February 1, 2002

Living on Earth, National Public Radio

Enron and Deregulation

CURWOOD: This is Living on Earth. I'm Steve Curwood. A federal probe has begun to determine whether the failed Enron Corporation played any role in last year's California power crisis. The Senate Committee on Energy and Natural Resources is taking testimony about Enron's influence in the energy markets. Disclosures at a recent Senate hearing prompted the Federal Energy Regulatory Commission to open its own investigation.

Robert McCullough, an energy consultant from Oregon, appeared at the Senate hearings. He joins us now. Hello, Mr. McCullough.

MCCULLOUGH: Hello.

CURWOOD: Now, Mr. McCullough, you testified that Enron may have used its influence to artificially increase electricity prices in the West. What's the basis of your suspicion?

MCCULLOUGH: When Enron went under, we suddenly saw a reduction in the prices for the years 2003-2004. Nothing else happened that weekend so we were very surprised when the market plunged as much as 25 or 30 percent.

CURWOOD: What else could have accounted for that drop?

MCCULLOUGH: Well actually, it was one of those cases where no one can remember that weekend, because nothing happened. There was no major policy change, we had no major change in fossil fuel prices, no power plants left the country or arrived unexpectedly. So, we were left with the surprising conclusion that Enron, all by itself, had such an important role that it had this massive impact on the market when it left.

CURWOOD: I'm a little confused here. Ordinarily, you'd think that if a big energy supplier went out of business that it would increase prices.

MCCULLOUGH: Exactly. We viewed Enron as a supplier. So, when you lose your supplier, you should have fewer left and the prices would logically be higher. However, what we saw was the prices looked much better to our customers after Enron had left the market than before.

CURWOOD: If I understand what you're saying, you're saying that Enron artificially inflated energy prices. Do I have that right?

MCCULLOUGH: Well, you've gone a little too far on that. We can't tell. My testimony in front of the Senate really hit to a question of transparency. Now, that's an economist's phrase for openness. We don't have much information on these important energy markets. And what that means is, we can't really understand why these prices are changing. Very importantly, we can't understand whether the investors have a good risk or a bad risk. We can't tell whether consumers are getting a good deal. And frankly, since California has made some information difficult to get, we can't even tell how safe this system is-- whether the lights are likely to go out. And my fundamental statement was "It's very hard to enjoy a competitive market in the dark."

CURWOOD: Mr. McCullough, why don't we know these things? Why isn't the sale of power a transparent transaction?

MCCULLOUGH: Well, part of it is lobbying. We've had a very energetic lobbying effort in California, here in the nation's capital, and among the industry groups, to reduce the amount of information available. California's actually the most extreme. The stakeholders-- the generators and the marketers who ended up being the center of that market-- convinced the California authorities to effectively classify all of the market information.

CURWOOD: If, indeed, Enron did have an impact on energy prices upwards, how could that have affected the California market?

MCCULLOUGH: Very easily. Utilities don't buy their power in the daily market. Utilities, like every other business, have to go out and make contracts for long-term supplies. They're no different than Safeway that has to go out and find sources for wheat and Rice Crispies months in advance. When a utility goes out to buy, it does so by calling all the suppliers and getting a series of bids. If Enron had such a position of market supremacy, if they really were driving the market as they kept saying in their press releases, then they would have been able to use that market power to get a better deal than we would have seen in a purely competitive market.

CURWOOD: Let me ask you about some of California's current electricity contracts and how they compare to price levels after the collapse of Enron. What is the state committed to spending now for electricity, and what's the current rate?

MCCULLOUGH: There's a lot of debate on that but the evidence appears to be that the contracts negotiated last year under very hostile conditions are 80 mills. Now, that compares to an average family bill in the U.S. a little bit higher than the average. Now, if you actually undertook those contracts today, you could buy the same power for about a third the price.

CURWOOD: Given what we've seen in the Enron collapse, what's your opinion now of electrical deregulation?

MCCULLOUGH: One of our clients, the Power Manager of Seattle City Light, refers to me as a "recovering competophile." That's someone who believes in competition but now realizes there has to be checks and balances. My belief is the market still works fine but I believe that markets work best when you can see what's going on. I don't think operating in secrecy is reassuring for the consumer because he doesn't know whether he has a fair deal. When he buys a car, he has a choice of 100 car dealerships. He can go to the library and look through the Blue Book. He has a lot of information on what that deal looks like.

At the moment for energy suppliers on the West Coast, there aren't a large number of suppliers. They don't know where the prices come from. And to be painfully exact, we don't even know whether there is one supplier in some of these deals, or many.

CURWOOD: Robert McCullough is an energy consultant who recently testified before Congress about Enron's role in California. Thanks so much for taking this time with us today.

MCCULLOUGH: Thank you.

[MUSIC: Turtle Island String Quartet, "Thin Ice", RETROSPECTIVE (Windham Hill - 1997)]