Efforts Grow To Stop Electricity Dereg, as Power Crisis Worsens

by Marcia Merry Baker and Marsha Freeman

As of this summer, 24 states have adopted some form of electricity supply deregulation. On the Federal level, Sen. Phil Gramm (R-Tex.) and Rep. Charles Schumer (D-N.Y.) introduced a bill on July 18, to mandate that all states must deregulate their power systems by the year 2002. The fact is, the measure will likely fail this session, as similar bills have done over the past five years. But better yet, efforts are now under way in many states to roll back deregulation, or prevent it in the first place.

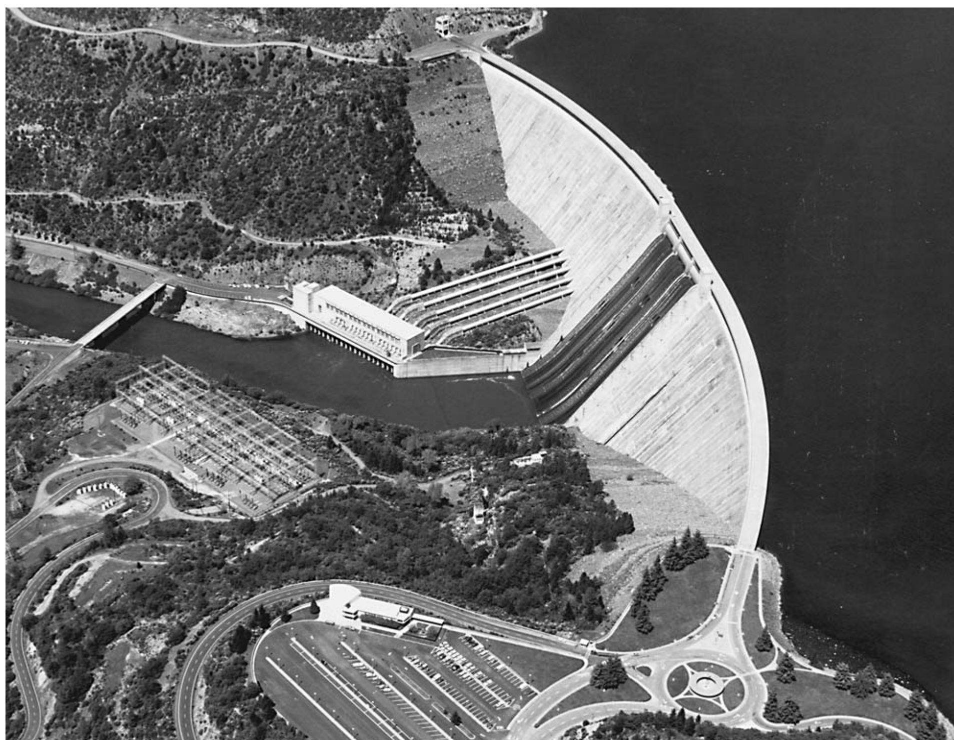
Millions of people are horrified at the impact of deregulation, on top of the anti-nuclear-power policy, in the form of black-outs, soaring home electric bills, factory shutdowns—results the public could have, and should have anticipated years ago; they were warned of such by *EIR*. But now, for those slow learners, the evidence is clear.

Effectively, there is no longer any national "reserve" margin of electric supply over demand, so any combination of bad weather or equipment failure, means automatic regional trouble. And, in the deregulated energy "markets," speculators are making a killing. The situation right now in California, a trailblazer state in implementing deregulation, makes the point.

In June, the shortage of electric capacity led reserve margins in California to fall below 5% five times, necessitating a Stage 2 emergency, meaning power interruption to some large users. Prices on the spot energy market are spiking. Households in San Diego saw their monthly bill go up from $45 in May to $100 in July. San Diego Gas and Electric announced at the beginning of July that it would be passing on to their customers, its increased costs for buying peak power at thousands of dollars per megawatt-hour, rather than $30 or $40 per mwh.

That's the way deregulation "works." Last year, the company sold off all of its power plants, and now solely distributes electricity that it must buy on the market. During July, San Diego Gas and Electric called for an emergency energy "summit" on the outrageous market prices. But, the wild prices are *characteristic* of "markets"-based utilities. Even one of the members of the California Public Utilities Commission said in July, that the state crisis shows "the predictable consequence of an ideologically driven" deregulation policy. PUC President Loretta Lynch is now expressing strong reservations about the state's 1996 law implementing deregulation.

One of biggest pushers of deregulation here and interna-



Shasta Dam and Power Plant on the Sacramento River, north of Redding, California. The total capacity of the plant is 539,000 kilowatts. This structure, holding over 4.5 million acre-feet of water, is part of a vast network of waterworks for power, flood control and irrigation, developed over the past 50 years throughout the state. Much of the system on the western slopes of the Sierra Nevada Mountains, has been operated by the public utility company Pacific Gas and Electric. Its hydropower system is bigger than that of most nations in the world, and under deregulation, would be sold off piece by piece.

