



CALIFORNIA

Newsom wants probe of California blackouts, as grid officials suspend volatile power trading

BY DALE KASLER

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At a news conference on Aug. 17, 2020, California Governor Gavin Newsom described the steps California is taking to conserve energy amid rolling blackouts across the state due to the recent heat wave.

BY CALIFORNIA GOVERNOR



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Facing its biggest crisis in two decades, the manager of California's electricity grid is suspending a form of power trading that it says has made the grid more volatile and contributed to [two nights of rolling blackouts](#).

Separately, Gov. Gavin Newsom jumped into power controversy, demanding an investigation into the weekend's blackouts, declaring a state of emergency and signing a proclamation that [suspends air-pollution regulations](#) that could inhibit the use of portable and stationary generators.

"These blackouts, which occurred without prior warning or enough time for preparation, are unacceptable and unbecoming of the nation's largest and most innovative state," Newsom wrote in a letter to the grid manager, the Energy Commission and Public Utilities Commission. "This cannot stand."

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Newsom's statement came after the California Independent System Operator said it's temporarily banning "convergence bidding," a complicated system in which

power generators and traders buy and sell electricity a day before it's needed as well as in real time.

Experts say these trades can lead to price swings that can hurt the availability of supplies, and can be used to manipulate conditions on the grid.

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“As a result of the record-breaking heat wave that has led to load curtailments, the California ISO has determined that convergence bidding is detrimentally (affecting) the ISO’s ability to maintain reliable grid operations,” the agency said in [a brief notice](#) on its website Sunday.

The notice, released Sunday, came after the ISO was forced to impose rolling blackouts Friday and Saturday nights after temperatures soared past 100 degrees and electricity supplies ran dangerously low. The ISO was [able to avoid a third night of blackouts Sunday](#) but the ongoing heat wave could lead to more shortages Monday and beyond.

It marked the first rolling blackouts in California since the 2001 energy crisis — when state officials later discovered that the ISO’s system was being routinely exploited by crooked power traders at Enron Corp. and other companies.

The energy crisis was partly responsible for former Gov. [Gray Davis’ political downfall](#) and Newsom has been eager to get on top of the issue.

Robert McCullough, an energy consultant in Portland, said convergence bidding is “the area most susceptible to manipulation in their system.”

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McCullough, a frequent critic of the ISO's trading system, said convergence bidding lets traders place major bets on electricity prices at hundreds of physical points, called "nodes," the day before the power is consumed, and then cash in a day later.

"This is purely financial," said Severin Borenstein, an ISO board member and UC Berkeley economist.

SENDING 'PRICE SIGNALS' TO THE MARKET

McCullough said these wagers then have a major influence on actual prices and the volume of electricity that power generators will provide in real time — the moment when the power is needed to feed the hungry grid.

"If you can influence prices, you can have an impact on the real world," he said.

Yet Frank Wolak, a [Stanford University energy economist](#) and former member of the ISO's market surveillance committee, said convergence bidding is actually designed to send the proper price signals so power generators, seeing prices rise, will be willing to pour additional electricity into California.

He said he's skeptical that convergence bidding is hurting grid reliability, despite what the ISO said. Rather, he believes the ISO is trying to simplify grid operations by removing some of the trading mechanisms. "They're saying, 'We're engineers, we know how to run the system. We don't want all this financial stuff complicating our lives.'"

The ISO board was [scheduled to meet Monday morning](#) to discuss the blackouts.

The 2001 blackouts resulted from a multitude of market manipulation schemes cooked up by Enron and others, all designed to withhold supplies from California until prices rose. One scheme, nicknamed "megawatt laundering," involved moving power out of state and then re-importing it. That enabled traders to evade price ceilings on power generated within the state.

Investigators later determined that this gamesmanship had cost utility customers tens of billions of dollars. Under pressure from state officials, federal regulators ordered power companies to make billions in refunds.

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