



June 7, 2001

HOW WE GOT TO WHERE WE ARE TODAY: A DEREGULATION TIMELINE (As of 6/5/01)

- October 24, 1992** **The federal government launches the electricity deregulation effort.** Former President George Bush signs the Energy Policy Act, substantially reforming regulation practices and making it easier for non-utility power generators to enter the wholesale electricity market by exempting them from regulatory constraints. The Act also authorizes the [Federal Energy Regulatory Commission \(FERC\)](#) to open up the nationwide electricity transmission system to wholesale suppliers.
- December 20, 1995** **The [California Public Utilities Commission \(CPUC\)](#) officially orders deregulation in California.** After more than three years of review and hearings, the CPUC issues a final order calling for restructuring of the electricity industry and allowing consumers direct access to competitive suppliers of electric power, effective 1/1/98.
- April 24, 1996** **The federal government accelerates the deregulation process.** FERC issues Order 888, which aims to correct the lack of universal access into the electricity market. Order 888 attempts to eliminate anti-competitive practices by imposing a universal, open-access tariff on electricity transmissions. It also aims to ensure that utilities recover capital investment costs ("stranded costs") that might occur in transitioning to competitive markets.
- September 23, 1996** **The Governor signs legislation to implement deregulation.** Then-Governor Pete Wilson signs AB 1890 (Brulte), "The Electric Utility Industry Restructuring Act." The bill creates a [California Independent System Operator \(ISO\)](#) to manage transmission facilities (e.g., long distance, high voltage power lines); a Power Exchange (PX) to act as a centralized open market; and an [Electricity Oversight Board \(EOB\)](#) to provide independent operational oversight and monitoring of electricity markets.
- January 1997** The Open Access Same-Time Information System (OASIS), authorized in 1996 by FERC Order 889, takes effect. OASIS provides unrestricted day-to-day information to all transmission users, implementing the concept (introduced in Order 888, 4/24/96) of non-discriminatory access to the transmission system.
- December 1997** The CPUC delays the start date for retail competition from 1/1/98 to

3/31/98, due to additional time needed to test software at the ISO and PX.

March 31, 1998 **California launches its deregulated electricity market.** Under AB 1890, all customers located in the service territories of the investor-owned utilities (IOUs) - e.g., [Pacific Gas & Electric \(PG&E\)](#), [Southern California Edison \(SCE\)](#), and [San Diego Gas & Electric \(SDG&E\)](#) - are now allowed to shop for power in the market.

The new ISO, located in Folsom, opens for business. As required by AB 1890, the IOUs transfer operational control - but not ownership - of their transmission facilities to the ISO, resulting in ISO control of 70 percent of the state's transmission lines.

The PX, a centralized spot market with offices in Pasadena and Alhambra, opens for business. PX operations are based on a Day-Ahead market, where buyers and sellers submit supply and demand bids each day for 24 hourly auction periods for next-day energy delivery.

July 30, 1998 The PX launches an Hour-Ahead market, where individual hourly auctions occur three hours before the beginning of the delivery hour.

January 17, 1999 The PX revises the Hour-Ahead market to call for three bidding periods throughout the day to better align market activity with the participants' trading day. On an hourly basis, the PX sets the price to be paid to all power sellers at the highest amount bid that hour.

June 1999 **The state takes the first major step toward the crisis.** The CPUC approves the SDG&E proposal to end its rate freeze on 7/1/99, in accordance with AB 1890 provisions to allow utilities to charge market rates once their stranded costs have been recovered.

July 1999 SDG&E customers become the first ratepayers in the nation to pay free market prices without a safety net as the price freeze is lifted.

June 2000 **The energy crisis hits San Diego.** SDG&E customers see their rates triple as wholesale power prices soar due to surging demand and SDG&E passes on the cost.

June 14, 2000 The ISO orders a localized series of blackouts in the San Francisco Bay Area due to a power shortage. California suffers a series of power emergencies through the summer as demand surges for air conditioning.

