

ROLL CALL



THE NEWSPAPER OF CAPITOL HILL SINCE 1955

VOL. 46, NO. 91

MONDAY, JUNE 18, 2001

\$3.25

Are price controls an appropriate response to rising energy costs?

The West Needs Temporary Price Controls on Electricity

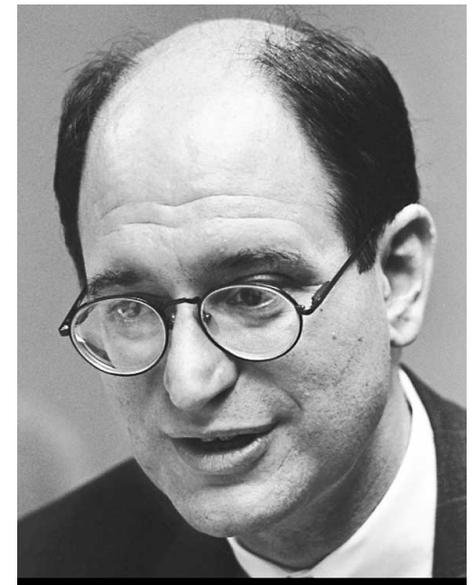
By Rep. Brad Sherman

When President Bush came to California last month for an “energy summit” with California Gov. Gray Davis, I met him at the airport and urged him to listen with an open mind to our governor as to our need for temporary cost-based regulation of the wholesale price of electricity. The President responded that regulating the price would suppress the supply.

The President invokes an elementary economic principle: The price

of a commodity is the point at which demand and supply meet. Although this principle holds true in functioning markets, it is not the case in the dysfunctional Western states’ electricity markets.

Until recently, California, like other states, had regulated its electricity market. In the late 1990s, California implemented a deregulation system that was not without its flaws. It worked out to be two deregulation systems: (1) dereg-



File Photo

Rep. Brad Sherman

ulation of both the wholesale and retail prices in San Diego and (2) deregulation of only the wholesale price in the rest of the state. Both systems failed. Electricity prices have spiraled, and the absence of regulation has given

Why must federal law preempt California and other Western states from solving their own problem?

electric wholesalers an incentive to withhold the supply and drive up the price.

That is why I am a proponent of implementing temporary cost-of-service-based regulation on wholesale electricity prices, exempting capacity added after Dec. 31, 2000. California will not be able to fix its deregulation system until temporary relief is implemented, just as one cannot rebuild a home while it is still burning.

In 1999, California paid \$7 billion for its electricity generation. Last year, as a result of conservation efforts, demand was decreased and yet the price was \$32.5 billion. This year California will purchase about the same amount of electricity as the previous two years, and the price will be anywhere from \$50 billion to \$70 billion. Thus, the increase from 1999 prices will transfer in two years roughly \$80 billion of wealth from California consumers primarily to a few large companies that operate electrical-generation facilities that were purchased in the late 1990s at bargain prices.

We have chiefly an artificial supply problem created by power generators taking power generation off-line for "maintenance." Today "closed for maintenance" means "closed to maintain an outrageous price per megawatt."

The number of turbines closed for maintenance month after month over the past six months has been double, triple, sometimes quadruple the number of turbines shut down in the same month in the prior year. In April 2000 the power generators in California took

3,329 megawatts off-line for maintenance; in April 2001 they took 14,911 megawatts off-line on an average day. The difference, 11,592 megawatts, is well above 20 percent of our needs — far more than any alleged shortage.

In each of the past six months, the excess of turbines closed for maintenance approximates or exceeds 10,000 megawatts — far more than any "shortage." Don't let them tell you the plants are now older or have been used so intensively so as to justify a quintupled maintenance schedule. My friends in the International Brotherhood of Electrical Workers and other unions say their members are not working extraordinary amounts of overtime to bring independently owned turbines back online. The plants operated by the Los Angeles municipal utility are online today with as few interruptions as in 1999 — and the municipal plants are older than the 40 percent of our generating capacity purchased since 1997 by the independent (unregulated) producers.

If we regulated these private producers, then a plant that could produce electricity for \$30 a megawatt could sell it for a regulated price of \$50 and make \$20 for every megawatt generated; the more megawatts generated, the greater the profit.

Admittedly, the 1996 deregulation experiment has not worked. First, we did not expect that private companies would close plants for maintenance in order to charge 10 times the going rate. (Recent national experience shows that a region needs a 10 percent to 20 percent

oversupply to protect itself from the manipulation of a deregulated electricity market.)

Second, we expected that if this deregulation failed, we could reverse it, at least temporarily.

Federal law says independent generators, those that do not have retail customers, are not subject to state regulation. Instead, the Federal Energy Regulatory Commission is supposed to do the job. The law directs FERC to ensure reasonable rates. FERC has determined that California is being gouged, and yet it has decided to do nothing about it.

It is often argued that we should not impose regulation on the electric wholesalers because "California environmental extremists prevented the construction of new plants." This argument is not only a complete falsehood (as I will show below), it also gives insight into our opponents' hidden thinking; namely the belief that Californians must be denied rate regulation to make them suffer for their sins.

Until recently the private sector had no interest in building new plants to serve the West; environmentalists had nothing to do with it. Anyone seeking to serve the Western market could have built generators in any of the Western states; plants in Arizona and Nevada serve the Western market just as well as those in California. Instead the private sector bought existing plants at moderate prices.

The fact is, no one saw this problem coming. Eighteen months ago no one sold short the stock of our now bankrupt utilities.

Speculation is rampant as to why the Pres-

ident will not act to ease our difficult situation. Some suggest that he is motivated by spite toward a state that overwhelmingly favored his opponent in the last election. Others point out that he and his team have significant ties to the energy companies based in Texas that are profiting hugely from California's dilemma. There is also the argument that it is simply payback time for energy-sector campaign contributors.

Motive is not important. What is important is that the White House refuses to regulate and will not allow California to regulate. Our hands are tied by those who give us nothing but sophomoric economic arguments about why our suffering is good policy.

Although the House Energy and Commerce Committee failed to approve price regulation legislation when they recently considered Rep. Joe Barton's (R-Texas) energy bill, I am hopeful we will achieve the goal of temporary relief for the West.

Sen. Jeff Bingaman (D-N.M.), chairman of the Senate Energy and Natural Resources Committee, in conjunction with Sen. Dianne Feinstein (D-Calif.) and Gordon Smith (R-Ore.), has pledged to move legislation toward this end. We in the House should pass the Hunter-Eshoo bill, bipartisan legislation that has garnered the support of such "progressive" Members as Duke Cunningham (R-Calif.) and Darrell Issa (R-Calif.).

Rep. Brad Sherman (D-Calif.) is a member of the Financial Services Committee.