CHAPTER FIVE:

Privatization Threats and Restructuring Challenges

Restructuring is a new playing field for old adversaries. It pits the forces of private power—the power industry and its representatives in Congress—against the defenders of public power—preference and municipal power customers and elected officials from states with strong public-power traditions. The specter of privatization has shadowed the agency for most its existence. Twice during its lifetime, Western has faced down this threat, also known as defederalization. By any name, it was the plan to sell Western and the other PMAs to the highest private bidder. For more than two decades, those pushing for deregulation of the power industry have sometimes targeted Federal resources management in general, and its sale of power, specifically.

Old Scores

Both private and public power successfully served their separate customer bases during the first years of the 20th century. During the 1900s, President Theodore Roosevelt championed Federal development of the nation's rivers for what some called "white coal," or hydroelectric power. Congressional authorization of Reclamation's first hydroelectric dam and powerplant, Arizona's Salt River Project, reflected Roosevelt's dynamism. The Federal government's success in "making the desert bloom" spurred the nation's interest in the hydroelectric potential of the Columbia, Colorado and St. Lawrence rivers and the Muscle Shoals region on the Tennessee River.[1]


Theodore Roosevelt attended the dedication of the first dam in the Salt River Project, which bears his name.

Roosevelt's enthusiasm for public control was only a momentary respite from corporate dominance of the nation's power system. From 1924 to 1934, private power holding companies bought out more than 1,500 municipal systems. Controlling most of the country's electrical market, a handful of powerful utility holding companies launched a campaign to discredit the "government in the power business," through sympathetic politicians and the press.

Typical of the anti-public power rhetoric during the mid-1920s were statements from Congressman Charles Eaton of New Jersey. In 1927, Eaton claimed that public power was a "Russian policy proposed by certain distinguished statesmen in Congress. A proposal for the adoption of a socialistic Russian scheme of having the Federal government go into the power business in competition with its own citizens in private fields." Statistics told another story; by the start of the 1930s, 16 holding companies controlled nearly 85 percent of the nation's supply of electricity.[2]

For publicly owned utilities, however, the darkness was just about to clear. In 1928, Congress ordered the Federal Trade Commission to investigate the political and financial practices of the private utility industry. In 1932, FTC's report charged the private power companies with abuse of the public's trust and unwarranted written and spoken attacks on the management of the nation's municipal utility systems.

Rural residents were anxious for the convenience of electricity in the 1930s.

Spurred by the election of Franklin Roosevelt, public interests launched their first counterattack against the "Power Trust" through passage of the Public Utilities Holding Company Act and the creation of the Rural Electric Administration, in 1935 and 1936. From the 1930s to the 1960s, Federal agencies like the Tennessee Valley Authority, U.S. Army Corps of Engineers and Bureau of Reclamation built dams and transmission facilities for the public good. The public watched the triumphs of TVA and the completion of engineering feats like Grand Coulee and Hoover dams.

After two decades of intense Federal development of the nation's resources, private industry saw a chance to reverse a trend with the election of Dwight Eisenhower as president in 1952. On Feb. 2, 1953, during his first State of the Union message, the new commander-in-chief shared his philosophy: "The best natural resources program for America will not result from exclusive dependence on Federal bureaucracy. It will involve a partnership of state and local communities, private citizens and the Federal Government, all working together."[3]

The Department of the Interior was Eisenhower's weapon against public power and Under Secretary of the Interior Ralph Tudor was one of the administration's lieutenants. According to a May 10, 1953, entry in his diary, Tudor wrote: "I wish they (Democrats in Congress) would realize that what we are doing is taking these things away from the bureaucrats and giving them back to the people. If there was a 'give-away' program in existence in this country, it has been during the last 20 years when the regime here in Washington has been 'giving away' the assets of the country for the benefit of a few."[4]

Some of Us Don't Want to Be Rescued

The Eisenhower Administration issued a strong signal to the power industry that it could come in from 20 years in the wilderness. Despite an ambitious start buoyed by pro-private rhetoric, Edward Weinberg, former solicitor for the Department of the Interior, recalled that political expediency quickly changed some minds in the administration. "When the Eisenhower administration came in, they were going to clean house and change all the policies. Politically, the country wouldn't stand for it. After about six or seven months, the Eisenhower administration got over their antipathy to government development, and some of the biggest projects in the Bureau (history) were authorized during the Eisenhower administration; the Glen Canyon Dam and Pick-Sloan went ahead full speed."[5]

By the time of John Kennedy's election as President in 1960, public power was back on top. Powerful Western congressmen like Carl Hayden of Arizona, Wayne Aspinall of Colorado and the cadre of senators from the Pacific Northwest ensured that Federal dollars would continue to flow into their states to build high-profile projects like Glen Canyon Dam, and complete the Central Valley Project in California and Pick-Sloan Program in the Upper Missouri Basin.