August 2, 2000 The CPUC and the EOB release a report addressing the June 2000 blackouts in the PG&E service territory, as well as the volatile wholesale market prices that are affecting retail rates to SDG&E customers.

In response to the CPUC/EOB report, Governor Gray Davis orders the state

Attorney General to form a task force to investigate California's wholesale electricity market.

SDG&E files a complaint with FERC against all entities selling power into California, requesting a \$250 per MWh price cap on all sales.

August 3, 2000 **The state allows PG&E and SCE to negotiate long-term contracts.** The CPUC rules in favor of a request by PG&E and SCE. The ruling allows SCE and PG&E to contact third-party suppliers via the PX to negotiate long-term contracts.

The CPUC rejects an emergency motion filed by the San Diego-based [Utility Consumers' Action Network](#) requesting a price freeze on SDG&E retail rates at July 1999 levels. The CPUC declares the need for further investigation into the price increases.

August 21, 2000 **The state begins to address the San Diego crisis.** At an emergency meeting called by Governor Gray Davis, the CPUC approves a rate stabilization plan for SDG&E customers. The plan caps household rates at \$68 per month, retroactive to 6/1/00, through 12/31/01.

August 23, 2000 **FERC holds hearings.** FERC denies the SDG&E request (8/2/00) due to lack of sufficient evidence, but institutes formal hearing proceedings to investigate the justness and reasonableness of public utility seller rates into the ISO and PX markets.

September 6, 2000 **The state provides relief to San Diego.** Governor Gray Davis signs AB 265 (Davis) into law, effectively enacting the CPUC decision of 8/21/00. The bill caps SDG&E customers' bills at \$68 per month, retroactive to 6/1/00 and extending through 12/31/02 (one year beyond the CPUC decision of 8/21/00). The bill gives the CPUC the option to extend the cap for an additional year at that time.

October 2000 **The state allows SDG&E to negotiate long-term contracts.** SDG&E receives CPUC approval to negotiate long-term power contracts (similar to the 8/3/00 ruling covering PG&E and SCE).

November 1, 2000 FERC approves a "Market Order Proposing Remedies for California Wholesale Electrics." The 11/1/00 Order, effective 60 days from its issuance, (1) eliminates the requirement that IOUs must buy and sell power through the PX; (2) requires market participants to schedule 95 percent of their transactions in Day-Ahead markets, subject to penalty; (3) replaces the existing ISO and PX stakeholder boards with independent non-stakeholder boards; and (4) requires the filing of generation interconnection procedures. The Order also attempts to temporarily mitigate high prices by proposing that sellers into the PX market that bid in excess of \$150 per MWh only receive their actual bids, rather than the highest bid price.

- November 22, 2000** Clinton Secretary of Energy Bill Richardson submits comments to FERC urging FERC to impose short-term price caps on wholesale prices for electricity sold throughout the West. Richardson also offers to mediate between Governor Gray Davis and FERC Chairman Jim Hoecker.
- December 4, 2000** **The crisis hits home with California consumers.** California utilities ask consumers to refrain from turning on Christmas lights until after 8pm to save power.
- December 7, 2000** **The ISO declares a power emergency.** The ISO issues its first-ever Stage Three alert, meaning that the state has less than 1.5 percent of its electricity reserve. The Stage Three alert enables the ISO to secure resources outside the competitive market in order to make up for power shortages.
- December 8, 2000** FERC issues a temporary waiver, effective through 12/31/00, allowing qualifying facility (QF) cogenerators and small power producers to sell power in excess of their historical amounts into California during the power emergency.
- December 14, 2000** **The Clinton administration steps in.** Secretary of Energy Bill Richardson requires generators and marketers to make power available through 12/20/00 to California to prevent blackouts, after a dozen power generators refuse to sell electricity to California utilities due to concerns about credit worthiness.
- December 15, 2000** **The federal government attempts to stabilize the market.** FERC issues an “Order Directing Remedies for California Wholesale Electric Markets,” allowing utilities to sell their own power directly to retail customers and enter into long-term (up to 20-year) contracts for purchasing power, instead of relying on the volatile PX spot market. The Order also imposes a \$150 per MWh “soft cap” on wholesale prices and requires the stakeholder board at the ISO to be replaced with a non-stakeholder board.
- December 20, 2000** Secretary of Energy Bill Richardson extends the emergency order requiring generators and marketers to sell power to California through 12/27/00.
- December 27, 2000** **Gas prices skyrocket, exacerbating the electricity crisis.** US natural gas futures hit a record high of \$10.10 per million BTU, about four times above prior-year prices.
- Secretary of Energy Bill Richardson again extends the emergency order requiring generators and marketers to sell power to California, through 1/5/01.
- January 4, 2001** **The CPUC approves electricity rate increases.** The CPUC issues an interim order authorizing PG&E and SCE to impose a one-cent per kWh increase,

