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

The Take-Home Message for Reporters

Last week, I took part in a day-long seminar for journalists who now find themselves reporting about the restructuring of California's utility industry. The non-profit Foundation for American Communications (FACS) sponsored two sessions--one in Los Angeles and the one in San Francisco that I attended--to give general assignment reporters the necessary background to understand this momentous change in the energy business.

On that point, the day was a great success, offering a detailed primer about restructuring through the eyes of several industry notables and academics, including: Bob Glynn, CEO of PG&E Corporation; state Senator Steve Peace, head of the Senate Committee on Energy, Utilities and Communications; Severin Borenstein, an energy economist from the University of California and board member of the California Power Exchange; and Ralph Cavanagh, co-director of the Natural Resource Defense Council's energy program and also an occasional professor of environmental law.

The Los Angeles program also included the ever-quotable Dave Freeman, general manager of the Los Angeles Department of Water & Power, and consultant Erik Woychik, representing the Utility Consumers' Action Network.

To bring a working journalist's perspective to the table, both days featured Ben Holden, the former *Wall Street Journal* staff reporter who ably covered energy restructuring from mid-1995 until October 1997, when he took the job as assistant to the president of McClatchy Newspapers, publisher of the *Sacramento Bee* and other Northern California dailies. I think it's fair to say that during that period, Holden's reportage represented the most comprehensive national coverage of restructuring outside of the trade press. And because of the Journal's stature, his stories defined "deregulation" for other media and the public.

I won't list my fellow participants in the audience, but I will note that they come to the restructuring story from many different perspectives: business reporters who are starting to recognize the ramifications of change for a $20 billion state industry; general assignment or metro beat reporters who are being thrown into unfamiliar territory; editorial writers in search of grounding for their emerging opinions about the whole thing; and TV "consumer affairs" correspondents, who are doing their best to tell a complex story in seven-second sound bites.

Journalists from other regions, notably Washington, Texas and Georgia, were also on hand to learn what kind of mischief those Californians are up to now.

Each reporter came to the session to answer this simple question: How do I write about this for my audience in a way that makes sense to them? Unfortunately, too many left that afternoon with the same question pounding in their heads.

That, of course, is not the fault of the FACS programmers or the speakers. Probably the best part of the day was the question and answer session at the end, when the reporters began to articulate their frustrations about the complexity of the restructuring process and the sense that deregulation, as being conducted in California, is not really deregulation at all. "Now I have to go back and write a story about how there isn't any competition in California," one Northern California newspaper reporter lamented after the day was through. "But how do I explain what all those competitors are doing here?"

It has been said that the first step to attaining wisdom is reaching the understanding that you really don't understand anything. If so, my media colleagues are now on their way to enlightenment.

Because several of the reporters promised their editors they would get some story out of the day in return for being allowed out of the office, they were grateful for the presence of Steve Peace. In his usual blunt terms, Peace lambasted the California Public Utilities Commission for its lax (or lack of) consumer protection policies and for the $90 million customer education program--what he called the state's "public disinformation campaign."

Beyond that immediate story (which was run by several papers, including the *SF Chronicle* and the *Contra Costa Times*), were several other important "take-home messages" conveyed by the FACS speakers. I cannot say that I agree with all of them, but they will most certainly color future reportage about restructuring. Look for these angles in coming newspaper articles:

Deregulation is moving slower than people thought it would--Ben Holden admitted that his early stories were premised on a groundswell of interest in restructuring around the nation.

Even as late as July 1997, *WSJ* stories were claiming: "The trickle of states moving toward deregulation of their electric utilities is turning into a flood." By last September, however, Holden began to see that state efforts were actually a hodgepodge of policies moving in different directions and that the "savings" promised by restructuring would be delayed until utility stranded costs were determined and paid off. "There needs to be more of that kind of reporting," he told colleagues.

California lawmakers did not intend to open the state to unfettered competition at the retail customer level. According to Steve Peace, the main reason legislators got involved in restructuring was "fear." He explained, "We were afraid of losing manufacturing jobs, we were afraid of what the CPUC might do, and we were afraid of what the CPUC might not do." Legislators' rationale for acting at all was to protect markets and manufacturing jobs. Peace told reporters to "dispose of the illusion" that the reason behind AB 1890 was to bring "choice" to the little guy. Peace termed the restructuring debate as one between California interests (read utilities) and Texas oil and gas companies (read Enron). Stuck in between were major manufacturing interests who complained that California's high utility rates put them at a competitive disadvantage compared with their own company facilities in other states.