Eventually, funding and popular support for the New Deal, Kennedy's New Frontier and Johnson's Great Society public works projects ran out of steam. By the 1970s, a new generation of Western irrigation and hydro projects faced strong opposition on two fronts: first, from a burgeoning environmental movement, and second, from another movement coming from the other end of the political spectrum. A philosophy based on distrust of all things Federal—a "sagebrush rebellion" found a home in the Rocky Mountains and Desert Southwest. *High Country News* captured the irony of one era evolving into another. "Had the Federal government managed its dams more prudently in the past, taxpayers and ratepayers might never have discovered a pervasive, socialized empire in the West, held together for the most part by conservative politicians fond of making speeches about the free market and rugged individualism."[6]

After decades of public support for Federal involvement in power, it was in an atmosphere of change that the newest PMA grew up.

Western on the Potomac

Not everything directing Western's course happens in its 15-state home base. The halls of Congress, the Department of Energy's Forrestal Building, or any place where the decisionmakers get together in Washington, D.C., have provided backdrops for the agency's political triumphs and setbacks. From where the political action is, Western's eastern-most outpost monitors congressional action and serves as a liaison with DOE, Congress, the Federal Energy Regulatory Commission and other Federal agencies.

From the 1940s to the late 1970s, Bonneville Power Administration had established a strong political presence inside the Department of the Interior and had considerable influence on Capitol Hill. As a new agency, Western's approach had to be less proactive.

John DiNucci was named Western's first Washington liaison officer in 1978. The original incarnation of the office lasted only a few months, but DiNucci recalled how Western's presence out east began, "Once the liaison stuff evolved and we got the process started out here (Western's headquarters) on how to handle the contracts, all I handled was liaison. I think my main function was fireman putting out fires, because most of the people that went over to what later became the Office of Power Marketing Coordination were really not power-marketing oriented."[7]

In 1980, Assistant Secretary of Energy for Resource Applications Ruth Davis agreed that Western needed an office in Washington, D.C.

The Department of Energy closed down Western's Liaison Office later in 1978. DiNucci and his staff joined DOE's Office of Power Marketing Coordination. DiNucci referred to the OPMC as "a dictating outfit. We had no jurisdiction over the PMAs. All we were there to do was to make sure whatever rate revisions they (the PMAs) needed, whatever contracts had to be executed, we had to expedite them."[8]

In early 1980, Western prepared a presentation for Assistant Secretary for Resource Applications, Ruth M. Davis, soon after her appointment to educate her about the agency's importance. After the presentation, Davis agreed that, because of the size of its service area and the complexity of its operations, Western should have representation in Washington similar to Bonneville. By August 1980, Western's Liaison Office was back in business. Administrator Robert McPhail selected Ron Greenhalgh as Assistant Administrator of Western's revamped Washington Liaison Office. Greenhalgh coordinated the agency's activities with other Federal authorities, served as Western's listening post and acted as a troubleshooter. The Washington Liaison Office underwent one more transformation by the early 1990s. In 1992, Western, Alaska, Southeastern and Southwestern power administrations consolidated their offices to present a united PMA front in Washington. Greenhalgh's successor as Assistant Administrator for Washington Liaison, Joel Bladow, managed the consolidated office.

The Money-Go-Round

Before Greenhalgh's arrival, Western had already found itself in the middle of a big political fight over an innovative financing plan and the concerns of the agency's most vocal preference customer group. In 1978 and 1979, Bill Clagett, fresh from seven years as Bonneville's liaison officer, advocated a revolving fund for Western and the other PMAs. A revolving fund would allow the PMAs the flexibility to schedule funding for operations, maintenance and purchase power, improving efficiency and economy. This method of repayment to the Federal Treasury adjusted the fluctuating need for power purchases based on water conditions without supplemental appropriations and allowed the PMAs to plan, operate and expend revenues on a more business-like basis.[10]

During the late 1970s, Western's sister PMAs, Southeastern and Southwestern, were under attack by the investor-owned utilities in their respective regions. After a Senate hearing held to save Western's chances for a revolving fund, the infant agency had to jettison its older colleagues, which "caused a lot of hard feelings," according to Greenhalgh. Bonneville's own revolving fund legislation, S. 734, the Federal Power Marketing Revolving Fund Act, caused additional hard feelings among the preference community outside the Northwest United States.[11] Although he personally favored a revolving fund, Fred Simonton of Mid-West Electric Consumers Association could not live with "provisos" he believed would take from the customer "the authority to purchase power and rent transmission capacity" and force Western's ratepayers to fund an additional $1.6 million in interest. Simonton believed S. 734 was "a terrible raid on preference" and came out against the bill by creating the National Preference Customer Committee.[12]