resulting in an increase of approximately 9 percent for residential customers, 7 percent for small business customers, 12 percent for medium commercial customers, and 15 percent for large commercial and industrial customers. The CPUC orders independent audits of PG&E and SCE in order to determine the need for rate increases.

January 5, 2001

Moody's Investors Service and Standard & Poor's downgrade PG&E and SCE credit ratings to one level above junk ratings.

Secretary of Energy Bill Richardson extends, for the third time, the emergency order requiring generators and marketers to sell power to California, through 1/10/01. The order requires that California reduce peak electricity demand by 5 percent by 1/15/01.

January 8, 2001

In his [State of the State address](#), Governor Gray Davis calls the state's electricity deregulation a "colossal and dangerous failure." He proposes a new California power authority and a crackdown on the "price-gouging" practices of power sellers into California.

January 10, 2001

PG&E asks Governor Gray Davis for help in buying natural gas for its customers, saying it does not have enough cash coming in to pay its bills.

January 11, 2001

The ISO announces a Stage Three Alert, which will end up lasting a record 32 days. The ISO announces that up to 2 million California residents will lose power in an unprecedented series of rolling blackouts, but is rescued by emergency assistance from Canada and the Pacific Northwest.

January 12, 2001

The governors of California, Oregon, and Washington urge federal energy officials to impose "effective price controls" to stabilize the western states' chaotic wholesale power market.

January 16, 2001

PG&E and SCE's credit ratings are downgraded to low junk status by leading rating agencies, putting them in default of bank loans and credit lines and moving them closer to bankruptcy.

January 17, 2001

Blackouts hit California. For the first time ever, the ISO orders statewide rolling blackouts in an attempt to stabilize the state's power grid.

The state enters the power business. Governor Gray Davis declares a state of emergency, directing the state Department of Water Resources to enter into contracts directly with power suppliers. (Suppliers have refused to continue selling to California utilities due to the lack of assured payment).

Secretary of Energy Bill Richardson extends, for the fourth time, the emergency order requiring generators and marketers to sell power to California through 1/22/01.

