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The Electricity Deregulation Con Game

by Sharon Beder

Electricity deregulation was supposed to bring cheaper electricity prices and more choice of suppliers to householders. Instead it has brought wildly volatile wholesale prices and undermined the reliability of the electricity supply. The rising electricity prices and blackouts in California and the northeastern states of the US are consequences of the changes engineered by vested interests; changes that were accomplished through a massive PR campaign to deceive politicians and opinion leaders about their benefits.

Despite efforts to manufacture an appearance of grassroots support, deregulation was primarily driven by large industrial users, who thought they could save money, and energy companies, who thought they could make money out of it. The case for deregulation could not be presented in self-interested terms to the public. It had to be presented as being in the interests of the wider public. Groups such as large industrial energy users used the language of free-market advocates to state their case in terms that disguised their self-interest.

The Heritage Foundation, a conservative think tank, helped spread the rationale for deregulation. Texas Congressman Thomas DeLay set out his "free-market vision" for the electricity industry at a Heritage Foundation lecture: "Bringing electricity into the competitive world will unleash new products, greater efficiencies, business synergies, and entrepreneurial success stories," he said. "It will create new industries,

Flack Attack

Propaganda is the art of persuading people to accept ideas that are not necessarily in their own best interests. This is why propagandists often look for ways to conceal the identity and motives of their client from the people they are trying to influence. This also explains why public relations firms sometimes find themselves enmeshed in conflicts of interest.

Past issues of *PR Watch* have reported on firms that specialize in working simultaneously for nonprofit organizations, governments and corporate clients, often for the express purpose of achieving what the Porter/Novelli PR firm describes as "cross-pollination"—which helped it persuade the American Cancer Society and the National Cancer Institute to sign letters supporting the position of P/N's paying clients, including produce growers and pesticide makers.

Something similar happens, as Sharon Beder illustrates in her articles for this issue, when utility companies like Enron are able to recruit environmentalists to support their self-serving positions in favor of electricity deregulation. The result is that policies contrary to the public interest are sold to the public under false pretenses. The dangers inherent in conflicts of interest should be obvious, but they often go unnoticed and unremarked until the damage has been done.

The same theme runs through Paul Goldberg's article on page eight. Conflicts of interest place PR firms where the action is happening in terms of influencing policy. When PR firm works for the National Dialogue on Cancer, it gets a seat at central command in the war on cancer, with an opportunity to influence key players and policies in subtle ways that the public may never see. And if they get caught serving two masters, they simply apologize and call it an innocent oversight.

new entrepreneurs, and new jobs." Delay, the majority whip in the U.S. House of Representatives, was closely connected to Enron and a beneficiary of Enron donations. Two influential members of his "kitchen cabinet" were used as lobbyists by Enron. In Texas, his efforts to promote deregulation earned him the nickname DeReg.

In *Energizing America: A Blueprint for Deregulating the Electricity Market,* Adam Thierer, a fellow of the Heritage Foundation, argued that regulation of electricity monopolies had caused a "lack of price competition and consumer choices, limited innovations, and a lackluster environmental record" whereas "deregulation of the electricity marketplace" promised "rich rewards." These rewards, he argued, included lower prices, lower operating costs for industry, more jobs, increased reliability of service and a cleaner environment.

Even the more centrist think tank, the Brookings Institute, produced a report supporting electricity deregulation for its potential consumer savings. The report was financed by companies lobbying for deregulation including Enron, Pennsylvania Power and Light, Wisconsin Electric Power, Cinergy and the Electricity Consumers Resource Council, a coalition of large electricity users.

Advocates of deregulation also formed a plethora of corporate front groups and coalitions, including the Alliance for Competitive Electricity, Citizens for State Power, Electric Utilities Shareholders' Alliances, the Alliance for Power Privatization, and the Coalition for Customer Choice in Electricity. The campaign was coordinated by Americans for Affordable Electricity (AAE), whose members included the Ford Motor Company, Enron and various utilities. AAE raised millions of dollars for lobbying and advertising, spending $4 million a year on top of what each of its members spent. Member companies and groups also donated the time of their public relations, legal, policy and lobbying personnel.