The debate over the revolving fund continued for two years. By 1980, Western had its own separate legislation making its way through Congress. The influential Senator from Washington, Henry "Scoop" Jackson, sponsored Bonneville's legislation and "in retaliation" according to Greenhalgh, bottled up the Western revolving fund. "He poked Fred in the eye," he added. "Scoop wasn't opposed to it (Western's revolving fund), but he wanted to teach Fred Simonton a lesson." Western's legislation made its way through the Senate but died during a lame-duck session between the administrations of outgoing President Jimmy Carter and incoming President Ronald Reagan. Despite the disharmony, Greenhalgh felt things worked out for the best, "WAPA hasn't suffered any legislative defeats with the exception of the revolving fund, and that was probably the best thing that ever happened to the customers."[13]

The tussle over the revolving fund was the first of many battles Greenhalgh saw over the next two decades in Washington. His experiences convinced him that preference customers must accept that they're outnumbered and try to pick their battles with private sector forces: "Preference customers are like the colonists in the Revolutionary War. The other guys march around in the redcoats with the good equipment. We get to hide behind rocks and wear whatever we want to; shoot whatever we wanted. We became very adept guerillas."[14]

Ron Greenhalgh served in Western's Washington Liaison Office in the 1980s.

Greenhalgh's Washington odyssey may not have ever happened if the story had gone according to the script. His career as an electrical engineer with Reclamation included stops in Salt Lake City and Grand Coulee Dam before becoming Power Systems branch chief in the Central Valley Coordinating Office in 1972. Joining Western's Sacramento Area Office in 1979, he oversaw the power dispatching functions of the Central Valley Project. Those duties seemed minimal compared to what awaited almost 3,000 miles to the east. As a Reclamation employee, Greenhalgh admitted to a lack of enthusiasm for the nation's capital after his first detail to Washington: "The main thing I learned in Washington during the training program was that I never wanted to go back to Washington."[15]

However, Bill Clagett was persistent and persuaded Greenhalgh to take the job. After he won the position, Greenhalgh recalled the advice he received from Western's Administrator, Robert McPhail. "After it was advertised and I applied, McPhail told me I'd been selected. He gave me a little pep talk that sometimes good engineers don't always make good administrators or good politicians. I've never been quite sure what his message was; I guess it was, OK, he'd given me latitude to fail."[16]

Greenhalgh's first day on the job, Aug. 24, 1980, came five months before a change in administrations and attitudes toward the PMAs. The incoming administration of Ronald Reagan soon decided that Western and the other PMAs were prime examples of functions government should not do.

Grace, But No Favor

In more literate times, books could be the flashpoints of great controversies. In early 1983, the President's Private Sector Survey on Cost Control, or the Grace Commission Report, launched two decades of debate over the privatization of the PMAs. Named for the shipping magnate who headed the commission, J. Peter Grace, the report contained many troubling conclusions for public power. The most worrisome was the recommendation that the Federal government should begin "an orderly process of disengagement from participating in the commercial marketing" and sell the Federal government's "power-producing assets."[17]

According to the report, selling the PMAs would eliminate current operating deficits, avoid additional capital expenditures and give the government a lump-sum sale price. Besides auctioneer, the Grace Report also played broker. The commission suggested a list of potential buyers for the PMAs, including state and local governments, cooperatives, investor-owned utilities or other private firms looking to join the power business. Finally, the report concluded any future development of hydropower would be "financed from non-Federal sources." The Reagan Administration estimated that the sale of Federal hydro generation and transmission facilities would return $25 billion to the Treasury over five years. A bonus would come in the sixth year after the sale of those assets as a reduction in the net outlays for capital investment. The interest earned on the resulting cash flow would produce an estimated $5 billion in savings and revenue for the Federal Government, the report authors projected.[18]

President Ronald Reagan formed the Grace Commission, which recommended privatizing the power marketing administrations.

In a report issued Feb. 19, 1985, the United States General Accounting Office took issue with the Grace Report's estimated value of the PMAs, but agreed with the Commission's recommendation to sell Western and the other four agencies. The Department of Energy followed the lead of the President, and in a position paper, DOE planned "to pursue defederalization through an open process which fully involves and seeks the views of all concerned groups and individuals.… Every attempt should be made to minimize the impact on existing power rates."[19]

Congress was under the spell of budget cutting during 1985, as the administration sent to the Hill a finance package designed to trim more than $40 billion from the national deficit. Two years after the Grace report was published, Reagan's budget team remained convinced that hydropower did not generate enough revenue for the Federal Treasury. In 1985, Western sold its firm hydropower for less than a cent a kilowatthour. In comparison, electricity generated by oil-fueled powerplants cost about five cents a kilowatthour. Looking at the numbers, Ron Greenhalgh told the *Denver Post* in December 1985 that if the government sold the power marketing administrations, it was a foregone conclusion that Western's former customers would have to charge their consumers higher rates.[20]

