
Interview: Carl Wood

Electricity Deregulation Has Been a Disaster

Carl Wood is a Public Utility Commissioner of California, appointed in 1999 by Gov. Gray Davis (D) to a six-year term. He was raised in California, and became politically active in the Civil Rights Movement during his years at the University of California. An industrial electrician since 1975, he has worked for Kaiser Steel, and for Southern California Edison as an electrician at the San Onofre Nuclear Generating Facility. During 1987-97 he also served on the National Executive Board of the Utility Workers Union (UWUA). In March 1997, he joined the UWUA national staff as National Deregulation Coordinator, and has testified in that capacity before Congressional and state legislative committees on the impacts of deregulation on electric power reliability, consumer prices, and worker protection.

He was interviewed by Gabriele Chaitkin in Los Angeles on March 16.

EIR: Yesterday, for the first time in more than a week, we had a Stage 2 alert in California, which, as a California Independent Systems Operator spokesman said, “demonstrates how we’re still operating on the edge here.” You were outspoken against deregulation long before you were appointed in 1999 to your current position as Commissioner of the Public Utilities Commission (PUC) in California, while many policymakers embraced deregulation. . . . Why do you think that Public Utility Commissioners in office in every state in the country, and in positions of responsibility, went along with the energy deregulation bandwagon?

Wood: Well, in some cases, it’s because that’s why they were appointed. In the case of the California Commission, the commissioners were directed by then-Gov. Pete Wilson [R] to implement deregulation of the industry. So, it was explicitly a policy of the state administration; it was not a matter of any reluctance to go along with it. It was explicitly a directive from the administration. That was in response to demands from the large industrial consumers, steel-makers, cement-makers, oil refineries, and so forth, to lower the rates that



industrial customers paid for electricity in California, which were higher than the national average, and they perceived that that could be accomplished by introducing market mechanisms.

EIR: Is there now a shift in mood? Are some of the commissioners speaking out like you are?

Wood: I just addressed the California situation. I think in other states there was a lot of reluctance to go along with deregulation. But frankly, the political environment is one of what has been described as “market triumphalism,” something that flows out of Thatcherism and Reaganism, but has really dictated the prevailing political rhetoric in this country. So, it just wasn’t an acceptable position to challenge market solutions to any kind of problem. And I think for that reason, most commissioners understand their industries fairly well: There is a great deal of skepticism about the wisdom of going down this path, but many were reluctant and continue to be reluctant to openly challenge these proposals and these ideologies.

EIR: As you said at a recent forum on energy in Los Angeles, you basically need a political movement, so that they have some leeway to do something.

Wood: That’s right. California is really proof of that, because once last Summer’s market prices hit the San Diego area like a bombshell, it just blew open the whole political climate and made it possible to discuss all sorts of alternatives. You have a situation, where even conservative Republican officeholders are discussing public ownership of utility facilities. You have people like U.S. Rep. Duncan Hunter, who is a conservative Republican from San Diego, calling for public ownership of generating facilities. The County Board of Supervisors there—all Republican—was investigating, and continues to investigate public ownership. And that certainly was not part of the acceptable range of political choices only a year ago. That’s in response to the outrage of the public, and their putting demands on public officials.

EIR: You said that there was a reluctance to go along with deregulation, but why couldn’t people see that deregulation is actually a rigging of the markets? You mentioned former British Prime Minister Margaret Thatcher; it’s not a mythical “free” market. Why would people not see that?

Wood: There wasn’t a lot of real-world experience with markets with this particular commodity, and its behavior in markets is different from any other commodity. It really lends itself to market manipulation. Due to the perishable nature of it, supply and demand have to be in balance at every moment; it is not storable in any economic way, and there are no good substitutes for it. For these reasons it is a product which lends itself to market manipulation, and I think that many people were naive, or sometimes blinded by theory, and there was maybe a lack of real-world experience. . . .

There was also, in fairness to the proponents of deregula-

tion, I am convinced, a general expectation that the Federal Energy Regulatory Commission [FERC] would enforce the Federal Power Act, which says that wholesale transactions “that are not just and reasonable are not lawful.” Those are literally the words! This is a 1935 Roosevelt-era law that introduced this concept, that wholesale electric prices must be “just and reasonable.” If they are not just and reasonable, they are not lawful. FERC is the agency of the government that has the duty and the authority to enforce that. And I think that most of the players, even the big utilities, expected that FERC would enforce the law. And they haven’t. They refuse to do that.