- January 19, 2001** **The Clinton administration declares a natural gas supply emergency in California.** Secretary of Energy Bill Richardson issues an emergency order requiring out-of-state natural gas suppliers to sell gas to PG&E through 1/24/01.
- January 23, 2001** **The new Bush administration extends the emergency order for California.** The new Secretary of Energy, Spencer Abraham, extends the emergency order requiring generators and marketers to sell power to California through 2/6/01.
- January 29, 2001** Officials announce that California has spent its \$400 million emergency fund in less than two weeks.
- The CPUC releases the results of the audit it had ordered (see 1/4/01) of SCE, which finds that although the company is deep in debt, it recently managed to disburse billions of dollars in dividends to shareholders. (See also PG&E audit below on 1/30/01).
- FERC issues a compliance order to the PX, enforcing a provision of an earlier FERC Order (see 12/15/00) prohibiting the PX from allowing bids over \$150 per MWh in the spot market.
- January 30, 2001** The CPUC releases the results of the PG&E audit, which finds that officers were slow to recognize the pending crisis and did not act to develop steps to conserve cash until December 2000. The auditors find that both SCE and PG&E profited substantially during the initial phase of deregulation and transferred billions of dollars to their parent corporations. The audits acknowledge, however, that in procuring power, both companies incurred several billion dollars in costs in excess of what they could recover from ratepayers.
- The PX suspends trading as of 1/31/01 due to its inability to comply with FERC's 1/29/01 directive, effectively shutting down.
- February 1, 2001** **The Legislature provides ongoing authority for the state to buy power directly from power suppliers.** Governor Gray Davis signs legislation (AB 1X, Keeley) allowing the state to sign long-term energy contracts with suppliers and to sell up to \$10 billion of revenue bonds to buy power.
- February 6, 2001** The federal emergency order requiring generators and marketers to sell power to California expires at midnight and is not extended further by the Bush administration.
- February 8, 2001** Governor Gray Davis orders an expedited process for new power plant construction and eases emissions controls on older plants.
- March 9, 2001** The PX files for bankruptcy.

FERC orders 13 California power sellers - including PG&E, SCE, and SDG&E - to refund up to \$69 million to their customers unless they can justify their January 2001 prices.

- March 19, 2001** **The ISO orders rolling blackouts.** The ISO declares a Stage Three emergency and orders the first of two days of statewide rolling blackouts.
- March 27, 2001** **The state approves further rate increases.** The CPUC approves rate increases of up to 36 percent for households that use in excess of 130 percent of a baseline amount of power.
- March 29, 2001** Assembly Republicans file a lawsuit against Governor Gray Davis, [State Controller Kathleen Connell](#), and the state [Department of Water Resources](#), seeking details of the long-term energy contracts being negotiated with power suppliers.
- April 5, 2001** **Governor Gray Davis delivers a statewide televised address, the first such address by a California Governor in 9 years.** Davis warns California residents that urgent conservation measures must be taken in order to avoid blackouts, and for the first time publicly admits that rate increases will be necessary. The Governor also blames federal officials for “refusing to do their job” and control skyrocketing wholesale energy costs.
- April 6, 2001** **PG&E files for bankruptcy.** PG&E, California’s largest IOU, files for bankruptcy protection under Chapter 11 in an effort to get relief from the \$9 billion in wholesale energy debt it claims to have incurred since May 2000. Newspapers later break the story that just before filing, PG&E awarded \$50 million in bonuses and raises to 6,000 of its senior managers and employees.
- April 9, 2001** **Governor Gray Davis reaches an agreement with SCE.** SCE, which claims to be more than \$5 billion in debt, agrees to provide the state with low-cost power from its generating plants for 10 years and to drop lawsuits it had filed seeking rate increases. In return, the state will purchase SCE’s network of power-transmission lines for \$2.7 billion - twice their net book value. The agreement must be ratified by the Legislature.
- April 11, 2001** Governor Gray Davis signs AB 29X (Kehoe) and SB 5X (Sher), providing nearly \$1 billion to supplement existing energy efficiency and low income assistance programs such as the California Alternative Rates for Energy (CARE) program and the [Low Income Home Energy Assistance Program \(LIHEAP\)](#), as well as creating several new programs.
- April 23, 2001** **California hits the \$5 billion mark for energy spending.** [Department of Finance](#) officials testify at an Assembly budget subcommittee hearing that California has spent \$5.1 billion toward electricity purchases in 2001, an average of \$54 million per day.