On Feb. 5, 1986, Reagan implemented the aims of the Grace Commission in his FY 1987 budget. Following administration dictates, Western's FY 1987 budget justification submitted to Congress included seeking a fair return to the Federal taxpayers from the privatization of the PMA assets, recognizing the benefits enjoyed by existing customers and providing appropriate protections for the personnel benefits of Federal employees.[21]

Reagan's proposal expected to sell the five PMAs to private interests by FY 1991. The Reagan administration first put Bonneville on the block, pushing for a quick sale by Oct. 1, 1987. However, not everyone could support the sale. California Congressman Vic Fazio stated on the floor of the House of Representatives that if the government auctioned off the PMAs, "Employee morale would be damaged." Fazio added that the proposal had already taken its toll on the

Department. "The proposal to sell the PMAs has resulted in the abrupt resignation of the DOE's senior power marketing attorney, Richard K. Pelz, who said the proposal to sell the PMAs is 'economically disruptive, fiscally irresponsible, administratively harmful and intellectually dishonest.' We need people in Government who are motivated by a sense of service, since their pay falls far behind that of people with comparable responsibilities in the private sector."[22]

Despite such feelings, Western followed the Reagan Administration's wishes. In 1986, Western's assistant administrator for Engineering, Tom Weaver, led an interdepartmental study regarding the proposed sale.[23]

National and local preference groups swung into action. The American Public Power Association represents nonprofit, community-owned electric utilities across the country. APPA countered the Administration, arguing that sale of the PMAs would not reduce the deficit, and privatization would undermine the utility industry's stability.[24]

During 1986, reaction from customers to President Reagan's plan combined the heartfelt with the heated. An illustration of the depth of customer resolve came from Hill County Electric Cooperative in Northern Montana. In a letter dated May 20, 1986, 369 members of the co-op reminded President Reagan and their congressional delegation, "Since the private utilities are allowed to operate in the retail marketplace without competition, the only meaningful measure of their efficiency is the yardstick provided by the PMAs and our rural electric cooperatives. The sale of the Federal transmission and hydropower generation facilities in our area will eliminate competition and put us once again at the mercy of the Montana Power Company for all of our wholesale power and thereby destroy the only incentive they have to operate with some degree of efficiency."[25]

On the floor of the House of Representatives, Democrat Tom Daschle complained that Reagan's proposal could not have come at a more inopportune time for the people of South Dakota: "The dramatic rate increases which would follow the sale of WAPA could not come at a worse time, as our farms and farm communities are suffering the harshest economic crisis since the Depression."[26]

As the Congressional session wore on, it was clear there was no strong support for privatization. On July 2, 1986, Reagan realized the prognosis and signed a supplemental appropriations bill (H.R. 4515) into law. The law prohibited the Federal government from spending money to draft PMA divestiture proposals. Clagett was cautious in his reaction: "While asset divestiture is now a moot issue—and I don't want to debate the merits of the proposal—Congress sent us a message by prohibiting the expenditure of Federal funds to study it. I think the message is that the power marketing administrations are accomplishing their missions."[27] The issue hibernated for almost a decade, until 1995, when a Democrat took up where Reagan left off.[28]

Unleashing the PMA Pit Bulls

Signed by President George H. W. Bush, the Energy Policy Act of 1992 signaled round two of the privatization fight. Bush's successor, Bill Clinton, threw his support behind an idea that was an anathema to the New Dealers of his own party—sell the Federal power program to the highest bidder.

In early 1995, the Clinton Administration pushed for a sale of Southeastern, Southwestern and Western in the FY 1996 budget. By May, DOE forwarded draft legislation to Congress proposing sale of the three PMAs to their customers at a discount. The Clinton Administration publicly supported a sale, stating that the Federal government should stay out of the power business.

The Clinton Administration's perceptions were at odds with the facts. By the mid-1990s, most of the nation's consumer-owned electric systems had repaid a major portion of the original investment with interest. Many opponents argued that the sale would dramatically increase power rates by as much as 20 percent. During that time, in one key preference state, South Dakota, rural electric systems paid Western about one and a half cents for wholesale electric power while the area's largest co-op, Basin Electric, wholesale rates averaged 4.6 cents—a difference of 207 percent.[29]


President George H.W. Bush signed the Energy Policy Act of 1992.

