Power cuts and a dim bulb in White House

By Greg Palast
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A year ago today, the lights went out. Even when the Big Blackout ended, the power pirates who have us by the bulbs kept us in the dark, fibbing, fabricating and faking their way through a series of bogus excuses for a disaster created by greed overload.

Instead of fixing the system, the fix is in. We now know that goof-ups and bone-headed moves started the power outage rolling; but it's spread, from a few tree branches out of Ohio to a third of the continent, occurred because power companies – First Energy and Niagara-Mohawk to name two – had slashed staffing and maintenance.

The under-manning and the under-spending all occurred beneath the banner of "deregulation." In the bad old days of bureaucrats with thick rule books, the government told the power companies exactly how much to spend on repairs. Under "deregulation," the rules went out the windows and repair cash was carted off as special dividends to stockholders.

I'm sitting here with Jerry Oppenheim and Theo MacGregor, two of this planet's most respected experts on electricity systems. They are just shaking their heads in disgust: nothing learned a year after the disaster. Rather, we have a blackout on reason, with "deregulation" – the disease – sold as the cure.

George Bush's Federal Energy Regulatory Commission is allowing the power companies to reach into our wallets and take out more cash to add wires to the transmission system – in effect replacing the loot these guys carted off in the last ten years of deregulation. "But that won't keep the lights on," says Oppenheim, former Assistant Attorney General in New York in charge of investigating utilities. "It's not a lack of wires or lack of power plants that caused the blackout. The Administration is adding complexity to an overly complex system all to avoid acting on the obvious conclusion: deregulation has failed."

As long as the lights are still on, I'm reprinting the commentary I wrote one year ago on my dying laptop ...

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Dim Bulb in the White House

August 14, 2003 – I can tell you all about the ne're-do-wells that sent us back to the Dark Ages last week. I came up against these characters – First Energy and the Niagara Mohawk Power Company – some years back. You see, before I was a journalist, I worked for a living, as an investigator of corporate racketeers.

The power outage began in First Energy's Ohio operation. This company was the model for the film, "China Syndrome." Really. Then First Energy's Pennsylvania unit fumbled the power ball. These are the very same Homer Simpsons who melted Three Mile Island.

Next, Niagara-Mohawk blacked out and took down New York. Ni-Mo's claim to fame goes back to the 1980s. They built a nuclear plant, Nine Mile Point, a brutally costly piece of hot junk for which NiMo and its partner companies charged billions to New York State's electricity ratepayers.

To pull off this grand theft by kilowatt, the NiMo-led consortium fabricated cost and schedule reports, then performed a Harry Potter job on the account books. In 1988, I showed a jury a memo from an executive from one partner, Long Island Lighting, giving a lesson to a NiMo honcho on how to lie to government regulators. The jury ordered LILCO to pay $4.3billion and, ultimately, put them out of business.

I'm not surprised that the Three Stooges of the power industry knocked their heads together and blacked us out. What's surprising is that the US media is clueless about how we ended up with Larry, Moe and Curley in control of our nation's electronic lifeline.

Here's what happened. After LILCO was hammered by the law, after government regulators slammed Niagara Mohawk and dozens of other book-cooking, document-doctoring utility companies all over America with fines and penalties totaling in the tens of billions of dollars, the industry leaders got together to swear never to break the regulations again. Their plan was not to follow the rules, but to ELIMINATE the rules. They called it "deregulation."

It was like a committee of bank robbers figuring out how to make safecracking legal.

But they dare not launch the scheme in the USA. Rather, in 1990, one devious little bunch of operators out of Texas, Houston Natural Gas, operating under the alias "Enron," talked an over-the-edge free-market fanatic, Britain's Prime Minister Margaret Thatcher, into licensing the first completely deregulated power plant in the hemisphere.

And so began an economic disease called "regulatory reform" that spread faster than SARS. Notably, Enron rewarded Thatcher's Energy Minister, one Lord Wakeham, with a bushel of dollar bills for 'consulting' services and a seat on Enron's board of directors. The English experiment proved the viability of Enron's new industrial formula: that the enthusiasm of politicians for deregulation was in direct proportion to the payola provided by power companies.

The power elite first moved on England because they knew Americans wouldn't swallow the deregulation snake oil easily. The USA had gotten used to cheap power available at the flick of a switch. This was the legacy of Franklin Roosevelt who, in 1933, caged the man he thought to be the last of the power pirates, Samuel Insull. Wall Street wheeler-dealer Insull created the Power Trust, and six decades before Ken Lay, faked account books and ripped off consumers. To frustrate Insull and his ilk, FR gave us the Federal Power Commission and the Public Utilities Holding Company Act which told electricity companies where to stand and salute. Detailed regulations limited charges to real expenditures plus a government-set profit. The laws banned power "trading" and required companies to keep the lights on under threat of arrest – no blackout blackmail to hike rates.

