisis with a set of executive orders in early August, every newspaper had moved the energy story to page one. The SF *Chronicle* gave banner headline treatment to a David Lazarus piece on August 2 that predicted the crisis would hit Northern California like a freight train.

The Bottom Line: The energy crisis became a national headline after California lawmakers formally declared an emergency in January 2001. It would remain big news throughout the West until the September 11, 2001, terrorist attacks on the Pentagon and the World Trade Center pushed everything else off the front pages.

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