Western's administrator during the second battle of the PMAs, J. M. Shafer, maintained his confidence as the fight raged around him. "Selling the PMAs never was a real threat. I felt part of the reason that some people wanted to get rid of the PMAs was that they were too complicated, and a lot of Congressmen did not understand how they operated."[30]

Behind the big battles over the control of the nation's power supply are the small, personal stories detailing the importance of electricity in keeping communities alive. In the 1995 fight, David Holmgren, the town mayor of Henning, Minn., wrote to Energy Secretary Hazel O'Leary regarding the life-and-death nature of selling the PMAs on small-town America: "We are one of the 47 cities in Minnesota that rely on Federal hydropower. The Eastern Pick-Sloan Federal facilities (of which we are a part) has repaid approximately 40 percent of the original investment with interest. Sale to a private party could wipe out our equity contribution and increase electric bills for homes, businesses and industries. In our small city of 732, we are struggling to maintain businesses, schools and residents. A raise in the cost of this valuable commodity could be devastating."[31]

That letter from Henning, Minn., joined a chorus of pleas from places like Weaverville, Calif., Alda, Neb., and Pompeys Pillar, Mont. In the lost, forgotten places of rural America, and in Washington, anti-privatization forces sported buttons and promotional material identifying them as "PMA Pit Bulls," reflecting the ferocity with which they would defend the Federal assets. Arriving in Washington by the sackfull, in language eloquent and sentiments straightforward, the customer letters reminded Congress of the error of selling Western.[32] Because of their efforts, the 1995 mobilization to end Federal power advanced only a few steps before dying in its tracks.

In the early 1990s, Ron Greenhalgh retired from Western and went to work as chief engineer with NRECA in Arlington, Va. He remembered the 1995 fight from a different perspective than the fight a decade earlier and concluded this struggle would be the last for a while. "Selling off the PMAs won't happen—not with the makeup now; neither side has enough votes, so it's going to be a standoff. In addition, a lot of people remember the 1995 go-round and don't want to go through that again.... A Democratic Administration proposing and Republican Congress disposing means that selling the PMAs was not going to happen."[33]

After the smoke cleared in Congress, in the summer of 1995, President Clinton visited Montana. Yellowstone County Commissioner Bill Kennedy put the president in the hot seat: "Why would your administration advocate selling, at fire-sale prices, agencies that do not contribute one dime to the deficit, but conversely contribute to deficit reduction each year?"[34]

Clinton attempted to explain his deeds:

> *The Office of Management and Budget, under my administration and under previous Republican administrations, has always routinely tried to put something on this in the budget. When they brought it to me, I said, 'I don't necessarily believe this is going to save money. I will approve this only if you do two things. One, you have to put a lid on how much rates can go up, which makes it less attractive, obviously, to private utilities. And two, there has to be an extraordinary effort to let the public power authorities buy the capacity first.' I do not believe we should sell it and get a one-time gain out of it if it's going to explode electric rates in Montana or in any other state.*[35]

President Bill Clinton initiated the second round of the privatization battle.

With that, the sale of the PMAs was dead—for the moment. Some in Congress spent the latter half of the 1990s examining and debating the fate of the PMAs. Hearings conducted by Rep. John Doolittle's House Resources Subcommittee on Water and Power resulted in the General Accounting Office cranking out volumes of reports on PMA rate-setting and business practices.

However, the Debate Continues

For the rest of the 1990s worries continued over the nature and future of the PMAs in a changing electric utility market. These concerns include that if the government sells its hydro plants, the new owners would have to finance these projects at today's interest rates and the cost would go directly to the consumer. In addition, there is an east vs. west aspect to this debate. The July 25, 1998, *Congressional Quarterly* opined that "Opposition (to deregulation) came from Westerners fearful of losing cheap hydropower to other regions."[36]

After two attempts to sell the PMAs, the debate over the future of Federal transmission reverted to soundbites. Some made the case that the preference clause had outlived its usefulness. Congressmen Bob Franks (R-N.J.) and Marty Meehan (D-Mass.) stated in the November 1999 *Public Utilities Fortnightly* that Microsoft billionaire Bill Gates "pays an electric bill every month subsidized by the rest of us," since the Gates estate is on land served by the Bonneville Power Administration. The duo continued their attack by saying that cost-based rates are "pernicious because they encourage waste and discourage efficiency. They lead to unnecessary pollution. They distort the market. And they often reward unneedy consumers."[37]

The same year Franks and Meehan attacked the PMAs in print, Senator Jeff Bingaman (D-N.M.) defended Western's mission of supplying low-cost power to his state. In 1999, New Mexico ranked 49th among 50 states in per-capita income: "In the rural parts of our state, we depend on Federal power to help keep costs down. Electricity is always more costly to deliver to rural communities, but this Federal power helps keep the price as low as possible. Reliable and economical electric power is a key ingredient to attract new businesses and industry to a community."[38]

At the close of the century, there were 230,000 rural electricity customers in New Mexico. Rural customers in New Mexico get 25 percent of their power from the cheaper Federal supply. The cost of their power from Western was 2 cents per kilowatthour—almost half the price of other power generated in-state by coal or natural gas. That difference saved the average consumer in rural New Mexico between $30 to $60 per year.[39]

A Second Front

As defederalization was the mood in Washington, local and state officials in Western's service territory publicly expressed their own post-PMA plans. In 1984, the Western Governors Association explored a proposal that would increase Federal power revenues with a surcharge to provide immediate funding for future water projects. Colorado's Governor Richard Lamm proposed a surcharge on all Federal power marketed in his state with the money going to a separate fund for frontend financing earmarked for future water projects.

