Public Citizen
NEWS RELEASE

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Billion-Dollar Bailout Plan Would Still Allow Profiteering Power Producers to Call the Shots

Takeover Plan Ill-Conceived, Would Put California in Financial Bind

WASHINGTON, D.C. — The California Assembly's proposal to address the state's energy crisis by having the state purchase wholesale power is critically flawed because it would keep California at the mercy of a few profiteering power producers and could put the state in a financial bind, Public Citizen said today. The group also called for a major investigation into alleged price-gouging by power producers.

The proposed bailout plan calls for the state's taxpayers to buy wholesale electricity and for the state to handle power distribution. But without federal imposition of cost-based wholesale rates or the state purchase of power plants, California will continue shelling out billions to pad the profits of the seven out-of-state corporations that control the wholesale market, Public Citizen said.

And the profits are enormous. A Public Citizen analysis shows that the seven out-of-state power producers had after-tax profits of $4.7 billion from April to December of last year.

Proponents of the plan argue that a bailout is necessary because California's two major utilities — Southern California Edison and Pacific Gas & Electric — claim that they no longer have adequate cash or credit to continue purchasing electricity from the wildly overpriced wholesale market. The utilities say they have incurred $12 billion in debt because the amount they pay to buy electricity wholesale far exceeds the amount they are allowed to charge consumers.

California's complex bailout proposal calls for the state to pay off the utilities' $12 billion debt by issuing taxpayer-financed bonds. The state would continue to buy electricity from power wholesalers, something for which the California Department of Water Resources already has allocated $800 million. In exchange for assuming the utilities' marketplace risk, the state would take over part or all of the California utilities' 147 hydroelectric plants.

Proponents theorize that the hydropower would generate enough revenue to cover a small portion of the state's bailout. But the acquisition of even all the utilities' hydropower plants could not generate even a small portion of the needed revenue for the state, because the power generated by the plants

Deregulation Profiteers					
Dollars in MILLIONS					
Utility	Headquarters	CA Plants Purchased	Price Paid for Plants	2000 Estimated Gross Plant Profit, Jan-Dec	Total Company Profits, April-Dec 2000**
AES	Arlington, VA	Alamitos, Huntington Beach, Redondo Beach	$781	$235	$245
Duke Energy	Charlotte, NC	Morro Bay, Moss Landing, Oakland	$501	$344	$1,383
Dynegy *	Houston, TX	Long Beach, El Segundo	$59	$59	$373
Enron	Houston, TX	-	-	-	$928
Reliant Energy	Houston, TX	Cool Water, Ellwood, Etiwanda, Mandalay, Ormond Beach	$280	$261	$613
NRG *	Minneapolis, MN	Long Beach, El Segundo	$59	$59	$132
Southern Company	Atlanta, GA	Pittsburg, Potrero, Contra Costa	$801	$212	$1,068
TOTAL, in MILLIONS			**$2,481**	**$1,170**	**$4,742**
** Dynegy & NRG each own 50% of the two plants. The dollar amounts reflect only their share.*					
***Does NOT include 4th quarter earnings for AES, NRG, or Reliant. Therefore, this is a LOW estimate.*					
SOURCE: Energy Insight, RDI POWERdat, Megawatt Daily					

represents only about 10 percent of the state's energy needs. The utilities have been unable to cover their costs by selling hydropower, so it is unlikely the state can squeeze out more money from hydropower operations, Public Citizen said. And the state already has the authority to regulate the prices of the utilities' hydropower, so the state could simply mandate cost-based rates instead of acquiring the facilities.

As proposed, the bailout merely will shift risk from private corporations to the taxpaying public and will do nothing to cure the cause of California's crisis: price-gouging and price manipulation by power producers. This market manipulation is clear: The amount utilities paid for wholesale power in November and December 2000 exceeded by 28 percent the amount the utilities paid for wholesale power during *all twelve months* of 1999, according to a report published Monday in *The Wall Street Journal*. Meanwhile, the after-tax profits of California's seven out-of-state power producers and marketers since the May price spikes have been more than $4.7 *billion,* according to published reports of the companies' financial statements.

Under the 1996 California electricity deregulation bill, the power wholesalers bought plants in California with a capacity of more than 15,000 megawatts, although the wholesalers aren't required to sell the power to California utilities or even give California priority. Much of the power producers' recent success is from their California operations, figures show. Published reports show that the wholesalers enjoyed gross profits of nearly $1.2 billion last year from selling power in California**.** Because they acquired the power plants for just under $2.5 billion, these corporations will soon recoup their purchase price — and more.

"There is enough power available in the Western power grid to meet California's needs," said Wenonah Hauter, director of Public Citizen's Critical Mass Energy and Environment Program. "The problem is that the power producers are keeping wholesale prices so high that California cannot afford to buy enough energy to keep the state running. If the state embarks upon this ill-conceived bailout plan, the state may be the next one driven to bankruptcy. The fact that wholesalers have enjoyed such immense profits shows that these few companies are totally dominating the market. Cutting a deal in which taxpayers buy power from these profiteers -- even under long-term contracts -- is a recipe for

