Power Outages Hit U.S. Grid; Utility Deregulation to Blame

by Mary Jane Freeman

More than 3 million Americans found themselves without electricity from July 16 to 29, some for hours, others for ten days. It was not only the intense heat wave across much of the nation that brought this harm and economic loss, but also the impact of deadly deregulation. Under deregulation, "power pirates"—made up of formerly regulated utilities—have been looting the electrical infrastructure system, especially the distribution grid. The result is that more than 100 people died in the July heat wave, and there were billions of dollars of spoilage and interrupted business activity.

Enron may be defunct, but its legacy lives on. Over the past five years, a pattern of "destructuring" of electricity companies has occurred. Utilities that under traditional regulation had operated coherent generating and distribution capacity to serve their regions, were split up, and in the course of this fracturing, infrastructure and workforce were drastically cut. Among the major players are AES, Duke/Cinergy, Exelon, and MidAmerican. This is the inevitable result of the process of deregulation begun in 1996, when California and Pennsylvania passed the first state energy deregulation laws. In the next ten years, utilities scrambled to privatize and gain control of electricity service in targetted locations—to loot the big markets.

Then in 2005, the treasonous action of Congress and the Bush Administration opened the flood-gates for still bigger mega-mergers of utilities: They repealed the 1935 Public Utilities Holding Company Act (PUHCA), just as Vice President Cheney's energy task force had demanded.

Now, from Queens, N.Y., to Pennsylvania, to St. Louis, Missouri, to California, power outages, triggered by severe heat and storms, revealed the vulnerability of the power grid as repairs and replacement of aging infrastructure were deferred, to beef up profits by cutting costs. Thus the nation's transmission and distribution system has been cannibalized in deference to the almighty "market." North American Electric Reliability Council (NERC) spokesman Stan Johnson reports "a 50% reduction in capital expenditures by utilities" over the last 15 years, especially in new transmission lines. He pointed to the deregulation climate in the industry as the culprit.

At the same time, the building of new power plants lags behind demand. This historic heat wave led to an "all-time record" demand for electricity, stated an Edison Electric Institute press release. "U.S. utilities delivered 96,314 gigawatt hours (GWh) of electricity for the week ending July 22." This above-normal demand highlighted the system's looted capacity.

A 22-year veteran electrical worker with the International Brotherhood of Electrical Workers (IBEW) in the Midwest reported to *EIR* that after AES Corp. bought up the utility he worked for, "crews were cut" and "preventive maintenance and inspection programs were scaled back." Underground cables, like those in Queens that burned out in July, are "by manufacturer's specifications good for only 25 years," he noted.

He said "weather certainly factors into power disturbances and outages. Hurricanes, tornadoes, wind and ice storms" are hard to "safeguard against." But "as far as the weather of extreme heat or cold, that is all a matter of the need to plan for demand." In fact, the Edison Electric Institute release noted that the record demand set as of July 22 was only a bit more than 1% above the July 23, 2005 record of 95,259 GWh.

