

Electric Power Plants: Sold Down The River into Deregulation

by John Hoefle

While the movement for re-regulation of the U.S. energy system gains strength, the Wall Street/Southern Strategy, Inc., crowd is running a flanking operation to destroy the electric utility system by transforming the industry itself into energy pirates. The vehicle for this operation is the utility holding company, which many utilities have created over the years to allow them to engage in activities outside of those allowed to regulated utilities. Today some 67 utility holding companies, which own electric utilities serving two-thirds of all U.S. electric customers, are the leading edge of the de-structuring of the industry.

The name of the game is to transfer electricity-generating capacity out of the regulated utilities and into either unregulated subsidiaries of the same holding companies, unregulated subsidiaries of other holding companies, or companies not affiliated with regulated utilities. Removing the generating capacity out of regulated utilities both greatly weakens the ability of state regulators to stop price gouging and paves the way for a rapid consolidation of major power generators.

This transformation has already begun. Since the end of 1997, there have been 378 electricity generating plants with a total generating capacity of 128,000 megawatts transferred from regulated electric utilities into the hands of what are called independent power producers, or IPPs. That amount is equivalent to 18% of the 712,000 MW of generating capacity held by regulated utilities at the end of 1997. Over the same period, a wave of mergers among utility holding companies has occurred, further concentrating the industry.

Looking at these changes, it is useful to recall the comments of Enron President Jeffrey Skilling to *BusinessWeek* magazine, in an online interview published on Feb. 12, 2001. Asked who should own the power plants, Skilling replied: "Financial institutions, insurance companies, and pension funds. They have the lowest cost of capital. What we should be doing as an industry is packaging them in a way where we take away the risks that they don't like. They don't like to operate things. They don't like to take the risk on commodity prices. We ought to do that stuff and then sell them the underlying asset with kind of an annuity return."

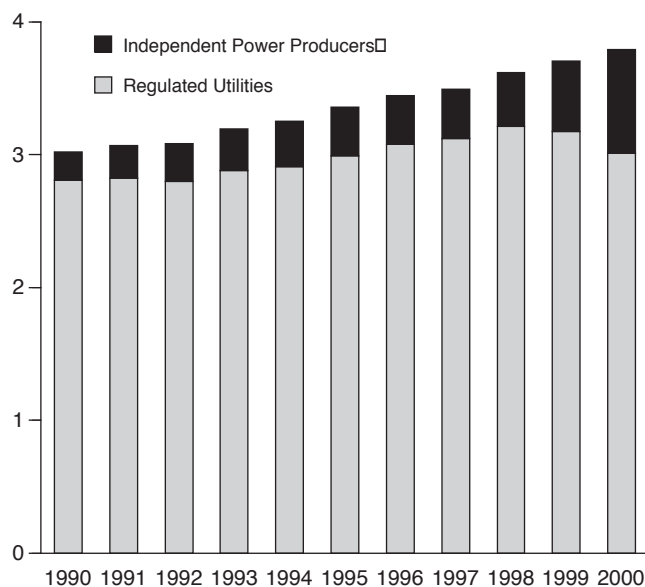
In short, in Enron's view, electricity should become a financial play, with the prices set by the "market" and the

"risks" managed through derivatives. The changes we are now seeing are consistent with such an insane vision.

The Fading IOUs

Since 1990, the unregulated IPPs have been steadily increasing their share of the market. While the total amount of electricity generated increased by 25% during that period, the amount generated by the regulated utilities—called "investor-owned utilities," or IOUs in the trade—increased just 7%, while the amount of electricity generated by the IPPs increased 267%. In 2000, the IPPs generated 21% of the nation's electricity, compared to 7% in 1990 (**Figure 1**). These IPPs include not only companies such as AES, Calpine, Duke

FIGURE 1 □
Net Generation of Electricity: Regulated Utilities vs. Independent Power Producers □
 (Trillions of Kilowatt-Hours)



Source: Energy Information Administration, U.S. Department of Energy.

Energy, and Dynegy—accurately characterized as “pirates” by California Gov. Gray Davis (D)—but also unregulated subsidiaries of the same holding companies which own regulated utilities.

An example of the latter is Edison International, the parent of Southern California Edison, the big IOU electric utility; Edison International also owns Edison Mission Energy, an IPP. While Southern California Edison was forced by the California deregulation process to divest much of its own generating capacity, its parent company, acting through its Edison Mission Energy subsidiary, has been an active buyer of generating capacity in the Midwest. Edison’s northern California neighbor, the bankrupt PG&E, has played a similar game, selling its own power plants and buying plants in New England.