EIR: I think you were the one who said that energy is not a commodity?

Wood: That’s right. It’s an essential service. It’s an essential infrastructure element of modern society. Of course, it has qualities of being a commodity, but it is much more than a commodity. This is not pork bellies, or grain, or automobiles. It’s something that is necessary for virtually every function of modern society. In the same way that you don’t generally turn over highway systems, for example, to the private sector—although, of course, we have done some of that with toll roads, but in general that’s viewed as something that government has to do. It involves big expenditures, it involves unique facilities. You do not have multiple parallel highways going to most places. That would be a waste of capital expenditures, and it wouldn’t be economical. Control over passage on those highways would give whoever owned them, a monopoly control. They would be able to charge extortionist prices, if they were not carefully regulated. Well, electricity is the same. It’s necessary for the functioning of modern society, it’s a necessary service. It’s also essential for health and safety.

EIR: The Democratic Party in many places here in California plans to hold public forums, to get citizens to think straight on this policy mess of deregulation, and how to restore re-regulation. What principles and points would you advise be brought out to prepare citizens in this area?

Wood: To me the key point is, that this is an essential public service, and it needs to be regulated as part of public policy. Now, that can take different forms. It can take the form of public ownership, municipalization, or state ownership of an energy authority, or it can take the form simply of traditional regulation over privately owned utilities. But to think, that we will be better off with unregulated monopolies, than we are with regulated monopolies, is just foolish. It’s worse than naïve.

EIR: They are unregulated and a cartel.

Wood: That’s right. That’s the form of monopoly that this takes. There is sort of a semantic confusion. People say, “Well, this isn’t a monopoly, because there is not a single provider. And it’s only a monopoly when there is this one

company.” Well, that’s not true. There are different forms of monopolies. There are trusts, which are a single company, and there are cartels, which are arrangements among multiple companies, to divide the market. That’s what we have in the West right now. There is a functioning energy cartel. Now, whether that is organized on the basis of explicit collusion, or whether there are tacit signals that are being sent, or whether it is merely something that has arisen out of a strategic bidding behavior on the part of the generators and marketers, is not completely clear yet; and some of those would be criminal and others are not necessarily criminal.

But what we do know is, that prices are not “just and reasonable.” And almost everybody acknowledges that. Even FERC acknowledges that. It’s because these companies are able to exercise market power in the current market that exists in the Western United States. And that’s the definition of a cartel.

EIR: On March 2, U.S. Rep. Bob Filner (D) from San Diego sent a letter to the District Attorney, asking for criminal charges against Duke Power, Reliant, Dynegy, and some other energy cartel companies, for their actions in bilking people and firms in California by overcharging, “gaming” the markets. There are also legislative bills in California and Texas to demand givebacks for windfall profits. Would this go into the direction of looking into the criminality and culpability of these companies?

Wood: You just described two processes. One is the ongoing investigation that several governmental entities are conducting, including this Commission. The PUC has an investigation, that has been going on since the end of the last Summer into market behavior, and if we find evidence of criminal behavior, then we will refer it to the state Attorney General. The state Attorney General is also conducting an investigation into possible criminal conduct, and the FERC supposedly is conducting an investigation, although I think it is better described as a whitewash.

EIR: In the same light, it was reported yesterday that FERC ordered Williams Energy Market & Trading and AES Southland to show why they should not be forced to refund \$10.8 million to California utilities for taking generating units off-line last year, which forced the utilities to pay higher prices for power. The Commission said that its investigation “determined that the companies appeared to have financial incentives to prolong any outages from these two generating units.”

Wood: That’s a tiny amount of money that they are looking at! Williams has probably made more money out of this crisis than anybody, and the amount of over-collections that they have received, I’m quite sure, must be in the billions.

EIR: It’s easy to refund \$10 million.

Wood: That’s right, if you made half a billion or a billion dollars. So, there is the possibility of criminal conduct, but,

obviously, if I were aware of specific information, because we are conducting investigations, I can't discuss it. But there are investigations that are ongoing, that is the point. The state legislature just opened an investigation itself, and it is going to be conducting investigations, and it has subpoena power. That's going to be proceeding.