Blackouts Across the Nation

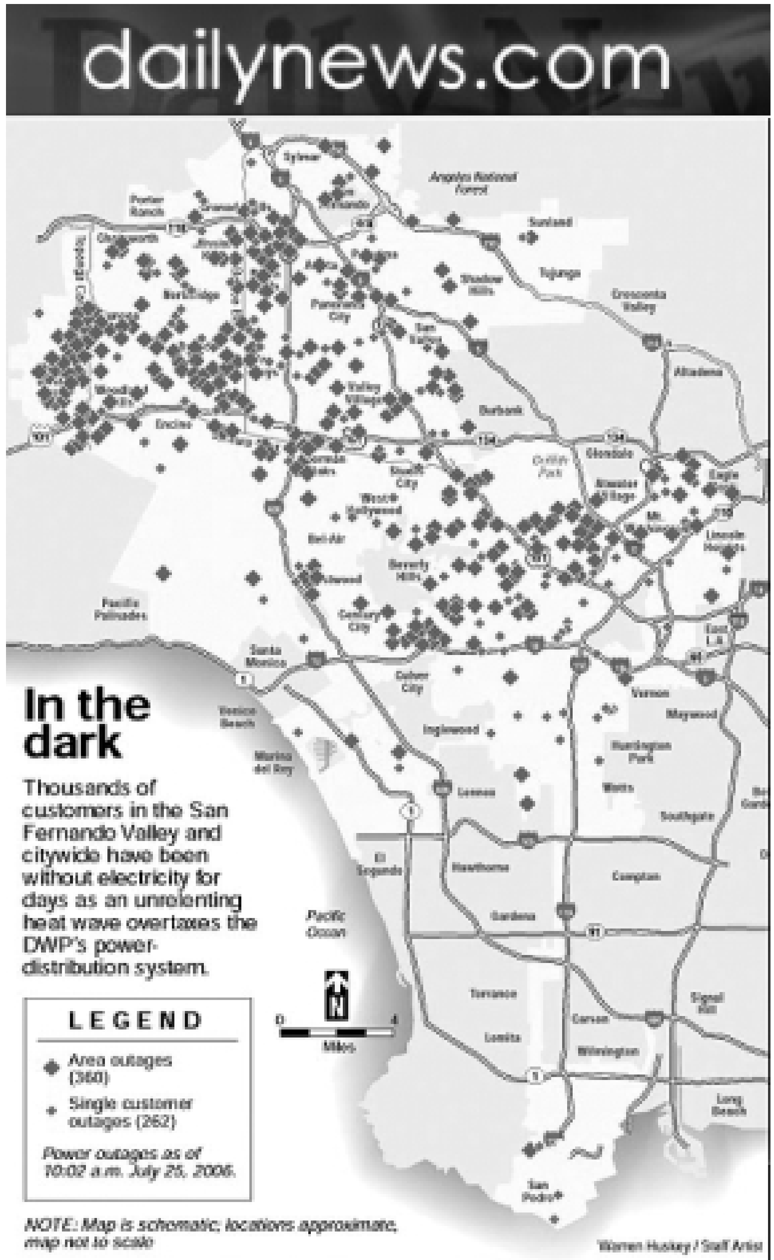
New York City. In the Borough of Queens, 25,000 Con Edison customers went without power for nine days as primary and secondary feeder lines burned up, causing some man-hole cover explosions. At the peak of the outage, as many as 100,000 people were affected. Economic losses are in the tens of millions of dollars. But Con Ed will reimburse only up to $7,000 for spoilage, whatever the loss, and there is no reimbursement for loss of business and wages, or ruined equipment.

New York state regulators reported that parts of the system are 30 to 60 years old. A New York City official task force on electric power, reported in 2005 the phenomenon of "sidewalk shocks" to people and animals walking on sidewalks above decayed cable networks. Repairs and upgrades in distribution capacity to the Con Ed network have been minimal, as deregulation set its priorities on profits first.

Moreover, more electricity is needed. A 2001 report by the New York task force recommended that 25% more power be added by 2008. But nothing was done, and in June 2006, the same task force meekly decided that no capacity really needed to be added until 2012—this, only weeks before the power went out and stayed out for ten days!

Under deregulation, Con Ed's own power generating capacity was sold off during 1996-2000 as follows: 2,200 megawatts to KeySpan Energy Corp.; 1,615 megawatts to Orion Power Holdings; 1,450 megawatts to NRB Energy, Inc.; and 1,200 megawatts, including nuclear plants, to the New York State Power Authority (which, in turn, sold them to Entergy in 2002). Con Ed retains only a 7,100-megawatt capacity.

Con Ed did make $500 million in repairs to the distribution system in 1995-99. Then, after a large electric rate increase in 2000, the company made a $400 million investment in 2001, with a few small expenditures since. Over ten years, this is a pittance for the country's largest distribution system. Its capacity, at 7,100 megawatts, is 1,000 megawatts less than it was 30 years ago.



Los Angeles Daily News

News media nationwide reported on utility power outages as up to 3 million Americans went without power, off and on, since mid-July. Here the Los Angeles Daily News *depicts the location of thousands of customers without electricity for days in the San Fernando Valley, and in Los Angeles. The story with the map noted that "outdated equipment could lead to more failures." An extraordinary heat wave, severe storms, and lack of capital investment in the nation's energy grid by "power priates" since the 1996 deregulation frenzy, led to this Summer's power failures.*

Pennsylvania. In Pittsburgh in mid-June, after a mere two-tenths of an inch of rain and slight wind gusts, 2,700 people had no electricity for seven hours. The multiple outages to the Duquesne Light Co.'s network occurred when trees fell and knocked out power lines, stressing its aging system. "A lot of the equipment is faulty [and] the transformers are old," said consumer advocate David Hughes, executive director of Citizen Power. He attributes its vulnerability to employment cuts and deregulation of the state's power industry in 1998. Then in July 2006, another outage affected 15,000 people.

In the Philadelphia area, 400,000 customers of PECO, a subsidiary of Exelon Corp., had no power for days after a July 18 thunderstorm.

Missouri. In St. Louis, where the heat wave began on July 12, the area was hit by severe storms a week later, uprooting trees and downing power lines, leaving 700,000 customers without power, many for more than a week. At least 12 deaths have been reported as "heat deaths," while another 379 people have been reported with heat-related illnesses.