Of particular significance as I write here in the dark, regulators told utilities exactly how much they had to spend to insure the system stayed in repair and the lights stayed on. Bureaucrats crawled along the wire and, like me, crawled through the account books, to make sure the power execs spent customers' money on parts and labor. If they didn't, we'd whack'm over the head with our thick rule books. Did we get in the way of these businessmen's entrepreneurial spirit? Damn right we did.

Most important, FDR banned political contributions from utility companies – no 'soft' money, no 'hard' money, no money PERIOD.

But then came George the First. In 1992, just prior to is departure from the White House, President Bush Senior gave the power industry one long deep-through-the-teeth kiss good-bye: federal deregulation of electricity. It was a legacy he wanted to leave for his son, the gratitude of power companies which ponied up $16 million for the Republican campaign of 2000, seven times the sum they gave Democrats.

But Poppy Bush's gift of deregulating of wholesale prices set by the feds only got the power pirates halfway to the plunder of Joe Ratepayer. For the big payday they needed deregulation at the state level. There were only two states, California and Texas, big enough and Republican enough to put the electricity market con into operation.

California fell first. The power companies spent $39 million to defeat a 1998 referendum pushed by Ralph Nader which would have blocked the de-reg scam. Another $37 million was spent on lobbying and lubricating the campaign coffers of the state's politicians to write a lie into law: in the deregulation act's preamble, the Legislature promised that deregulation would reduce electricity bills by 20%. In fact, when in the first California city to go "lawless," San Diego, the 20% savings became a 300% jump in surcharges.

Enron circled California and licked its lips. As the number one contributor to the George W. Bush campaigns, it was confident about the future. With just a half dozen other companies it controlled at times 100% of the available power capacity needed to keep the Golden State lit. Their motto, "your money or your lights."

Enron and its comrades played the system like a broken ATM machine, yanking out the bills. For example, in the shamelessly fixed "auctions" for electricity held by the state, Enron bid, in one instance, to supply 500 megawatts of electricity over a 15 megawatt line. That's like pouring a gallon of gasoline into a thimble— the lines would burn up if they attempted it. Faced with blackout because of Enron's destructive bid, the state was willing to pay anything to keep the lights on.

And the state did. According to Dr. Anjali Sheffrin, economist with the California State Independent System Operator which directs power deliveries, between May and November 2000, three power giants physically or "economically" withheld power from the state and concocted enough false bids to cost the California customers over $6.2 billion in excess charges. It took until December 20, 2000, with the lights going out on the Golden Gate, for President Bill Clinton, once a deregulation booster, to find his lost Democratic soul and impose price caps in California and ban Enron from the market.

But the light-bulb buccaneers didn't have to wait long to put their hooks back into the treasure chest. Within seventy-two hours of moving into the White House, while he was still sweeping out the inaugural champagne bottles, George Bush the Second reversed Clinton's executive order and put the power pirates back in business in California. Enron, Reliant (aka Houston Industries), TXU (aka Texas Utilities) and the others who had economically snipped California's wires knew they could count on Dubya, who as governor of the Lone Star state cut them the richest deregulation deal in America.

Meanwhile, the deregulation bug made it to New York where Republican Governor George Pataki and his industry-picked utility commissioners ripped the lid off electric bills and relieved my old friends at Niagara Mohawk of the expensive obligation to properly fund the maintenance of the grid system.

And the Pataki-Bush Axis of Weasels permitted something that must have former New York governor Roosevelt spinning in his wheelchair in Heaven: They allowed a foreign company, the notoriously incompetent National Grid of England, to buy up NiMo, get rid of 800 workers and pocket most of their wages - producing a bonus for NiMo stockholders approaching $90 million.

Is last week's black-out a surprise? Heck, no, not to us in the field who've watched Bush's buddies flick the switches across the globe. In Brazil, Houston Industries seized ownership of Rio de Janeiro's electric company. The Texans (aided by their French partners) fired workers, raised prices, cut maintenance expenditures and, CLICK! the juice went out so often the locals now call it, "Rio Dark."

So too the free-market British buckaroos controlling Niagara Mohawk raised prices, slashed staff, cut maintenance and CLICK! – New York joins Brazil in the Dark Ages.

Californians have found the solution to the deregulation disaster: re-call the only governor in the nation with the cojones to stand up to the electricity price fixers. And unlike Arnold Schwarzenegger, Gov. Gray Davis stood alone against the bad guys without using a body double. Davis called Reliant Corp of Houston a pack of "pirates" —and now he'll walk the plank for daring to stand up to the Texas marauders.

So where's the President? Just before he landed on the deck of the Abe Lincoln, the White House was so concerned about our brave troops facing the foe that they used the cover of war for a new push in Congress for yet more electricity deregulation. This has a certain logic: there's no sense defeating Iraq if a hostile regime remains in California.

Sitting in the dark, as my laptop battery runs low, I suspected the truth about deregulation will never see the light – until we change the dim bulb in the White House.

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