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

What a Disappointment

In a speech designed more to bolster sagging public-opinion ratings than to actually deal with continuing problems, Governor Gray Davis last night squandered a rare opportunity to tell Californians exactly what is happening with their energy system, what to expect during the dire summer resource crisis that awaits, or how much this is going to cost us.

Davis requested and received an unprecedented five-minute slot during the prime television news hour and used it as if it were a political promo piece left over from the recent Democratic convention in Anaheim. Finger-pointing and platitudes, blame and self-promotion marked the speech, which was so tightly scripted that the governor could not even work in a reference to brand-new legislation passed to his desk that same day to put $1 billion toward conservation programs. He should have signed the bill right then, if he really wanted to show that the state is trying to find lasting solutions to the problems.

The $800 million program he referred to is one previously announced, half of it constituting existing demand-side management programs.

Rather than bringing the television audience up to speed on all of the threads of California's unraveled energy policy, it seemed as if the governor himself needed the speech to get current. And yet what we heard were echoes of news conferences past without even an update on the effectiveness or outcome of policies already put in place. Sure, he listed some of his prior initiatives, but he provided no new information about what's working and what might not be proving out. Davis has been offering a more realistic assessment to legislators during closed-door meetings and in spur-of-the-moment sound bites with reporters than he did in his statewide speech.

You have to wonder, is he keeping mum to protect us? To protect himself? Or is he just in denial?

Possibly the only piece of news that came out of his mouth was that the governor now reluctantly agrees a rate hike is necessary and he has a plan that differs from one approved last week by the California Public Utilities Commission. Exactly how it differs is a mystery, because Davis provided no details.

The scant reference to figures he tossed out was that "more than half of you won't pay a penny more. For the rest, the average increase will be 26 and a half percent. For many of that group, rates will rise only about 10 percent. The heaviest users will see their rates rise 34 and a half percent on average. That includes business paying their share. This is in addition to the 9 percent surcharge we've all been paying since last winter."

The figures look and sound almost exactly the same as what the CPUC endorsed and parties have been hammering out in tiered-rate workshops.

However, there was no calculation provided of how much money this rate design is expected to generate. That is also a failing of the CPUC order (and a reversal of a decades-long practice of determining the revenue requirement first, then applying a rate design--but that's another issue). And yet the governor expects us to believe that this will be enough to repay the California Department of Water Resources for still-unspecified expenditures made since January, to pay an uncertain bill for future energy costs and "to restore the utilities to financial stability."

Apparently, the negotiations to purchase transmission assets have floundered so badly that now Davis feels he must bundle his offer in with the rate increase. The three conditions to relief that Davis expressed are the same announced two months ago when he prematurely declared a deal with Southern California Edison. The utilities, he said, must agree to sell their transmission, to sell retained generation at cost for ten years and to drop all pending litigation over past costs.

Well, we'll see what the bankruptcy court has to say about that.

The most disturbing thing about Davis' address was the fact that immediately afterward, his staff gave a more detailed presentation about money matters to a group of financial analysts, revealing a plan for floating $8 billion in bonds specific to utility relief. The plan means that we'd be paying off the utilities' debt from last year for the next 15 years.

Also left unaddressed were the many unresolved issues of preparing for another difficult summer. Davis made no attempt to reconcile the conflicting legislative proposals and partisan politics that are preventing a unified response from Sacramento. He did nothing to quell the increasingly strident tone of a small but vociferous activist community that will be satisfied with nothing less than criminalizing power generators, seizing property and subsidizing energy rates with taxes. When the true implications of his financing proposals become known, there will be another firestorm of consumer revolt--one that may not be confined to chanting rap songs during CPUC meetings.

The governor did not really assert his leadership over the situation or grapple with the need for all elements of the energy industry to work together to survive the coming summer, and he did not illustrate any of the tools that consumers or system managers must use to achieve results.

All in all, Governor Davis' speech was worse than a disappointment--it came close to being a deception **[Arthur O'Donnell].**

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