Citizens for a Sound Economy (CSE), a front group with close Republican ties, spent tens of thousands on advertising in various states and even used banners from airplanes to promote "consumer choice." It commissioned a study (funded in part by Enron) claiming that deregulation would reduce the average electricity bill by 43 percent. Politicians financed by business interests were eager to use think tank and front group data in their arguments for deregulation. After CSE's figure of 43 percent was cited by the Heritage Foundation, the Foundation's report was publicized by others as a confirmation of CSE's study. A press release from the House Commerce Committee claimed that "yet another academic study" had concluded "that giving consumers the freedom to choose their own electric utility will result in lower rates, improved service and better reliability." The Committee also cited the Brookings Institute report.

Politicians promoted the concept of consumer choice as a primary benefit of deregulation because they wanted wide voter support, which is why the actual legislation had names like the "Electric Consumers' Power to Choose Act." When the chair of the Commerce Committee, Tom Bliley, appeared at a press conference promoting the bill, he brought along representatives of what were supposed to be hundreds of consumer groups that wanted consumer choice. This was to avoid the impression that the bill was being introduced for the benefit of big business. The press conference announced a "media outreach" initiative telling consumers that deregulation could save up to 43% on their power bills.

"During the first six months of 1996 alone, energy interests spent at least $37 million to lobby Congress and federal agencies on deregulation," notes the Center for Responsive Politics. In addition, millions of dollars were spent on PR, including television advertising and polling aimed at persuading politicians and bureaucrats. The Edison Electric Institute (EEI) alone spent $11 million on lobbying in 1996. It hired 15 different firms to supplement its eight in-house lobbyists including the lobbying firms of three former Congressmen—two Republican and one Democrat—and a former lobbyist for the AFL-CIO.

WHAT'S GOOD FOR ENRON

Political campaign donations helped Enron play a major role in the deregulation campaign. In total, Enron donated just under $6 million to election campaigns beginning with the 1989-90 election cycle. It contributed to the campaigns of 71 current senators and 188 current members comprising 43 percent of Congress. It became the sixth highest contributor during the 1994 election cycle and by 2000 was the top contributor of all corporations in the Energy/Natural Resources sector. Enron also spent millions lobbying Congress, the White House and federal agencies. Like the EEI, Enron drew its lobbyists from both the Republican and Democrat parties. By the late 1990s it employed more than 150 people on state and federal government affairs in Washington, DC.

The battle for deregulation at the state level was equally well financed. Following their successes in Congress, the power companies spent large amounts of money on lobbying for deregulation at the state level. Enron's lobbyists sought out consumer groups, schools and other community groups that would benefit from cheaper electricity and tried to persuade them that deregulation would be good for them.

Enron CEO Ken Lay "is pulling out all stops to hasten deregulation," *Business Week* reported. "In April [1997], he launched a $25 million-a-year nationwide ad campaign and says he'll spend up to $200 million to argue the merits of free-market electricity. Behind the scenes, he has deployed legislative SWAT teams in front-line states such as New York, Massachusetts, and Texas.

In Texas, Enron spent $5.8 million between 1998 and 2000 on funding state politicians, hiring 83 lobbyists, advertising, and donations to Texan charities. It used its enormous political influence to overcome the resistance of the existing regulated utilities in Texas and persuade the public (which was already paying low prices for electricity) that they would be better off with deregulation.

In California, big electricity users formed Californians for Competitive Electricity to lobby for deregulation. It encompassed a range of other coalitions including the California League of Food Processors, the California Manufacturers Association, the California Large Energy Consumers Association—a coalition of cement companies, steel manufacturers and a gold mining company, and the California Independent Energy Producers Association. The California Manufacturers Association spent $1.7 million on lobbying in 1995 and 1996. The California Large Energy Consumers Association and Californians for Competitive Electricity also spent hundreds of thousands of dollars.

Existing regulated utilities also participated in the campaign for deregulation. The Center for Public Integrity estimates that three major Californian utilities spent $69 million between 1994 and 2000 on lobbying and political spending. In return for giving up their monopoly status, the regulated utilities negotiated a deal assuring them that $28.5 billion of ratepayer money would be used to pay off past debts from capital investment ('stranded costs') incurred by the construction of nuclear power plants.

The utilities were influential supporters of deregulation. For decades they had been giving campaign contributions and other donations to local politicians to ensure that the issue of public power was kept off the political agenda. They also donated money to a variety of community and civic groups and charities. According to the *San Francisco Bay Guardian,* the Pacific Gas & Electric Company (PG&E) "infused itself into San Francisco politics, society, culture and business—using its money to make connections that have insulated the company from criticism or political challenge."

