California Passes Pro-Utility Deregulation

Strong Opposition from Cities, Consumers, Democracy Groups

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The California House and Senate have passed legislation to deregulate the state's electric industry and to force California ratepayers and taxpayers to pay $27 billion to bail out the state's three investor-owned utilities. The measure represents a major victory for the utility industry and Wall Street, and a major setback for consumers and local communities, who face a decade of utility bill surcharges and restrictions that will prevent most Californians from getting access to competitively priced power.

Consumer advocates and local governments announced their strong opposition to the legislation. The **American Local Power Project**, the **Southern California Cities Joint Powers Consortium**, **California Public Interest Group (CalPIRG)**, **Citizen Action**, **Californians Against Political Corruption**, **U.S. Public Interest Research Group (USPIRG)**, National Consumer Advocate **Nancy Brockway**, and Energy Economist **Eugene Coyle**, announced strong opposition to the measure (AB 1890).

The Bill guarantees that Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric, will collect the $28 billion in so-called "stranded costs" -- mainly bad investments in nuclear plants at Diablo Canyon and San Onofre -- from Californians. Averaged over California's 32 million people, $27 billion is $844 per capita or $3,375 per family. The $28 billion Californians will be forced to pay the three companies is nearly one-fourth the entire federal tax burden of the Savings and Loan Industry bailout by Congress ($120 billion).

Albert Vera, Chairman of the Southern California Cities Joint Powers Consortium, an alliance of 10 Southern California cities banding together to bypass Southern California Edison, said "any lawmaker in Sacramento who supports this outrageous stranded investment bailout at the expense of Californians deserves to be removed from office in the next election cycle. They will have added $27 billion of new debt to the California economy to bail out a couple of companies."

While the sponsors of the legislation claimed it was "better for consumers than the California Public Utilities Commission" proposal, PUC member and former President **Dan Fessler** - often criticicized for over-favoring shareholders over ratepayers, criticized the bill for conceding "in excess of $1 billion" (B) too much to the state's three investor owned utilities. "I find it ironic that the [added cost] is the result of a product being advertised to the public as lowering costs," Fessler told Dan Morain of the Los Angeles Times after the Senate passed AB1890 on Saturday. Bill Marcus of JBS, an energy consultant for consumer and environmental groups, called the bill "a continuation of the Public Utilities Commission policy of giving nuclear operations subsidies to utilities. The Legislature had an opportunity to say 'Enough is enough,' but it didn't."

The bill passed unanimously in both the Assembly and Senate. But many parties feel blindsided after expeting the bill to die. Although the $27 billion bailout made in the bill bill compares to the Savings and Loan crisis in sheer dollar volume, it received little press coverage the following day other than reports of a promised ten percent rate reduction for residents and small businesses. The legislation employs a "unique financing mechanism" to deceptively promise a 10% "rate decrease" to residents and small businesses by subsidizing rates with $5 billion in California Infrastructure bonds. "In effect the small customers are borrowing to give themselves this rate cut, which is like borrowing money to give yourself a raise," said Energy Economist Gene Coyle. "What this amounts to is a new 2-4 cents/kwh hidden tax that Californians will have to pay to private utility owners."

"What is 'unique' in the financing mechanism is the strategy of convincing Californians they are getting their bills reduced when they are really getting ripped off," said Ed Maschke, Executive Director of CalPIRG. The Bill, allegedly giving customers a "choice" about electricity suppliers, contains provisions which lock residents and small businesses with the monopoly utilities until 2002. Beyond 2002 the Bill adds hurdles that customers must jump before leaving the monopoly, making it likely that only a few will benefit even then.

"The Bill raises serious questions about the ability of small consumers to exercise any market power," said Paul Fenn of the American Local Power Project. "Unless residents and small businesses have the means to purchase power in aggregate through their local governments, "consumer choice" will mean little more than paying higher rates to a middleman or to your current utility."

"The bill would effectively lock small consumers into taking service from their current utility, and commits ratepayers and taxpayers to bailing out the utilities," said National Consumer Advocate Nancy Brockway. "Other legislatures taking up this issue can and should do better by consumers."

San Francisco Ratepayer group **Toward Utility Rate Normalization (TURN)**, which had decided not to oppose the legislation, announced on September 4 that they did not want this confused with support, asserting that the legislation is "not a national model." "The California legislation is a wake up call to cities and communities around the country," said Fenn. "Either local governments and community groups get involved quickly, or we are going to lose big in a situation where we could win big." Governor Wilson has not yet signed the legislation, although he is expected to do so. There is some talk of a referendum to repeal AB 1890 if it is made California Law.