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tionally is Enron, the Texas-based conglomerate, a foremost speculator in energy futures, and raider of generating plants. Last year, Enron, along with Duke Power, bought many of the operating facilities of Pacific Gas and Electric, of northern California.

The photograph illustrates the dilemma now facing California: According to state deregulation law, the remaining hydropower capacity of Pacific Gas and Electric must also be sold. What this involves is literally part of the infrastructure landscape of a widespread area. The Pacific Gas and Electric hydropower holdings include an elaborate network of 174 dams, 99 reservoirs, 68 power plants, 380 miles of artificial waterways (aqueducts, tunnels, canals), and hundreds of acres of watershed property.

State Legislators: Stop the Deregulation

Don't sell, says Fred Keeley (D), a state legislator who has introduced a bill in the California legislature to postpone the process. Keeley's measures would authorize the state to buy up the utility company's land and other assets, and hold them for up to six years, while it is decided whether to transfer them to public agencies, or sell them to private bidders.

In Nevada, the spectacle of the California experience is cited by State Rep. Joe Neal (D-Las Vegas), as evidence for stopping the pending deregulation moves in his state. Originally scheduled to be deregulated as of March this year, the state's electric industry is now likely to be "marketized" this fall. Gov. Kenny Guinn has the last say on when the "market is ready." Current arrangements include setting the rates that the two pre-existing utility companies in the state—Nevada Power Co. in Las Vegas, and Sierra Pacific Power Co. in northern Nevada—will charge any newcomer suppliers for using the pre-existing power lines to transport electricity to the end-users, who are the targets to be bilked.

The 1999 legislature imposed a three-year freeze on rates for Nevada consumers, so they would not be creamed when the "markets" first open up. But after three years, it's anything goes. There are actions in the court against deregulation, but plans are going ahead.

Neal is seeking in the 2001 legislature to dump any deregulation. He charges that it will lead to higher rates for consumers under the present conditions. The *Las Vegas Sun* on July 6 reported, "Right now, Neal said there is a capacity for generating 78 million megawatts of electricity nationwide and 70 million is already committed. That leaves 8 million megawatts in reserve. That power, he said, would go on the open market to the highest bidder. If that happens, he said, 'Too many people will suffer.' The highest price paid by the supplier means increased cost to the consumer."

The North American Electric Reliability Council projects that demand for electricity will grow about 2% per year for the next five years, while supply will increase at 1.5% per year. And, that assumes the plans that companies have on paper actually materialize.

Falling Dominoes in Czech Banking System

by Angelika Beyreuther-Raimondi

With hardly a mention in the Western media, there was a near collapse of the Czech banking system in June. The customers of the Investicni a Postovni Banka (IPB), the third-largest Czech bank in monetary terms (or, calculated on the basis of the number of depositors and customers, the largest), began to withdraw their deposits when the bank's problems were publicly reported. On June 12 alone, the bank had to pay out 1.35 billion korunas (roughly $38 million). This was not the first crisis in the Czech banking system, but it was the most severe. In 1997-98, the Prague government had to intervene to bring a crisis at the Agrobanka under control, and a number of smaller crises, such as the temporary closing of the four largest commercial banks, shook the confidence of the population.

On June 16, the IPB, which had been controlled by the Japanese Nomura investment bank since IPB was privatized in 1998, was put under the management of the government and Central Bank, whose new managers brought in a special police force to deny access to the former management, and prevent further damage. Three days later, after a hectic weekend of negotiations, on June 19, the bank was sold to the large Czech CSOB bank, which, itself, had been sold last year to the Belgian KBC, making CSOB the Czech Republic's largest bank. Only the dramatic government intervention maintained the stability of the banking system and protected the deposits of IPB's 3 million customers. Had Prague not intervened, said Pavel Rococha, the head of the Czech Bank Supervisory Authority, IPB would have been forced to close and be put into bankruptcy.

IPB's problems obviously went beyond its low capitalization and reserves. The German business daily *Handelsblatt* quoted Rococha on July 5 saying, "The transparency of the bank also deteriorated because of the transfer of 60 billion korunas worth of assets, both inside the Czech Republic and abroad. Despite repeated inquiries, the bank supervisory authorities were unable to obtain data from IPB concerning the risks involved."

The size of the state guarantee is estimated to be 10% of the national budget.

In this situation, the recommendations of the International Monetary Fund demonstrate their cynicism: Last year, the IMF warned that the Czech Republic would have problems if it did not radically "reform" the pension system and reduce high expenditures for social security. At that time, some 40%