"The politicians and the community groups are all neutralized by the money, and there's no countervailing force to fight the utility," observed consumer advocate Ralph Nader. PG&E insinuated itself into several influential business organizations and onto the boards of large companies in the area. Even after prices for electricity soared and service deteriorated, business groups refused to publicly support a shift to publicly-owned utilities. According to Nader, PG&E also spread large amounts of "money around to the big law firms, so there's no major firm that can take on PG&E. Then they enlist the political power of these law firms to press their agenda."

The revolving door between business and government also helped the deregulators line up bipartisan support. Although Republican Governor Pete Wilson led the push for deregulation. Democratic Senator Steve Peace was also a key advocate and received $277,000 in campaign contributions from the three large utilities. David

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Takashima, who had been Peace's chief of staff in the 1980s before working as a lobbyist for utility SoCalEd, returned to work for Peace and helped shape the deregulation bill. Takashima then left to be director of government affairs for PG&E.

In addition to campaign contributions, legislators also reaped personal benefits. Energy companies supported an organization called the California Foundation on the Environment and Economy (CFEE), which had representatives of the three main utilities on its board of directors. CFEE paid for various overseas trips for politicians and members of the Californian Public Utilities Commission (PUC) to "study deregulation."

The state government also spent tens of millions on an "education program" in preparation for deregulation. "Plug in, California" was an $89 million government advertising campaign aimed at householders and small businesses that promised degulation would mean cost savings, reliability and consumer rights. It included television, radio and newspaper ads as well as direct mail and trained speakers talking to 84 community groups.

Enron spent more than $345,000 lobbying for deregulation in California and another $438,155 on political contributions. It hired former legislators and Californian PUC officials to shape legislation that created the disastrous energy market which would later be referred to as "the Enron model."

Enron made huge amounts of money from Californian energy deregulation. A significant proportion of California's electricity and natural gas market operated through Enron's online auction. According to Public Citizen, the auction "allowed Enron's unregulated energy trading subsidiary to manipulate supply in such a way as to threaten millions of California households and businesses with power outages for the sole purpose of increasing the company's profits."

Even after the profiteering of Enron and other electricity companies got out of hand, the spin doctors worked to divert the blame from deregulation. Even as the utilities threatened bankruptcy and ongoing blackouts unless the state government bailed them out, the major media outlets in California and throughout the world depicted the problem as a shortage of energy itself. Hundreds of articles were publishinged insisting that the crisis stemmed from a booming economy and industrial growth, coupled with unusually hot, dry weather which caused energy demand to surge.

California utilities, claiming bankruptcy as a result of the price manipulation by unregulated power companies, used their information channels to ensure that the crisis was not depicted as a failure of deregulation. PG&E inserted a letter into 4.6 million ratepayers' bills saying that "the state's booming economy can be a mixed blessing," referring to rapidly growing population and the "multiple electronic devices" of the Internet age: "New energy supplies have not kept pace with that growth… Factors like that lead to shortages and shortages lead to higher prices."

These arguments continued to circulate in the media even though they were contradicted by independent studies from groups like the Californian Independent System Operator (CA-ISO), a nonprofit group that manages 75 percent of the state's power grid. Born of deregulation in 1998 with the blessing of utility companies, politicians and regulators, CA-ISO compiled data showing that growth in demand was less dramatic than portrayed and not a primary cause of the crisis.

FINGERING ENVIRONMENTALISTS

Environmentalists were also blamed for the state's energy problems. Ed Gillespie, a former George W. Bush campaign strategist who now chairs the Republican National Committee, worked for Enron while concurrently heading the 21st Century Energy Project, a coalition of conservative groups which claimed that environmentalists had created the problems by impeding the construction of new electricity generation.

Mainstream media bought into the propaganda and helped to spread it. Many media reports in fact stated that the problem was too *little* deregulation. "Demand for electricity outpaced older power plants," stated the *New York Times,* "while a botched experiment with partial price deregulation and longstanding environmental opposition combined to create disincentives to build new power plants or create cheaper wholesale prices through competition."

The federal government used the Californian energy crisis to call for easing California's environmental rules, particularly air pollution regulations. (Subsequently California experienced its worst air pollution for several years.) The energy industry used the crisis to justify a general repeal of pollution regulations and withdrawal from the Kyoto agreement on global warming. In *Newsweek*, Robert Samuelson argued that you couldn't curb pollution and global warming if you wanted cheap power.