The utility holding companies have become major players in the IPP game, both through transfers of generating capacity from their regulated to their unregulated pockets, and from buying capacity from unrelated IOUs. Edison, in fact, has been the single largest IPP purchaser of generating capacity from IOUs in recent years, followed closely by Mirant Corp., the IPP spin-off of Southern Company, the big Atlanta-based holding company which owns a number of southern IOUs (**Table 1**). PPL Corp., parent of Pennsylvania’s PP&L, and Public Service Enterprise Group (PSEG), parent of New Jersey’s Public Service Electric & Gas, have also been major buyers. Other utility holding companies on the buyers’ list include Minneapolis-based Xcel (which also owns NRG Energy); Baltimore-based Constellation; Houston-based Reliant (whose board includes Bush Family consigliere James A. Baker III); Charlotte-based Duke Energy; St. Louis-based Ameren; Maryland-based Allegheny; Delaware’s Conectiv; Virginia’s Dominion Resources; Florida’s FPL Group; Hartford’s Northeast Utilities; and New York’s Consolidated Edison.

By removing their power generation to unregulated subsidiaries, the utility companies are becoming electricity pirates themselves, able to charge whatever the market will bear for their electricity, even to their own regulated subsidiaries. But even that is just a transition phase, as many of these companies will themselves disappear.

Powering Down the Industrial Belt

The heaviest concentrations of IOU generating capacity divestiture are in California, New England, and the Midwest (**Figure 2**). The greatest divestiture, in terms of total capacity sold, has occurred in Pennsylvania, the state touted as the success story of deregulation, with California, Illinois, New York, and New Jersey not far behind (**Table 2**).

Looking at this divestiture as a percentage of each state’s IOU generating capacity, yields an even uglier picture. From 1998 through 2000, Maryland utilities sold off generating capacity equivalent to 94% of the state’s IOU generating ca-

TABLE 1

Who Is Doing the Buying?

Buyer	Plants	MW
Edison International	14	12,650
Mirant ¹	21	12,530
PPL Corp	29	11,066
PSEG	16	10,831
Sithe ²	28	9,372
Xcel	14	7,152
AES	9	6,129
Orion Power ³	11	5,992
Constellation	11	5,584
Reliant Energy	6	4,568
Dynegy	8	4,108
PG&E Corp.	15	3,975
Dynegy/NRG Energy ⁴	10	2,931
Duke Energy Corp	3	2,881
Ameren Corp.	4	2,592
Energy	3	2,551
Amergen ⁵	3	2,498
Allegheny Energy	6	2,395
Powergen plc	5	2,094
Louisiana Generating LLC ⁶	2	2,036
Conectiv	16	1,743
Calpine	2	1,432
Dominion Resources	1	1,319
FPL Group	4	1,099
Northeast Utilities	15	1,076
Consolidated Edison	8	186

¹Mirant Corp., formerly Southern Energy, is a spin-off of Southern Company.

²Sithe is jointly owned by Exelon, Vivendi of France and Marubeni of Japan

³Orion Power is a joint project of Constellation Energy, Goldman Sachs and Tokyo Electric Constellation Energy, the parent of Baltimore Gas & Electric, is also part-owned by Goldman Sachs.

⁴NRG Energy is owned 82% by Xcel.

⁵Amergen is a 50-50 partnership between Exelon and British Energy, and specializes in owning and operating nuclear power plants.

⁶Louisiana Generating LLC is a joint venture of Southern Co., Xcel and Ziegler Coal. owning and operating nuclear power plants.

Sources: Energy Information Administration, U.S. Department of Energy; company reports.

capacity in 1998, making the state extraordinarily vulnerable to price spikes. A similar process occurred in Massachusetts, where sales equalled 81% of 1998 IOU generating capacity, followed by 79% in New Jersey, 61% in Illinois, 60% in Montana (where Montana Power is transforming itself into Touch America, a communications company!), 57% in Pennsylvania, 51% in Rhode Island, and 50% in Connecticut. Delaware, New York, Maine, and California fell in the 38-46% range.

