Statement of Congresswoman Waters

on the California Energy Crisis

House Financial Services Committee

June 20, 2001

Mr. Chairman, thank you for calling this hearing. The issues surrounding the California energy crisis are extremely important to me and my constituents and the entire country as well. This is a very timely issue, as a number of Californians are expected to experience rolling blackouts today and throughout this week as temperatures continue to climb.

To highlight this issue, tomorrow's episode of the Tonight Show will be dedicated to energy conservation. It will be taped virtually in the dark--without studio lights, TV monitors, amplifiers or other power sources. NBC says the idea came up when the network--like most other businesses in California--was asked to turn off lights and computers whenever possible. I hope other businesses will follow their example. The amount of power used on one episode of *The Tonight Show* equals a month's worth of power at a normal family home.

In 1999, California paid $7 billion for its energy generation. Last year, even though demand was down due to conservation, the price was $32.5 billion. This year, the price for approximately the same amount of electricity is estimated to be $70 billion. In the short space of two years, costs have increased tenfold.

California does not have a demand problem. In fact, per capita, Californians use the lowest amount of power, and recent conservation efforts have reduced consumption even further.

What California has is an artificial supply problem – a problem caused by power generators taking power generation off line for "maintenance." Over the past six months, the number of turbines closed for maintenance has vastly exceeded that of the previous year. For example, outage rates in March, 2001 averaged almost 14,000 megawatts, four times higher than in March 2000. In April, 2000, the power generators took approximately 3,300 megawatts off line for maintenance; In April 2001, they took almost 15,000 megawatts off line on an average day. This practice is currently being investigated on the state level and deserves federal scrutiny as well.

Finally, after essentially ignoring the California crisis for months, FERC has responded to the situation, and their order goes into effect today. However, their actions were akin to putting a butterfly band-aid on a gushing wound. On Monday, FERC expanded its April 26 order to apply 24 hours a day throughout the West. The new formula will be based on the cost of fuel plus an allowance for profit. And these limits will remain in effect around the clock -- a step in the right direction. While the order does close some loopholes in the April order, such as prohibiting generators from exporting energy to neighboring states and importing it back at higher prices, there are issues outstanding. The prices will be determined by the most inefficient, highest cost generator. The nature of this order does nothing to discourage generators from withholding power in order to ensure that the least efficient unit sets the market clearing price. In addition, I am concerned that FERC has failed to order refunds of the more than $6 billion in potentially illegal overcharges. Instead, FERC has directed public utility buyers and sellers to try to reach settlement with a FERC administrative law judge. FERC is clearly abandoning its mandate to ensure that rates are just and reasonable and to order refunds when rates do not meet that standard.

This is why I am a cosponsor of HR 1468, which was introduced by my colleague, Jay Inslee. The Energy Price and Economic Stability Act forces FERC to do its statutorily mandated job of ensuring fair electricity rates.

This legislation directs FERC to establish cost-of-service-based rates for electric energy, and instructs FERC to order refunds of illegal rates and charges. I urge all of my colleagues to support this crucial legislation.

This crisis is having a major effect on my constituents and consumers throughout the West, many of whom have seen their utility bills triple. Some have bills of more than $1,000, others are scrimping on food and medicine to keep their power on. And Federal LIHEAP funds, even when combined with another $120 million from California, can only provide help for less than 10% of the 2.1 million households who qualify for energy assistance.

On the other hand, while consumers suffer, corporations thrive. This crisis has proven to be a boon for some: A number of executives at the largest power companies have collected tens and even hundreds of millions of dollars through stock sales, driven up by the California energy crisis.

Enron Chair Kenneth Lay garnered $123 million in option transactions last year, which was ten times what he made in 1998.

Jeffrey Skilling, Enron’s chief executive, netted more than $62 million in options gains last year.

Peter Cartwright, Chairman and CEO of Calpine, netted almost $12 million through the exercise of options earlier this year.

Many of these energy millionaires have found their way to Washington. This Administration has an unprecedented number of high level appointees with a background in the energy industry. Besides the President and Vice President, Condolezza Rice was on Chevron's board of directors for almost a decade;

Commerce Secretary Don Evans served as CEO of a Texas oil company;

Interior Secretary Gale Norton began her career at a conservative think tank funded by a number of energy companies;

Deputy Interior Secretary Steven Griles, lobbied on behalf of the oil, chemical and mining industries;

Deputy Energy Secretary Francis Blake was a General Electric executive;

Commerce Under Secretary Kathleen Cooper was an Exxon executive;

Army Secretary Thomas White was Vice Chairman of Enron;

Assistant Attorney General, in the DOJ's Environmental Division Thomas Sansonetti was a partner at a law firm specializing in oil and gas regulation; and

Assistant Energy Secretary Dan Brouillette was an energy lobbyist.

It is no wonder that the Administration hasn't done anything about the energy crisis. A typical cabinet meeting roster reads like a who's who of the energy industry.

On Monday, television ads opposing federal price caps began running in California. Those ads were paid for by an organization called the American Taxpayers Alliance, whose contributors include utility companies. So far, they have spent $1.5M on ads, and reportedly plan to spend up to $25 million. CNN reported that "leading Congressional Republicans have urged the entire energy industry to spend upwards of $50 million on these ads." **I have a suggestion of my own for the energy industry: Use that $50 million to resolve this crisis rather than trying to convince California consumers that there is no crisis. If these companies weren't trying so hard to protect their profits, we wouldn't have to work so**

hard to protect their consumers. With that in mind, I look forward to hearing the testimony of the witnesses.