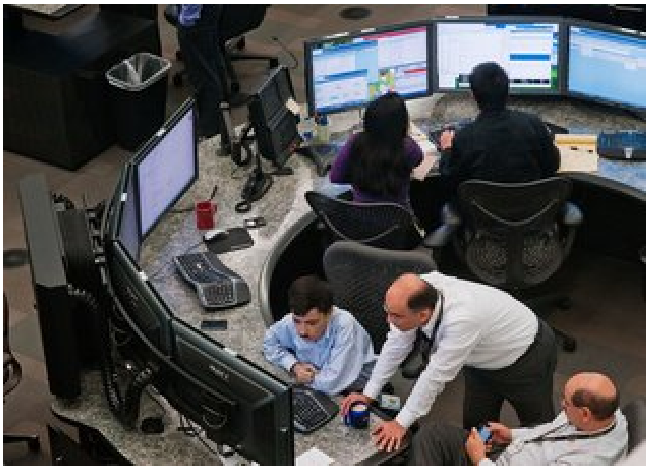

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The California Independent System Operator, above, based in Folsom, has raised the specter of power blackouts next summer.

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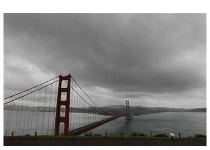

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State's power-plant fight with JPMorgan Chase is a legacy of deregulation mess

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It sounds like a bit of leftover mischief from the energy crisis: an electricity trader from Houston accused of hobbling California's power supply, leading to possible blackouts.

State officials say JPMorgan Chase & Co. is blocking a critically needed power plant renovation in Huntington Beach. The California Independent System Operator, which runs the transmission grid, has asked federal regulators to step in, warning that blackouts could hit Southern California during air-conditioning season next summer if nothing is done.

The dispute is a legacy of California's disastrous deregulation scheme of the 1990s, when the big utilities were ordered to sell most of their plants. Consequently, California's electricity supply is largely controlled by a legion of independent generators and traders.

True, regulation is stricter than it was during the energy crisis of the early 2000s, Enron's rogue traders are out of business, and the once-chaotic energy markets are mostly quiet. But California doesn't completely control its energy destiny, turning the clock back is impossible – and the potential for disruption endures.

"What you have to confront is, we don't own these power plants anymore," said UC Davis economist Jim Bushnell, who advises the ISO. "If we want to re-regulate, we'd have to buy them back."

The state's conflict with JPMorgan drives home the absurdity of the situation. The plants in question were once operated by Southern California Edison, the region's hometown utility. They're now run by AES Corp., an independent power generator from Arlington, Va.

AES is willing to renovate the plants, as requested by the state. But JPMorgan, because of an energy-marketing contract with AES, can veto the project and hasn't given its consent.

"The reliability of service in Southern California is in great jeopardy," the ISO argued in a complaint urging the Federal Energy Regulatory Commission to intervene.

JPMorgan says it wants to "work cooperatively" to deliver electricity to California. At the same time, in a protest filed with FERC, it said the state is trying to "interfere in a private contractual relationship" with AES.

The ISO has been at war with JPMorgan for more than a year. It has accused the bank's trading unit in Houston of using improper bidding tactics to extract $73 million in excessive profits from California's wholesale power market.

That case is pending, but FERC has already hit JPMorgan with a six-month suspension for feeding false data to federal investigators responding to the ISO's complaint. The ban sharply limits JPMorgan's ability to sell electricity at a profit in California and other U.S. markets.

In another case, FERC just dismissed JPMorgan's complaint that it was underpaid $3.7 million for power it sold to the ISO last spring.

Some critics say JPMorgan's alleged machinations are evidence that California hasn't fixed all the problems that surfaced in 2001.

"There's still a bit of gaming the system," said Robert McCullough of McCullough Research in Portland, Ore. "It is better; it's not good enough."

At the retail customer level, California electricity is still costly. Prices have risen about 50 percent since before deregulation, not adjusted for inflation. Although their usage is low, Californians pay 53 percent more for each kilowatt than the U.S. average, according to the Energy Information Administration.

That's an even greater disparity than before deregulation.

Feds more sympathetic

Some experts say the gap can't be blamed on deregulation. They say higher costs are the result of billions spent in recent years modernizing transmission lines and other infrastructure.

Another factor is the state's renewables mandate. About 20 percent of California's energy now comes from wind, solar and other renewables, and they generally are more expensive than traditional sources, Bushnell said.

"The energy crisis was a horrible experience, but we've come a long way since then," said Keith Casey, the ISO's vice president for market and infrastructure development. "We have a well over 10-year track record of competitive prices."

The ISO, based in Folsom, redesigned its market in 2009 to make it harder for traders to engage in manipulative bidding, he said. Meanwhile, FERC has been given broader enforcement powers by Congress – plus new commissioners, appointed by President Barack Obama, who are more sympathetic than their Bush-era predecessors to complaints about market excesses. All told, the system is functioning and the JPMorgan situation is an outlier, ISO officials say.

"The fact that we have a very active cop on the beat … means things are going to surface," Casey said.

The Legislature's deregulation plan was an attempt to shake up a system that had become bloated and costly. Californians were paying 39 percent more for electricity than the average American.

Under deregulation, the big utilities had to sell most of their plants, and then buy much of their electricity on a "day ahead" spot market.

The market forces worked well at first, and prices were low. But a dry spell created a hydropower shortage in 2000, and sellers took advantage.