As is evident from these figures, the Northeast, with its heavy concentrations of population and relatively heavy con-

FIGURE 2

Sales of Electricity Generating Capacity from Regulated Utilities to Independent Power Producers, 1998-2000, by State

(Megawatts)



Source: Energy Information Administration, U.S. Department of Energy.

centrations of industry, is rapidly losing control over its own electricity infrastructure. By 1998, Rhode Island already depended upon IPPs for 99% of the electricity generated in the state, and 67% of the power generated in neighboring Massachusetts came from IPPs. Continuing sales of capacity in 1999 and 2000 have only made the situation worse. During those same years, significant sales occurred in New York, Pennsylvania, New Jersey, Maryland, and Illinois, as the disease spread south and west.

Rapid Consolidation

Even as the utility holding companies transform themselves into pirates, a wave of consolidation is sweeping the industry, creating regional and multi-regional giants, often with strange new names.

The biggest of these new companies is Exelon, formed by the merger of the holding companies for Commonwealth Edison and PECO, the Chicago- and Philadelphia-area utilities, respectively. Exelon is the nation's largest owner and operator of nuclear power plants, both in its own name and through its 50% ownership of nuclear operator Amergen. The other half of Amergen is owned by British Energy. Exelon also owns 49% of Sithe Energies, a major IPP previously controlled by France's Vivendi, the Lazard Frères-connected company which recently bought the Bronfmans' Seagrams; Vivendi and Japan's Marubeni remain significant investors in Sithe.

Another Midwest utility company on the move is First Energy, based in Akron, Ohio. First Energy is the holding company for three Ohio utilities—Ohio Edison, Toledo Edi-

TABLE 2

Sales of Regulated Electric Utility Generating Plants to Unregulated Power Producers, 1998-2000

State	Number of Plants	Generating Capacity (Megawatts)	Sales as % of Total 1998 State Generating Capacity
Pennsylvania	44	21,016	57.5%
California	29	20,164	38.5%
Illinois	27	19,770	60.8%
New York	101	15,659	44.8%
New Jersey	27	13,142	79.0%
Maryland	17	10,849	93.7%
Massachusetts	31	8,401	81.3%
Connecticut	21	3,300	50.3%
Montana	14	2,988	59.9%
Kentucky	5	2,094	13.1%
Louisiana	2	2,063	10.1%
Washington	2	1,461	5.6%
Ohio	2	1,177	4.3%
Delaware	6	1,127	45.9%
Maine	31	1,099	38.9%
DC	2	868	107.7%
Florida	1	639	1.6%
Indiana	2	639	2.9%
Virginia	3	553	2.9%
Rhode Island	1	489	51.1%
New Hampshire	4	328	11.5%
Vermont	4	103	10.7%
Alaska	1	57	2.7%
West Virginia	1	51	0.3%

Source: Energy Information Administration, U.S. Department of Energy.

son, and Cleveland Electric Illuminating Company—and Pennsylvania utility Pennsylvania Power. First Energy is also in the process of acquiring GPU, Inc., the Morristown, New Jersey-based owner of Jersey Central Power & Light and two Pennsylvania utilities, Pennsylvania Electric and Metropolitan Edison. (Assuming the GPU merger is completed, six of Pennsylvania's eight largest IOUs will be owned by out-of-state holding companies.)

Xcel Energy of Minneapolis was formed by the August 2000 merger of Northern States Power and New Century Energies, and it owns six utilities which serve customers in 12 states ranging from Wisconsin to Texas to Arizona. Xcel also owns NRG Energy, a major IPP involved in joint ventures with Houston-based Dynegy. New Century Energies was formed in 1997, from the merger of Public Service Co. of Colorado and Southwestern Public Service Company.

Boston-based NStar was formed in 1999 by the merger of

BCE Energy, the parent of Boston Edison, and Commonwealth Energy System; its utilities include Boston Edison, Cambridge Electric, Commonwealth Electric, and Commonwealth Gas.

In addition to the domestic mergers, foreign interests—primarily British—have been acquiring U.S. electricity companies. Britain's National Grid plc bought both New England Electric System and Eastern Utilities Associates, giving it a service area which includes virtually all of Rhode Island, roughly half of Massachusetts, and small areas of New Hampshire. In September 2000, National Grid reached an agreement to buy New York utility Niagara Mohawk, a deal which will more than double its service area and make its U.S. operations equal in size to its British operations, which include running the electricity transmission grid in England and Wales.

Other British deals include Scottish Power's purchase of Oregon's PacifiCorp, and Powergen plc's purchase of LG&E Energy, owner of Kentucky Power and Louisville Gas & Electric, which together serve more than 1.1 million electric and gas customers.

U.S. electric utility companies and independent power producers have also been active in foreign power markets, buying or building power plants in Europe, Asia, and Ibero-America.

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