For seven years, the IBEW has warned that sloppy handling of electricity deregulation could mean disaster.

California came early to "retail choice" and deregulation and now has become one of the first to feel the sting of what can happen when greedy manipulators have the chance to "game the market" with unlimited price gouging. The first casualties are affordability and reliability

In San Diego in the summer of 2000, one of the continent's most scenic areas became ground zero in deregulation damage. "Electric generators' wholesale prices went up 5,000 percent, customer rates more than doubled and the result was economic disaster for San Diego," says Business Manager/Financial Secretary David A. Moore of San Diego IBEW Local 465.

When the industry was regulated, the generators' cost of production, including reasonable profit, was between three and a half and four cents per kilowatt hour, Moore said. "Under deregulation, we have seen that price jump to 75 cents and then spike to $5 per kilowatt hour."

The summer was a nightmare for members of Local 465. Anger against San Diego Gas & Electric ran rampant, and for irate consumers, the most convenient targets for that anger were the IBEW line crews, gas crews, servicemen, meter readers and customer call center representatives.

But the fact is that San Diego Gas & Electric is no longer the generator of electricity, just the distributor. The real culprit is deregulation, which offers no physical presence to attack. The San Diego disaster, unfortunately, follows the script predicted by the Coalition of California Utility Employees (CUE), which was formed by California IBEW Locals 18, 47, 465 and 1245, Utility Workers Local 246, Engineer Scientists Local 20 and IBEW Local 659, Medford, Oregon.

As far back as June 8, 1994, the IBEW said it bluntly to federal and state officials: "Deregulation will cause businesses and residential ratepayers to suffer escalating prices and power supply problems." In multiple testimonies, IBEW representatives spelled out what would happen if power generators were unregulated by the California Public Utilities Commission (CPUC) and the state legislature.

The response of the state legislature after the San Diego fiasco was was well-intentioned, but only a stopgap, CUE told the legislators in writ-

San Diego: Ground Zero of Deregulatio

The IBEW gets its message across loud and clear at the September Federal Energy Regulatory Commission hearings on the skyrocketing electricity rates in San Diego, California. The rally outside the hearings was staged by IBEW Local 465 and the San Diego-Imperial Counties AFL-CIO.

ten testimony. The legislature voted some temporary relief for ratepayers, capped future rates and streamlined the process for building new power plants.

"The problem isn't that the electric market doesn't work," CUE said. "The problem is that an electric market can't work. Power plants have long lead times to construct, are capital intensive and there is virtually no way to store their output. That means millions or even billions of dollars must be routinely invested based on forecasts of future supply, demand and price conditions"—forecasts that have no chance to be accurate.

Consequently, CUE made three recommendations to the state legislature:

First, conservation must be brought back into the equation. "Conservation programs before deregulation provided thousands of megawatts of cost-effective electricity. Without those programs, today's shortages would be incalculably greater."

Second, someone has to be in charge. At present no one is responsible for forecasting both overall supply and overall demand. The Independent System Operator (ISO) focuses on hour-by-hour reliability and has not attempted to deal with statewide resource issues.

Third, someone with an "obligation to serve" must be responsible for assessing generation, transmission and demand side management—a function previously performed by investor-owned utilities like Pacific Gas & Electric. "They did it before and they could do it again," CUE said.

In the wake of the summer disaster, the Federal Energy Regulatory Commission (FERC) held hearings September 11-12 in San Diego, and Local 465 and the local AFL-CIO central body sponsored a protest rally. The rally's banners and slogans made clear they knew the culprit—the "gaming of the market" by corporations that bought up California generating companies to await the day there would be no ceiling on electricity prices.

In the deregulated, day-ahead market, three major, investor-owned California utilities are required to purchase their energy from the Public Exchange, or PX, which is federally regulated by FERC. Each utility notifies the PX of its expected customer demand for the following day and the PX then accepts bids from suppliers.

But when the total demand is contracted, all generators whose bids were accepted are paid the price offered by the last—and highest—bidder. The ISO then schedules delivery for the next day.

The "gaming of the market" comes from generators who do not offer to supply the day-ahead market, but hold back to wait on the same-day "spot market" when prices are often much higher than on the day-ahead market.

Californians say San Diego should serve as a wake up call to the rest of the nation.

On November 1, the FERC moved forcefully to reinvent California's dysfunctional power market by imposing controls on generation costs and transaction scheduling, as well as other changes. Simultaneously, U.S. Energy Secretary Bill Richardson announced a proposed rule to establish mandatory regulations covering electricty reliability standards.

the

n Battle

Rep. Bob Filner (D-CA) addresses the San Diego rally by IBEW and other union members in conjunction with federal hearings on electricity rates. Susan Davis, the IBEW-endorsed congressional candidate in the 49th District, also addressed the rally.