Power Generator After-Tax Profits, MILLIONS						
Company	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Year Total	
AES	-$13	$71	$58	$112	**$116**	**1999**
	$174	$111	$134	*due 1/29*	**$419**	**2000**
% change 99-00	*+1438%*	*+56%*	*+131%*		***+261%***	
Duke Energy	$967	$288	$441	-$189	**$1,507**	**1999**
	$393	$329	$770	$284	**$1,776**	**2000**
% change 99-00	*-59%*	*+14%*	*+75%*	*+250%*	***+18%***	
Dynegy	$22	$28	$51	$45	**$146**	**1999**
	$79	$91	$177	$106	**$452**	**2000**
% change 99-00	*+256%*	*+224%*	*+248%*	*+135%*	***+210%***	
Enron	$122	$222	$290	$259	**$893**	**1999**
	$338	$289	$292	$347	**$1,266**	**2000**
% change 99-00	*+177%*	*+30%*	*+1%*	*+34%*	***+42%***	
NRG	-$1	$2	$28	$28	**$29**	**1999**
	$9	$44	$89	*due 1/31*	**$141**	**2000**
% change 99-00	*+1067%*	*+1796%*	*+221%*		***+386%***	
Reliant	$97	$75	$283	$147	**$455**	**1999**
	$133	$224	$389	*due 1/25*	**$746**	**2000**
% change 99-00	*+37%*	*+200%*	*+37%*		***+64%***	
Southern Company	$224	$314	$615	$123	**$1,276**	**1999**
	$245	$342	$614	$112	**$1,313**	**2000**
% change 99-00	*+9%*	*+9%*	*+0%*	*-9%*	***+3%***	
TOTALS	$1,418	$1,000	$1,765	$238	**$4,422**	**1999**
	$1,371	$1,429	$2,464	$849	**$6,113**	**2000**
% change 99-00	*-3%*	*+43%*	*+40%*	*+257%*	***+38%***	

NOTE: 2000 Oct-Dec profits for AES, NRG, & Reliant are not due until the dates specified. To accurately compare earnings, 1999 4th quarter profits are not included in totals.

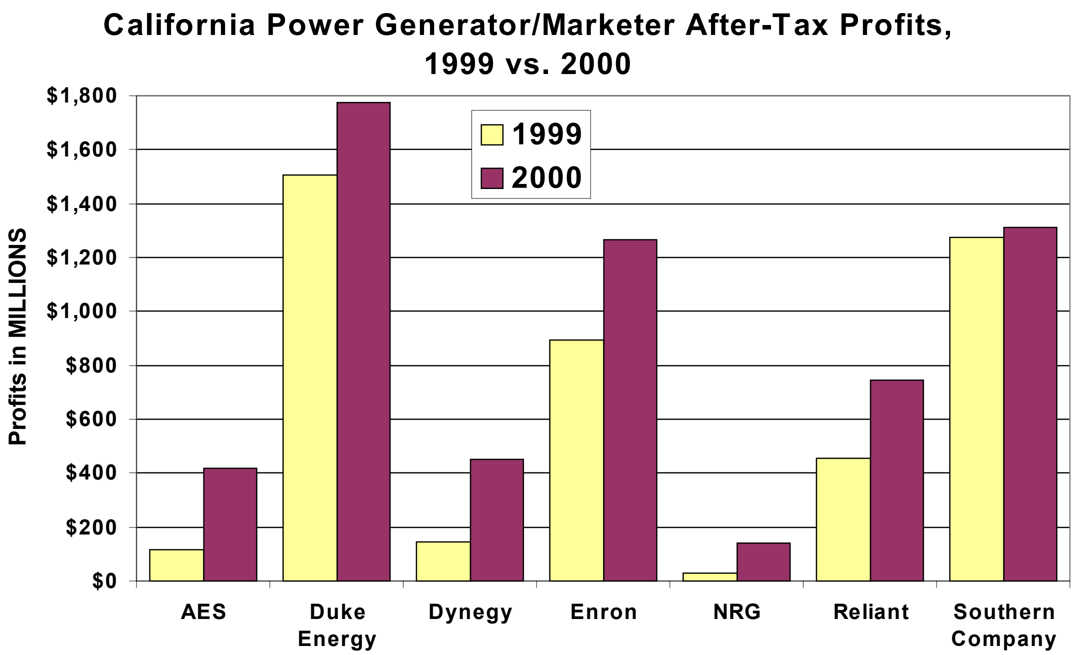
SOURCE: Company financial disclosures.

disaster."

To address the crisis, California should ask Congress to pass emergency legislation mandating a cap on wholesale prices and thereby stopping the price-gouging, Hauter said. This is necessary because the Federal Energy Regulatory Commission has refused to set a "just and reasonable" cap.

Other options exist. For instance, California could use the power of eminent domain to buy the utilities' transmission rights-of-way, which have been estimated to cost between $3.5 and $4 billion. This would allow the state to become a "nonjurisdictional entity" in the eyes of the federal government and grant the state more authority to regulate power producers. The state also could use eminent domain to purchase the California power plants sold under the flawed deregulation legislation of 1996. That way, instead of continuing to pay "rent" to greedy landlords -- the wholesalers -- the state could take over the property and charge California residents reasonable, affordable rents, ending the blackouts and the crisis now gripping the state.

Regardless of which of these options the state pursues, the California legislature should allocate



sufficient resources to conduct a major, public investigation -- with subpoenas for documents and witnesses -- into allegations that the power producers are price-gouging and have intentionally shut down plants to drive up prices, Hauter said.

"Any of these options would put the state on the road to regaining control of its energy needs, and they are far better than what the legislature is proposing," Hauter said.

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Public Citizen is a consumer advocacy organization based in Washington, D.C. For more information, please visit our Web site at ***www.citizen.org***.