There is no reason for residential customers to switch energy suppliers. To Peace, the beauty of rate reductions mandated by AB 1890 is that "the little guys" are taken care of in advance. "If we solved the Big Guys' problems, we didn't want to do it at the expense of the rest of customers," he said. Ralph Cavanagh agreed that California has "made it blissfully easy [for consumers] to do nothing," even as he tried to convince everyone that there are legitimate environmental reasons for directing energy dollars to "environmentally superior" electric providers.

When queried by TV reporters about what to tell their audience about all the marketing materials they are receiving (in seven seconds), Severin Borenstein repeated the advice that Dave Freeman gave the previous day: "Throw it away."

Competition does not start on March 31, 1998. The opening of the generation market and start of the California Independent System Operator and Power Exchange are only the beginnings of competition. There will be a four-year transition period during which utility stranded-costs are paid off and monopoly assets are transferred to market valuation. Dave Freeman called it "Monopoly II." Senator Peace excoriated the CPUC's media campaign for telling people they now have a choice. "You won't have a significant choice until 2002," he admonished reporters.

There is no linkage between rate-reduction bonds and utility stranded assets. Directly addressing the "end the bail-out" ballot measure now circulating for signatures, Peace tried to pry the political necessity of allowing utilities to recoup stranded costs apart from the public perception that "securitization" is a way to bail out the nuclear industry.

"The single stupidest thing we could have done was to put utilities arbitrarily at risk for recovering their costs," he said, pointing to a recent legal decision that tossed New Hampshire's attempt to limit stranded-cost recovery. Without giving utilities the assurance of cost recovery, he said, the entire process would have drowned in legal actions. "The big success of AB 1890 is not how it's working," he said. "It's that nobody has gone to court." If the terms of the current ballot measure were put into effect, Peace said, rates would go up for all. The rate reduction bonds were simply a way to get upfront benefits to small consumers at somebody else's expense. "We made the consumers the bankers, and bankers always get the benefit first," he mused.

Peace put the quantifiable savings from restructuring at over $9 billion. Of that, $7.9 billion is attributed to accelerated depreciation and market valuation of utility assets, and $1.2 billion came from favorable interest rates assigned to the $6 billion in bonds.

PG&E's Bob Glynn claimed that PG&E will still collect only "50 cents on the dollar" of its stranded costs, based primarily on lost revenues due to restructuring Diablo Canyon payments. He also pointed out PG&E's 38 percent reduction to dividends and the impact of restructuring on utility stock prices. "I don't think anyone can call that a bail-out with a straight face." But Peace countered that nobody in the Legislature ever linked Diablo Canyon with restructuring.

The most successful energy marketers will be those who lose the most money. Nobody actually said this, but most speakers admitted that power marketing during the transition period will be a "loss leader" for companies trying to buy market share. Peace welcomed the opportunity for Enron to lose money to the benefit of California customers.

Green Power is/is not a good deal. If there was a real debate, it centered on current efforts to promote "green power" as a new product. Professor Borenstein was a skeptic, citing the impossibility of really differentiating electrons and lamenting the predisposition of consumers to become "free riders" by enjoying the benefits of renewable resources while letting others pay for it. Cavanagh countered that green power products can be certified as "environmentally superior" to the extent that they drive down average emissions and increase demand for renewables.

Low-cost Northwest energy is not at risk in restructuring. Borenstein got passionate on this point, pointing out that Northwest retail prices will not be driven up to California levels when competition opens. There is already a vibrant wholesale market that exchanges power between the regions, with a minimal cost difference between the Northwest and California, he explained.

If anything, Northwest generators may be able to capture windfall profits if the value of their wholesale energy rises, but retail rates or supplies should not be impacted at all. Besides, he added, legislators could put a tax on any windfalls to ensure that some benefits of the possibly higher rates accrue to local citizens.

There were many other random thoughts tossed out during the day, and many of the reporters found themselves in that state of confusion one experiences while staring at a piece to a puzzle that doesn't seem to fit anywhere. If that sense of perplexity finds its way into the stories about restructuring you read in your daily newspaper or see on TV, at least you can say you read about it here first **[Arthur O'Donnell].**

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