The energy industry also used the pretext of an energy shortfall to call for more nuclear energy and oil drilling in protected places such as Arctic National Wildlife Refuge—even though the utilities had admitted the uncompetitiveness of nuclear energy, which was the reason behind the state's rate freeze; even though most Californian electrical generators used natural gas, not oil; even though the blackouts were not caused by a shortage of gas or oil; and even though curtailing of environmentally-friendly generation and conservation had contributed to the lack of surplus electricity in the first place.

By 2001 many Californians had swallowed the propaganda, and a majority supported nuclear power plants for the first time since the Three Mile Island accident in 1979. The National Energy Policy released in May 2001 recommended building "between 1,300 and 1,900 new electric plants" with an emphasis on natural gas and nuclear generation. It also promoted "enhanced oil and gas recovery," which included drilling for oil in ANWR, as a way of dealing with the 'crisis'. It blamed electricity shortages for rising electricity costs. The same spin is being put on the August blackout in the northeast of the United States and Canada. The disaster is again being blamed on increasing electricity demand, environmentalists who supposedly prevented the transmission system from being upgraded and expanded, and insufficient deregulation.

The real problem, however, is that deregulation has enabled producers to evade responsibility for investment that would prevent such failures. The new unregulated market is more interested in profitability than providing a reliable service. In the case of electricity transmission the link between profitability and reliable service provision is so tenuous that the deregulation process has been more of an act of faith than one grounded in common sense. That faith, in turn, has been purposely fostered by those with a vested interest in deregulation. ■

Sharon Beder is author of *Power Play: The Fight for Control of the World's Electricity,* The New Press, NY, 2003.

How Environmentalists Sold Out to Help Enron

by Sharon Beder

A key component of the PR campaign by private power companies consisted of efforts to target key environmentalists, enrolling them to their cause while attacking environmentalists who were not so easily persuaded.

During the 1970s, environmentalists criticized the expansionist mindset of the power companies and the rating structure which rewarded high electricity consumption and provided no incentives for conservation and efficiency. In the late 1980s, however, "sustainable development" became the catchphrase and some mainstream environmental groups were swayed by business proffers of "win-win" situations that they promised would enable companies to make profits while supposedly helping the environment.

In 1989, Ralph Cavanagh, a senior lawyer at the Natural Resources Defense Council (NRDC), set up the "California Collaborative Process." The *San Francisco Bay Guardian* called it a process whereby "key environmentalists could meet behind closed doors with top executives from private utilities to smooth over their differences and hammer out energy-efficiency programs."

Thanks to the Collaborative Process, PG&E was able to greenwash its image by running ratepayer-funded television advertisements with titles such as "Conversations with the Earth" and "Smarter Energy for a Better World." At the same time NRDC defended PG&E's commitment to environmental protection and supported PG&E causes such as higher electricity rates.

When President Bush awarded PG&E the Environmental and Conservation Challenge Award in 1991, Cavanagh was featured in full-page newspaper ads praising PG&E's environmental efforts. Cavanagh also produced videos on behalf of PG&E, and collaborated with PG&E personnel to coauthor an article on their conservation efforts. Cavanagh was appointed to a steering committee with Amory Lovins and others for a PG&E research project, and he generally received favorable media coverage for his "positive" and cooperative stance.

NRDC had been founded in 1970 by two Wall Street lawyers to fight legal cases to protect the environment. It was funded by the Ford Foundation on the condition that it accepted a conservative board of trustees that included Laurence Rockefeller and other wealthy conservatives. Additionally, Ford stipulated that its legal activities had to be cleared by a group of past presidents of the American Bar Association. One of the two founding lawyers, Stephen Duggan, was a partner in the New York law firm, Simpson, Thatcher & Bartlett, which included utilities as a major part of its clientele. At the behest of the Ford Foundation, the NRDC also incorporated a similar public interest law group made up of Yale Law School graduates, which included John Bryson, who later became head of the Californian Public Utilities Commission (CPUC) and then chief executive of Southern California Edison Company (SoCalEd). Cavanagh was reportedly a "disciple of Bryson."

During the 1970s and 80s, the NRDC made a name for itself by fighting legal battles to enforce clean air and water legislation as well as cases to do with pesticides, arms testing and a myriad of other issues. When it came