Prices went from about $30 per megawatt hour – enough electricity to power 750 homes for an hour – to as much as $1,000.

Chaos ensued. Blackouts hit. Traders exploited loopholes in the system to drive prices higher. Pacific Gas and Electric Co., bled dry by the costs, filed for bankruptcy protection.

Contracts restore calm

When the entity running the spot market collapsed, Folsom became the nerve center for the crisis. The ISO – itself a creature of deregulation – had to buy gobs of electricity for the utilities every day, at any price, in a desperate attempt to keep the lights on.

The fever broke in mid-2001. The state agreed to buy power for the utilities via long-term contracts. The move cost billions but it brought the market under control.

On a recent afternoon at the ISO's $150 million headquarters, all was calm. In the high-tech control room, the price of power crawled across a giant video screen: $43 a megawatt hour.

The ISO most days buys just a small fraction of California's power. (It bills utilities, generators and traders for the costs.) Utilities are required to secure 90 percent of their needs through long-term contracts, said ISO spokeswoman Stephanie McCorkle.

"The bulk of the market is working very well," Casey said.

The dispute with JPMorgan stems from the shutdown of Edison's San Onofre nuclear plant. To pick up the slack, the ISO turned to AES.

AES operates four plants in Huntington Beach. Two have been retired but can be converted into "synchronous condensers," facilities that don't generate new power but make the juice from other plants flow more efficiently.

JPMorgan has a contract with AES to trade power produced at the other two Huntington Beach plants. That contract gives it the right to halt the conversion project.

With JPMorgan refusing to allow the conversion, a host of top state officials have joined the ISO in its protest to the federal government. JPMorgan's efforts "should be soundly rejected," Gov. Jerry Brown told FERC.

The state may be employing other pressure points as well. JPMorgan earned $7 million in fees this year for handling state bond sales, and the ISO asked state Treasurer Bill Lockyer to intervene.

Lockyer has talked with JPMorgan "to explore what he could do to try to bring about a settlement," said his spokesman Tom Dresslar.

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just4thought

The state wants to take something that doesn't belong to them and force its use for another purpose that conflicts with the economic interests of the owner. This is caused by manipulation of the market that has already failed. The plants are not producing electricity because Calif requires utilities to buy more expensive 'alternative' energy leaving the plant idle

Why would someone that owns a plant allow its assets to be used to compete with them unless they are compensated. The state doesn't want to buy the plant even through condemnation because they don't want to pay.

Meanwhile our utilities are buying the most expensive electricity ever to be generated from a wind farm in MEXICO. Remember the green jobs that can't be outsourced?

http://www.utsandiego.com/news...

10 minutes ago Report Abuse Like Reply

althink

It seems likely that the conversion of a plant they control can be expected to cost JPM business and it seems reasonable to compensate JPM for this, to change or end their contract with AES.

Missing from this article is any report that ISO has directly approached JPM to negotiate this. The missing information leaves me wondering if this controversy is because ISO has lost the ability to work with JPM or just does not want to work with them. Asking Mr Lockyer to intervene without direct work (to be determined) seems counterproductive.

In any case, it appears that JPM's contract with AES must be ending in the not too distant future because AES has an application to rebuild Huntington Beach station. See: H.B. to lose landmark stacks for cleaner energy project at http://www.ocregister.com/arti... . Too bad this report does not explain any relationship between projects. A desalinization plant is also proposed there and is being coordinated with station conversion.

32 minutes ago 1 Like Report Abuse Like Reply

JMcLeod

This is what eminent domain was made for. Take the plants for public good, do the upgrades, and then sell them to someone else so JP Morgan has no say over what happens. They will try to get their "pound of flesh" from the State for getting nailed for manipulating the market.

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Speakup

I think we could do that with your house too.

(Edited by author 42 minutes ago)

48 minutes ago in reply to JMcLeod 1 Like Report Abuse Like Reply

UnknownVoice

The plan is already set in motion:

http://www.realtytrac.com/cont...

45 minutes ago in reply to Speakup Report Abuse Like Reply

Speakup

I'm glad you're good with it, how much rent are you willing to pay?

42 minutes ago in reply to UnknownVoice Report Abuse Like Reply

krs1957

Doesn't JM live in a van down by the river?

15 minutes ago in reply to Speakup Report Abuse Like Reply

Speakup

No, every fight with a power plant in this state is a legacy of punishment politics, state regulations have made it impossible for power plants to break even much less make a profit.

Tell the truth. Now there's an example of impossible regulation, the left's punishment politics can't tell the truth.

Today 08:35 AM 1 Like Report Abuse Like Reply

UnknownVoice

Nothing more than a pi$$ing match between a corrupt dysfunctional government and banksters, right after they slept together, but neither is happy with the outcome. So in the end, it's the ratepayers and taxpayers who get raped with higher rates and taxes.

Today 07:58 AM 1 Like Report Abuse Like Reply

Orlando Rutan

Deregulation was another California debacle (just like not approving Prop 32) that was exported to other states, and FAILED there also. The California regulators set up this market, now WHHHHHAA, the cry babies don't like it. Too bad.

And prices have NEVER BEEN HIGHER for power than since carbon taxes and renewables mandates.

Policy in California SUCKS.

Today 07:33 AM Report Abuse Like Reply

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Real-time updating is **enabled**. (Pause)

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