

**Jan. 16, 2001**

## **Claiming Poverty in a Sea of Riches: New Investments by Parent Companies Belie California Utilities' Claims of Bankruptcy**

In 1996, California's Assembly unanimously passed AB 1890, deregulating the state's electric utilities. Since then, the first-in-the-nation experiment has resulted in skyrocketing wholesale prices for electricity, record profits by power producers and power marketers, and constant threats of power shortages across the state. While Californians have access to more than enough power through California's transmission grid, the control of the wholesale energy market by a few powerful corporations has resulted in such high wholesale prices that the state's utilities claim they no longer can afford to buy all the electricity the state needs.

After holding private weekend discussions with top utility executives, Calif. Gov. Gray Davis is prepared to enlist the state as the primary energy purchaser in California. Under his proposal, the state will buy electricity from power producers and sell it to California's utilities at cost. Proponents argue the plan is necessary because two of California's utilities — Pacific Gas & Electric and Southern California Edison (SCE) — claim they are close to bankruptcy and have inadequate cash and credit to continue making purchases on the wildly overpriced wholesale market.

But an analysis of investments made by the parent companies of California's two major utilities shows that they have acquired billions in power plants and other out-of-state projects in just the past few months. The parent companies have been playing a shell game, pulling money out of the state through their California utilities and using the money to invest in other states and other countries.

Any deal on the part of California to have the state purchase electricity on behalf of the utilities will make matters worse for consumers because it shifts risk from investor-owned utilities to the taxpaying public. Therefore, the utilities should be forced to sell off these assets before having the state act as a surrogate debtor.

The two California utilities, Pacific Gas & Electric and SCE, are owned by PG&E Corp. and Edison International. While these two utilities claim to have racked up such significant losses that they are threatening to file for bankruptcy, their parent companies have embarked upon a billion-dollar spending spree, spending more than \$22 billion on power plants, stock buybacks and other purchases

that far exceed their alleged \$12 billion debt from California operations. Edison International and PG&E have done this both through those two companies and through affiliated companies — Mission Energy (another subsidiary of Edison International) and National Energy Group (a PG&E subsidiary).

Created in 1990, Mission Energy’s revenues and profits didn’t take off until 1999, when expensive investments began to pay off. A Public Citizen analysis shows that Mission Energy, along with a few other smaller Edison International subsidiaries, spent more than \$10 billion on non-California investments since December 1998 - more than double the SCE’s stated debt of \$5 billion. In addition, Edison International has spent \$2.35 billion on stock buyback programs since deregulation began.

PG&E’s high-growth subsidiary, National Energy Group, hasn’t been as forthcoming, electing not to disclose the purchase price of many of its recent acquisitions. Information gleaned from several news reports reveals that since 1999, PG&E’s purchases outside California and the Pacific Northwest total at least \$9 billion. This far eclipses PG&E’s alleged \$6.6 billion deficit from its California operations. PG&E spent over \$1 billion on its own stock buyback plans since the onset of deregulation.

More onerous than PG&E’s secrecy of its recent acquisitions are its aggressive attempts to shield these purchases in the event Pacific Gas & Electric declares bankruptcy. The Federal Energy Regulatory Commission (FERC), by a 3-to-1 vote on January 12, approved a reincorporation request that will preemptively place these and other assets out of reach from bankruptcy proceedings. William Massey, the lone FERC dissenter, stated that he was “troubled” by PG&E’s “11<sup>th</sup> hour request.”

### Early Deregulation Benefits Fuel Purchases

Deregulation made these investments possible. Under the 1996 deregulation law supported by the utilities, SCE and Pacific Gas & Electric sold dozens of power plants for hundreds of millions of dollars above their estimated book values. Both utilities received billions from special state-approved bonds and other legislated benefits, and California consumers overpaid their utility bills by \$18 billion so the two utilities could pay off their stranded cost debts.

PG&E Corp. Purchases or Commitments, 1999 to Present			
Subsidiary Making Purchase	What did they Buy/build?	Cost, in BILLIONS	Date of Purchase / Announcement?
Natl Energy Group	810 MW Southhaven power plant in Mississippi	undisclosed	Nov-00
Natl Energy Group	Purchase of 44 turbines & 15 other projects from Societe General	\$7.8	Oct-00
PG&E Generating	Power plant in Okeechobee County, FL, to be completed 2003	\$0.2	Sep-00
Natl Energy Group	Constructed Madison Windpower in New York	\$0.02	Sep-00
Natl Energy Group	Attala 500 MW power plant in Mississippi	undisclosed	Sep-00
Energy Trading	Tolling rights to peaking plant in suburban Indianapolis	undisclosed	Sep-00
Natl Energy Group	Tolling rights to Liberty power plant in suburban Philadelphia	undisclosed	Jun-00
PG&E	Stake in True Quote trading software	undisclosed	Apr-00
PG&E	Aerie broadband pipeline project	undisclosed	Apr-00
PG&E Generating	Power plant in Pleasant Prairie, WI	\$0.5	1999
Natl Energy Group	Lake Road power plant in Killingly, CT	\$0.5	1999
<b>TOTAL</b>	<b>at least</b>	<b>\$9.0</b>	
<i>SOURCE: PG&amp;E SEC filings, news wire reports.</i>			

<b>Edison International Shopping Spree: December 1998 to Present</b>			
Subsidiary Making Purchase	What did they Buy?	Cost, in BILLIONS	Date of Purchase?
Citizens Power	P&L Coal Holdings in Boston, MA	\$0.05	Sep-00
Edison Capital	Swisscom, a telecommunications network	\$0.3	Sep-00
Mission Energy	Italian Vento Power Corp.	\$0.04	Mar-00
Mission Energy	Commonwealth Edison's 12 plants in IL	\$5.0	Dec-99
Mission Energy	Ferrybridge & Fiddler's Ferry power plants in England	\$2.0	Jul-99
Mission Energy	40% stake in New Zealand's Contact Energy	\$0.7	May-99
Mission Energy	Homer City power plant in PA	\$1.8	Mar-99
EME del Caribe	EcoElectrica co-gen facility in Puerto Rico	\$0.2	Dec-98
<b>TOTAL, in BILLIONS</b>		<b>\$10.08</b>	
<i>SOURCE: Edison International SEC filings.</i>			

The sale of these power plants, along with the infusion of consumer-funded subsidies, gave the two utilities accelerated depreciation, enabling them to build up cash on their parent companies' balance sheets to finance the stock buyback plans and pour investments into Mission Energy, the National Energy Group and other unregulated divisions.