Los Angeles Times

Commentary

MONDAY, DECEMBER 18, 2000

Ratepayers Shouldn't Bail Out Edison

By HARVEY ROSENFIELD

California's largest utility company, Southern California Edison, has thrown down the gauntlet to Gov. Gray Davis: Force the ratepayers to bail us out or we'll declare bankruptcy.

In an energy system that is more like organized crime than a free market, this is blackmail. What Edison really wants is a ratepayer bailout from the failures of the deregulation law, which Edison lobbied through the California Legislature in 1996. But there are disturbing indications that Davis will seize on the fear of bankruptcy as justification for rescuing the utilities, which are among his biggest contributors. If he does so, the governor will pay a price for his disloyalty to the public. So it's worth examining which would be worse for California's ratepayers: a bailout or bankruptcy?

If Davis orders a bailout, it will be the second one in four years. In 1996, the state's three investor-owned utilities—Edison, Pacific Gas & Electric and San Diego Gas & Electric—wanted deregulation. But they were worried that their bloated bureaucracies would not be able to compete. So they demanded that ratepayers be forced to subsidize billions of dollars in uneconomic deals on the utilities' books. The Legislature agreed, freezing residential and small business electricity rates for four years at 50% above the national average. In exchange, the law stated that once the debts were paid off, the rate freeze would end and consumers would receive a "guaranteed" 20% rate reduction. Ratepayers have paid Edison $9.3 billion so far under the "competition tax." That was Bailout I.

Now, however, the utilities' sweet deal has gone sour. Freed by deregulation from government oversight, the dozen wholesale energy companies that generate nearly half of California's electricity supply are now manipulating the supply to create shortages. The market price of electricity has soared 3,900%, far exceeding the frozen price. The power suppliers' profits have risen by as much as 500%.

Edison is not hurt as badly as it claims because 70% of its power comes from the company's own plants, for which it receives the market price. But Edison isn't counting these profits when pleading its financial woes. It wants the governor to order ratepayers, the innocent victims of this public policy fiasco, to pick up the entire tab—currently $6 billion and growing. This would be Bailout II, and it would be illegal under the deregulation law. Worse, it guarantees that rates will continue to skyrocket, because it tells the independent energy producers: Charge whatever you want; we'll just pass it through to the ratepayers.

Compared to another bailout, bankruptcy might well be less costly for ratepayers in the long run. Contrary to the utilities' fear-mongering, a bankrupt utility would not shut down or be sold off for scrap. Instead, the company would be placed under court supervision and ordered to restructure its debts, operations and executive staff; borrowing money would be easier for the company than it is today. With legislative action restoring regulation, the state Public Utilities Commission would control rates.

Bankruptcy also allocates responsibility where it belongs. Edison pushed for deregulation, and for awhile profited handsomely from it. The first bailout enriched the company, which went on an international spending spree. Its shareholders prospered, while its CEO, John Bryson, got a 46% pay raise. But in demanding to be in the free market, Edison exposed itself to risk. Now that the market has turned on Edison, its executives want to crawl back into the womb of government protection.

The hypocrisy of their stance is rivaled only by their audacity. The shareholders should foot the bill, not the ratepayers. Bankruptcy would send the correct message to Wall Street and to states that are considering deregulation. If you insist on deregulation, you must be prepared for the consequences.

Bankruptcy is highly unlikely, but it might actually be helpful to the crucial task before us: to restore reliability and affordability to California's energy system. The Legislature must reinstate the authority of state agencies to oversee rates and plan for our future energy needs, encouraging conservation and other cost-effective technologies. Moreover, California should move to a nonprofit, publicly owned system. Private energy companies operating as a cartel have no incentive to alleviate the shortages they are prospering from. Today, publicly owned utilities like Los Angeles' often-maligned Department of Water and Power are meeting their customers' needs at lower prices, without having to ask them to shut down their holiday lights.

A bankrupt Edison would be a cheap purchase. Rather than force ratepayers to spend billions to bailout Edison's shareholders, California's leaders should consider purchasing the company and dedicating it to public use. A buyout is better for ratepayers than a bailout.

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