But then, the other part is about trying to understand the market manipulation, because whether it was legal or illegal, it is still clear that the market was being manipulated. We, also, at the PUC, are conducting an investigation, and we have gained some understanding of what's going on. We've been blocked there, because the market participants have been very slow to provide information that we have subpoenaed. I've issued over a hundred subpoenas, and many of them have not been completely complied with. Again, FERC, which has the authority to order compliance, has just ignored our request.

EIR: In a speech at an energy forum in Los Angeles about two weeks ago, you told us that these companies are actually siphoning millions of dollars out of California. How does it work, and what can be done about this?

Wood: Well, it's very easy how it works. They own generating plants in some cases, in other cases they simply buy and sell as commodity traders. Because the market is dysfunctional and is not workably competitive, then they can get prices that are ten times or more of what the actual production cost of the electricity is. It's pretty straightforward. The companies that generate in California are well known. It's a matter of public record. It's companies like Reliant, Dynegy, AES, Duke, and Southern. And then there are trading companies that have been very, very active in this market, that have extracted hundreds of millions or even billions of dollars, and those are companies like Williams and Enron. They are the big players. One thing that is obvious, most of these companies that I have named were strong supporters of George W. Bush.

EIR: Yesterday, Energy Secretary Spencer Abraham and FERC head Curt Hebert insisted at a Senate hearing in Washington, D.C., that deregulation must remain. They used the worn-out myths that "demand was what caused energy prices to go way up, and that the deregulation in California would have not been a problem, if there had not been rate caps on consumers." Sen. Dianne Feinstein (D-Calif.) said in opposition, that she has regional support from Sen. Gordon Smith (Ore.), a Republican, and others, for electricity caps throughout the region. But the Administration remains intransigent. Feinstein even had charts showing that the demand had remained constant throughout a period when electricity prices rose 400%.

Wood: That's right. We did an analysis here at the PUC last Summer. People who say that markets work, say that when demand is high and supply is limited, then prices should go up—and that's probably true. But the other side of that is,

when demand goes down and supplies are adequate, and there are excess supplies, then prices should go down. We recognized as early as last Summer, that that was not happening, that even during periods in the middle of the night, two o'clock in the morning, when demand was very low, we saw prices that were three, four, five times, what they had been the year before, and what we knew the cost of production to be. Clearly, the market was not functioning in a competitive manner, and that situation has continued since the beginning of last year. This is not brought on primarily because of a lack of supply or excess demand, it's brought on because the market is being manipulated.

EIR: What do you think about the direction of such Federal initiatives as U.S. Rep. Peter DeFazio's (D-Ore.) bill (HR 264) to re-regulate electricity, and nullify the parts of the 1992 Federal Power Act that allow "electricity markets"?

Wood: I am not familiar with the specific legislation. I support the direction he takes on energy issues. More Congressmen will speak out as other states experience these same problems. That's going to happen. It happened here first, but it will happen in other states. It looks like it's starting to happen in New York. I am sure that there are going to be problems, a rise over time, in other states as well.

The Bush Administration is simply wrong. There is no necessity to continue to deregulate. That is a policy choice. And in any policy choice there are winners and losers, and if we continue to deregulate, then the large energy companies and the market speculators will be winners, and the consumers, and the economy as a whole, will be losers. California proved that. And that will continue to be the case. I am convinced that public authority and public control over this vital service is just necessary and the word for that is: Regulation!

EIR: Governor Davis has made a push to put more power plants on line this year, and to avert acute crises, to use so-called "peaker plants." You worked once at the San Onofre nuclear power plant. Nobody, except for Lyndon LaRouche, seems to want to talk about nuclear power plants? What would be your perspective?

Wood: The two nuclear power plants in California are still owned by the utilities. They are supplying a lot of electricity for California, at very cheap prices. One of the ironies of this is, that proponents of deregulation thought that deregulation would drive the nuclear power plants out of business, but in fact it's made them very economically viable, at least in California, and I think in other states as well.

EIR: Do you have anything more that you would like to say?

Wood: Just basically, that deregulation has been a disaster, and this type of service, this commodity that is so essential to people's well-being, needs to be under public control. And that's the direction that we have to move in, and, I'm convinced, that's the direction we are going to move in.