Western' senior managers considered the various state propositions and took an evenhanded approach. In 1984, Bill Clagett told a customer meeting in Las Vegas that Western had no argument with the concept of upfront financing. But, he added, "we also think that it is unfair for the Federal power allottees, who have been providing repayment for the original projects from the very beginning, to bear the entire brunt of new construction of projects from which they will receive no benefit. If we were to follow the Colorado governor's suggestion, then customers of Tri-State G&T, Platte River Power Authority and the City of Colorado Springs, just to name a few, would have their power rates increased while neither water, state coffers or investor-owned rates are affected."[40]

In 1986, Governor Lamm's successor, Roy Romer, pushed for the 15 states under Western's authority to buy the Federal agency. On the campaign trail that year, Romer said it was "an opportunity to get a perpetual money machine." Romer believed that his offer kept the transmission system in regional hands: "If it's going to be sold, we ought to get right up there and say, 'We'll buy it.' After all, it's our water. We ought to try and retain the resources of the West for the people of the West." Federal hydropower projects in Colorado yielded about $60 million a year. Romer figured that $27 million was needed to pay costs, leaving a $33 million surplus.[41]

Loveland Area Manager Mark Silverman disagreed with Romer's proposal and math: "Northern California can't even agree with Southern California. Just think of 15 states trying to agree on how to market Federal power."[42] Romer later went on to serve three terms as Colorado's governor, but after the defeat of privatization in Washington, his proposal died.

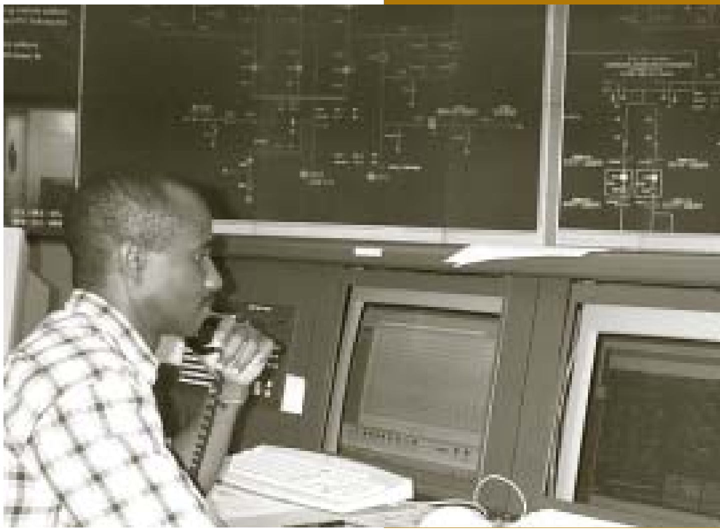
Sometimes the IOUs have tried to go through the backdoor to influence the Federal power marketing program. In 1989, during the customer comment phase for the 1994 marketing plan of Central Valley Project, Pacific Gas and Electric Co. proposed that Western sell power to nonpreference customers based on market costs while allocating Federal power to customers through an auction or bidding.[43] PG&E also pressed for selling Federal power to a wider range of customers, including nonpreference customers, and demanded that the agency place provisions into post-1994 contracts requiring reopening to confirm subsequently changed laws, regulations or executive orders relating to pricing and delivery conditions.[44]

By the close of the 1990s, everything was in place in one important state in Western's service area to usher in a new day of customer choice and low rates. However, a funny thing happened on the road to deregulation in California. In 2000, in this bellwether state, a bell tolled that stopped deregulation in its tracks.

Sweating in the Dark: A California Summer

The past speaks lessons that the present often ignores. Public utilities first came to California on July 11, 1887, when the city of Alameda, on the east side of San Francisco Bay, bought out a local electric company incapable of offering adequate service to its customers. By the close of the 19th century, nine city-owned utilities dotted the state. The resolve of the Alameda city fathers to change a system that did not work provides an example to today's power customers that the people can still control the nation's resources.[45]

California was supposed to be an early, shining example of deregulation. Within two years, it served as a lesson of what can go wrong. Initiated in 1996 through the passage of Assembly Bill 1890, the nation's trendsetter launched the first major experiment with market-based electricity rates. The state's big three investor-owned utilities (PG&E, Southern California Edison and San Diego Gas and Electric Company) served 27 million customers statewide, with the exception of Los Angeles, Sacramento and a handful of other cities with publicly owned electric utilities. Under the state's deregulation plan, the IOUs would sell most of their powerplants to independent energy generators, and those leaner generators would produce power more cheaply than the monopolies. The utilities would buy power from the independents, from one another's nuclear and hydro plants and out-of-state generators through a marketplace called the California Power Exchange.



The California energy shortages of late 2000 and early 2001 kept dispatchers like Francois Montoute scrambling for ways to keep the lights on.

