

Restructuring in the Rearview Mirror – a 10-Year Retrospective of California's Doomed Experiment with Electric Deregulation. By The Energy Overseer

Realistically Assessing the Prospects for Summer 2000

This has been a week for unintended irony in the energy business:

- Just as electric utilities in the New England region were about to assure the public they would have adequate power supplies to meet summer demand, the New England Independent System Operator declared a grid alert and prices in some ISO markets shot up 200 times above normal to \$6,000/MWh.
- Remembering the repeated blackouts of last summer, the MidAmerica Interconnection Network (MAIN) conducted a special review of Commonwealth Edison's territory, declaring that the utility not only meets but exceeds MAIN's supply reserve benchmarks. That was small comfort for the 217,000 ComEd customers left without power from the lightning storm of the night before.

That's why I got a little worried last month when California's Independent System Operator began expressing optimism that this summer would not produce an extreme squeeze on power resources and that its plans for demand-side bidding and new load-shedding programs would help prevent a serious "stage-three" alert.

I was even more concerned when it was revealed that Cal-ISO's load-shedding bid was scrapped because of poor response and high costs and that its solicitation for emergency peak generation in the San Francisco Bay Area drew only one response-- which was later withdrawn by the bidder when it realized it really wasn't going to get paid as much as it thought.

I neared panic when it seemed that Department of Energy secretary Bill Richardson had started soft-pedaling his previous warnings about system reliability after meeting with utility officials around the country who assured him they could meet the challenges of summer 2000.

Oh, my gawd. I thought. What are we in for?

So it was with a certain level of relief that I noticed Cal-ISO's cautionary news releases this week about the launching of its "Power Watch 2000" public-awareness program, warning of "a huge increase in the state's hunger for electricity." At the same time, utilities San Diego Gas & Electric and Southern California Edison came out with their own media advisories and awareness programs, preparing energy consumers to assist with voluntary conservation if an extended heat wave hits the region.

Pacific Gas & Electric and Edison were already rolling out their demand-response programs that will offer payments to their larger customers to reduce load during peak periods. In addition, on May 3, PG&E issued internal memos to its supervisors warning of possible "system-wide rolling blackouts" and detailing upcoming emergency-preparedness exercises.

Coupled with the unusually early heat waves hitting Arizona and the desert Southwest for the past three weeks, these more realistic assessments of the possibility of power shortages offer hope that if something happens, the region will be better prepared to meet the problem.

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There are some things that should be understood about the possible resource squeeze:

- Power price spikes are not, in and of themselves, a problem that should be viewed with panic. In a more competitive market, price volatility should be expected and must not be considered a trigger for knee-jerk re-regulatory responses from lawmakers.
- The transfer of the power grid to Cal-ISO has moved the analysis of supply-and-demand balance to a statewide assessment. But local utility distribution systems are where the majority of power outages occur. State planners look at the possibility of an extended "heat storm" blanketing the region as the most likely trigger of an emergency, but most customers who lose power will do so because of lightning strikes, wind storms knocking down power lines or local substation failures. That's what happened in Chicago this week--the macro picture looked fine, but ComEd's local system is the most vulnerable.
- The biggest concern is not simply a lack of generation. In San Diego, for instance, there exist both a lack of local generation to ensure reliability and a constraint on the ability to import power from other areas. Here in San Francisco, we've learned that an outage on the transmission line leading into the Peninsula represents a threat to our limited power plants, because of the way the system was constructed.
- This is not just a California problem. All three power regions in the Western grid have experienced significant load growth and are only now playing catch-up with needed resource development. In the past, we were blessed by the seasonal diversity of demand that allowed Northwest power to be available when demand was high in California and the Southwest. This year, despite what was actually quite average rainfall in the Northwest, water managers are much more concerned that there might not be any surplus this summer. The Southwest continues growing, and generation that might have previously been earmarked for California deliveries will flow wherever the highest market price leads.

There is more to say about the situation, but since we have an entire summer of uncertainty ahead of us, we'll just have to start getting prepared and see what happens **[Arthur O'Donnell]**.

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