The Missouri Public Service Commission has opened an investigation into Ameren Corp.'s handling of the outages, including whether it kept trees properly trimmed back from power lines.

Illinois. In Chicago, 110,000 customers lost power this Summer, when storms knocked out 1,000 power lines, 500 transformers, and 500 other devices such as poles and pole arms owned by Commonwealth Edison Company, a unit of Exelon Corp. Exelon is now one of the nation's largest electric utilities, with 5.2 million customers and more than $14 billion in annual revenues.

California. Triple-digit temperatures for 12 straight days in California this Summer, led to transformers burning out across the state, leaving more than 1.7 million customers without power, and 100 deaths reported as heat-related so far. In Los Angeles, more than 25,000 customers went without power, when 10% of the city's transformers failed or blew up. "The problem is that many are decades old and stop working when high levels of electricity are run through them for extended periods of time," the *Los Angeles Times* wrote.

The Los Angeles Department of Water and Power admitted before a City Council hearing July 25, that it had failed to "invest enough in a modern power system, creating the potential for wider outages and failures as record heat stresses a now-inadequate distribution system," according to a *Los Angeles Daily News* report.

Another 765,000 customers of Edison International's Southern California Edison had no power for several days when between 800 and 900 transformers burned out or failed. In the San Jose/San Francisco Bay area, 1.26 million customers of Pacific Gas & Electric Co. (PG&E) lost power over a ten-day period, because of equipment failure, mostly transformers. PG&E made a tacit admission on July 27 that it had under-invested, when it announced that it will replace all transformers that failed in the San Jose area with higher-capacity transformers. "We need to improve our infrastructure and make it better because a lot of [it] is aging," a PG&E spokesman said. California has yet to recover from the energy gouging that Enron and others inflicted on the state.

The Era of Enron II

At the height of the 2001 energy crisis, largely centered on California, Vice President Cheney, then newly appointed by Bush to head an energy task force, was asked what his solution for California would be. He replied, "I'm a believer in markets, and I think the notion of deregulation is basically sound."

An early victim of such privatization buyouts was the 2000 takeover of Indianapolis Power and Light Co. (ILPACO) by AES Corp. An IBEW source close to the events recounted for *EIR* how within six months of the takeover, 600 highly skilled members of the workforce, with years of seniority, had left under a voluntary early retirement program, much like GM's buyout packages to Delphi and UAW workers now. Shareholders' investments lost 76% in the same period, and reliability and service declined.

The source said when "Dennis Bakke and Roger Sant of AES filed their application with the Federal Energy Regulatory Commission to purchase IPALCO, it was a done deal," because both of them had previously been players in the Federal Energy Regulatory Commission.

As deregulation took off, the nation experienced its worst ever blackout, August 2003, when 50 million people had no power for days. Yet, the Cheney energy task force called for the repeal of PUHCA, which had prevented Wall Street control of utility companies by its prohibition of mergers in the industry.

Lyndon LaRouche's proposed solution to the energy crisis in 2001 was simple: Re-regulate the electric utilities, and return to President Franklin Delano Roosevelt's framework, whereby universally available, reliable, affordable electricity is a public good, and a government responsibility. The FDR-era codified this framework in PUHCA.

PUHCA was repealed on Jan. 10, 2006, when Bush signed the Energy Policy Act of 2005, which included the repeal. With this prohibition out of the way, a mega-merger blitz took off among deregulated utility companies. The value of utility mergers and acquisitions announced in 2005 was $196 billion, 60% higher than in 2004; and most of the transactions involved U.S. utilities.

This year, Duke Energy bought Cinergy Corp. for $9.1 billion, and Berkshire Hathaway (MidAmerican Energy) bought Pacificorp.

More mega-merger talks among the so-called IOUs—independent operator utilities—include: Exelon/Public Service Enterprise Group; FPL Group/Constellation Energy; and National Grid/KeySpan. Exelon/PSEG would end up with 7 million electric customers and 2 million gas customers, making it the largest U.S. utility. And Exelon Electric & Gas is the country's largest power generator, with 52,000 megawatts of generation, including 20,000 megawatts of nuclear capacity.

On the move is the Australia-based infrastructure operation owned by Macquarie Bank Ltd., set up in the 1960s out of London, by core Synarchist financial interests. On July 5, Macquarie Infrastructure Group announced a buyout of Duquesne Light of Pittsburgh, which serves 450,000 customers; Macquarie also owns Michigan Electric Transmission Co.

As of 2010, the transition process from regulated to deregulated energy markets will be complete in 17 states, in which buffering of electricity prices will end, and completely unregulated pricing will prevail—an Enron II Era.