By the summer of 2000, the state faced all kinds of chaos after prices shot up as a result of an imperfect state law, a booming economy and below-normal hydropower production. The marching band of deregulation stopped dead in its tracks when retail customers around San Diego opened their monthly power bills and discovered charges triple the previous summer's rates—as much as 21.4 cents per kilowatthour.

Higher bills were only an indication of bigger troubles ahead. The late fall of 2000 saw a transmission version of a multi-car collision on Interstate 5. In California, demand for power has always been high, but no new construction of generation facilities increased the state's reliance on imported power. Then nature took a hand, as a lingering drought in the Pacific Northwest tightened hydropower generation.

The leaders of the state, like many of its citizens, watched as the blackouts rolled. On the state's home page, "California's Energy Challenge," the government urged Californians to "Flex your Power" by minimizing energy use during the peak demand hours of 5 a.m to 9 a.m. and 4 p.m. to 7 p.m. by turning down thermostats to 68 degrees or below and turning off computers at the end of the workday.[46]

As the summer of discontent gave way to a winter of chaos, Ron Greenhalgh surveyed the situation:

> *California wouldn't listen to anybody. They got on this ideological bent. You can't have a free market when you're short of resources. When your demand exceeds your supply, a large part of your supply is coming from outside of the state, you don't have any control over those people who have been traditionally selling it to you and they can now get a better price for it elsewhere, or hold you up for a higher price.*
>
> *The only way they are ever going to solve that problem is become generation independent. The worst thing to me is, what generation they did have they sold it to outside forces they had no regulatory control over, like Duke Power Company (a large IOU based in the Southeast U.S. involved with utilities nationwide). Duke's attitude is 'Hey, we didn't buy those plants with a service attitude, we bought those powerplants to make money.' They freely admit that the only people they have in mind is their stockholders.*[47]

Swearing in the Dark: A California Winter

Western's former Sierra Nevada Regional Manager Jerry Toenyes ticked off all the reasons why the first 60 days of 2001 in California were unlike any other two-month period in the history of the power industry:

> *In addition to the IOUs being on the verge of bankruptcy, we have seen the PX's (California Power Exchange) demise; the Energy Secretary's emergency order requiring generators to sell power into California; historic low levels at Columbia River reservoirs and reduced available generation; significant rate increases spreading throughout the West; continuos Stage 3 alerts; two rolling blackouts; increased generation at Glen Canyon Dam to avoid further blackouts; a temporary restraining order to force generators to keep producing energy; replacement of the CAISO board with gubernatorial appointees; the California governor's Executive Order requiring the state to purchase energy to keep the lights on; and the governor's proposal to buy the IOUs' transmission to generate revenue for the IOUs to pay their debt.*[48]

From September 2000 to February 2001, Western and Reclamation shored up California's dwindling power supply twice in five months. CAISO praised both agencies for delivering 330 MW on Sept. 18, 2000, and 350 MW of emergency assistance from Glen Canyon Dam during a Stage 3 power shortage on Feb. 15 and 16, 2001. Within a half-hour of the ISO's emergency declaration, Western and Reclamation worked to provide power to worried consumers.

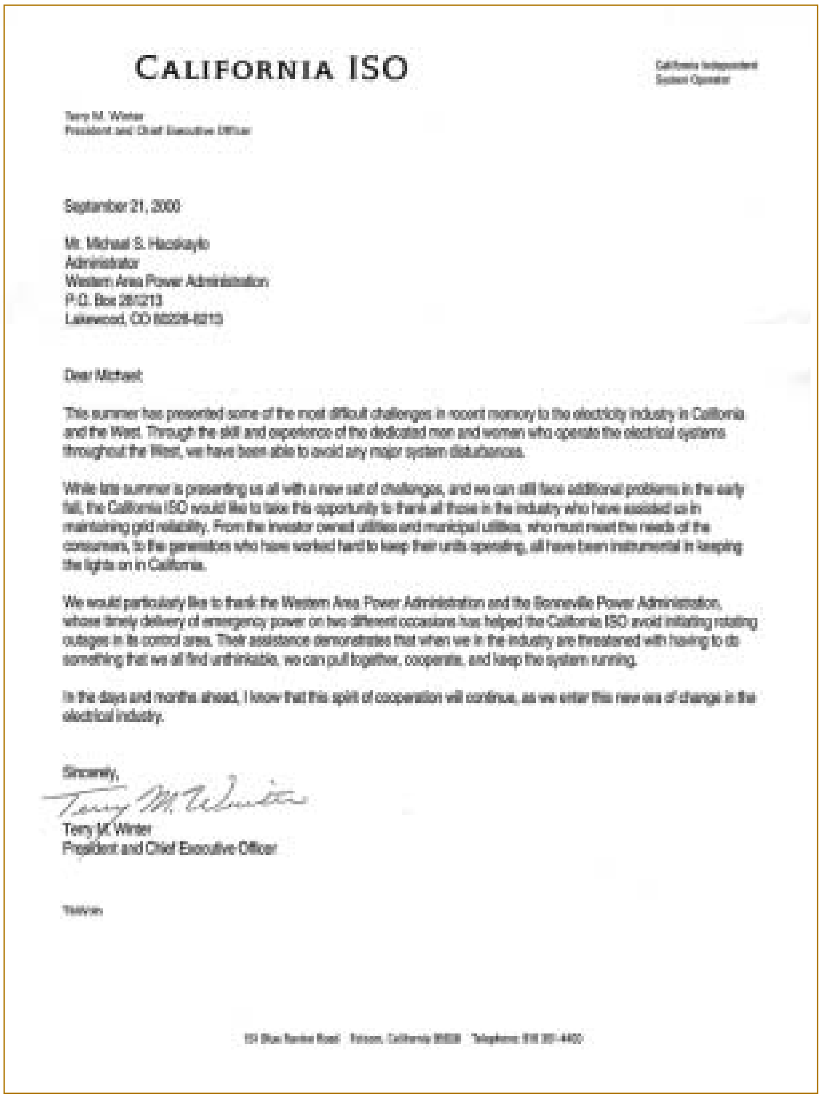
Dan Ogden, a lifetime veteran of Federal power, offered this observation, "The failure of deregulation in California will bring a resurgence of interest in public power. The California experience will weigh heavily on the public mind. At some point, California will have to reregulate."[49]

A contemporary of Ogden's, Gus Norwood, chronicled the history of the nation's power marketing administrations and served as the administrator of the Alaska Power Administration during the 1960s. Looking forward, the 85-year-old Norwood counted heads when predicting the future of the PMAs, "Politically, you take all the states. You have a majority of the states in the Senate covered by the PMAs. The senators don't want their dog kicked around. Whatever changes deregulation brings, if it comes, the PMAs will remain as 'A Friend of the Court.'"[50]

Not All the Trouble is in California

The media's attention on California's rolling blackouts ignored another state in Western's service area. At about the same time as California's electricity market was going haywire, the Big Sky Country of Montana went through its own deregulation pangs in comparative silence.

During the mid-1990s, the state's largest utility, Montana Power, offered some of the West's cheapest power. After deregulation in 1997, retail prices dropped for a brief period before wholesale electricity prices jumped from $30 to $150 to $300 a MWh. After customers got over the shock of receiving their monthly bill, the state legislature took up the issue of reregulation of rates. In May 2001, the Montana Public Service Commission reasserted its authority to regulate Montana power rates.[51]



CALIFORNIA ISO

California Independent System Operator

Terry M. Winter
President and Chief Executive Officer

September 21, 2000

Mr. Michael S. Hacskaylo
Administrator
Western Area Power Administration
P.O. Box 281213
Lakewood, CO 80228-8213

Dear Michael:

This summer has presented some of the most difficult challenges in recent memory to the electricity industry in California and the West. Through the skill and experience of the dedicated men and women who operate the electrical systems throughout the West, we have been able to avoid any major system disturbances.

While late summer is presenting us all with a new set of challenges, and we can still face additional problems in the early fall, the California ISO would like to take this opportunity to thank all those in the industry who have assisted us in maintaining grid reliability. From the investor owned utilities and municipal utilities, who must meet the needs of the consumers, to the generators who have worked hard to keep their units operating, all have been instrumental in keeping the lights on in California.

We would particularly like to thank the Western Area Power Administration and the Bonneville Power Administration, whose timely delivery of emergency power on two different occasions has helped the California ISO avoid initiating rotating outages in its control area. Their assistance demonstrates that when we in the industry are threatened with having to do something that we all find unthinkable, we can pull together, cooperate, and keep the system running.

In the days and months ahead, I know that this spirit of cooperation will continue, as we enter this new era of change in the electrical industry.

Sincerely,

Terry M. Winter

Terry M. Winter
President and Chief Executive Officer

Darling to Pariah

In February 2001, Phoenix's *Arizona Republic* newspaper capsulized the future of electric deregulation, "In less than a year, electric deregulation has gone from being the darling of consumers, politicians and business leaders, to pariah."[52]

The events of winter 2001 culminated in a PG&E filing for bankruptcy on April 6, 2001. The only certainty in this morass of confusion is that by the time of Western's 25th birthday, the power industry in the Golden State will have gone through a few more seismic shocks.

After seeing where the agency has been politically, Ron Greenhalgh concluded that Western can weather, and survive, the storms on the way to where it is going, "Western doesn't need to carve out a role. It's got a role. It's an anchor in a safe harbor. As we really learned . . . in California, there's no substitute for stable rates. I heard this recently and I believe its true— 'Public dissatisfaction trumps economic theory.'"[53] ▼