- April 24, 2001** **California's bond rating is downgraded.** Standard and Poor's cuts California's bond rating by two notches, from AA to A+, citing concerns over rising costs relating to the state's power crisis. S&P threatens that further downgrading may occur if the state fails to issue the proposed \$10 billion in revenue bonds to help pay off energy-related debts.
- April 25, 2001** **FERC approves limited price controls.** On a divided vote, FERC agrees to a new pricing plan that caps the prices that generators can charge for electricity during power emergencies. However, marketers - who merely buy and sell power, but do not produce it - are not affected. The new pricing plan is contingent upon California filing an application by 6/1/01 to enter a "regional transmission organization" with other Western states.
- May 2, 2001** Lieutenant Governor Cruz Bustamante and Assemblywoman Barbara Matthews, acting as private citizens, file a price-gouging lawsuit against five power generators ([Duke Energy](#), [Dynergy Inc.](#), [Mirant Inc.](#), [Reliant Energy Inc.](#) and [Williams Energy Services](#)). The lawsuit accuses the generators of overcharging the state by billions of dollars.
- May 7, 2001** **The ISO orders rolling blackouts.** The ISO is forced to order statewide rolling blackouts for the first time since March. The power shortage is due to a combination of rising temperatures and power plant outages (mostly for scheduled maintenance).
- May 10, 2001** **The Governor signs bond legislation.** Governor Gray Davis signs SB 31X (Burton), authorizing the issuance of up to \$13.4 billion in revenue bonds. Because the Republicans refuse to provide the necessary 2/3 vote to pass an urgency measure, it cannot become effective until 90 days after the end of the energy special session.
- May 14, 2001** The Governor signs a proclamation authorizing a new special legislative session on energy. Due to the failure to obtain a 2/3 vote on SB 31X (see 5/10/01), the Legislature adjourns the first special session in order to start the clock ticking on the 90 days required until the energy bonds can be sold.
- May 15, 2001** **The CPUC approves allocation of a \$5.7 billion rate increase for SCE and PG&E customers.** On a divided 3-2 vote, the CPUC approves a rate increase, retroactive to 3/27/01. Average residential rates will rise by 47 to 55 percent, while industrial customers will see an average 49 percent increase. Rate increases are capped for agricultural customers (15 to 20 percent) and small businesses (35 percent).
- California's bond rating is downgraded by a second major credit rating firm.** Moody's Investors Service lowers the rating on general obligation bonds from AA2 to AA3 and on lease revenue bonds from AA3 to A1, citing concerns over "financial risks associated with the continuing energy crisis,"

as well as the general national and state economic decline. Moody's also cites concerns about Governor Gray Davis' May Revise proposal to retain only a \$1 billion reserve.

May 16, 2001

The Governor signs SB 6X (Burton) to create the [California Consumer Power and Conservation Financing Authority](#). The Authority is given broad powers over electricity generation facilities and authority to issue up to \$5 billion in bonds to finance electricity generation, natural gas transmission and storage, and energy efficiency programs.

May 22, 2001

The Governor signs SB 28X (Sher), intended to accelerate the approval process for power plant construction in California. SB 28X expedites and encourages the development and siting of new, re-powered, or retrofitted generation facilities.

The Governor signs AB 3X (Wright), which aims to increase the participation level in the CARE program.

State Democratic legislative leaders sue FERC in an effort to force FERC to impose price caps. The suit, filed in federal appeals court by Senate President Pro Tem John Burton, Assembly Speaker Bob Hertzberg, and the City of Oakland, argues that failure to limit wholesale power prices threatens the health, safety, and drinking water supplies of California residents.

May 25, 2001

Governor Gray Davis asserts authority over energy spending. Davis issues a proclamation that essentially grants a blank check to the Department of Water Resources to continue purchasing power, negotiating long-term contracts with generators, and implementing conservation initiatives. Up until now, funding for conservation initiatives has been provided through various pieces of legislation. Funding for power purchases has occurred through the framework outlined in AB 1X (see 2/1/01), amid some debate over whether the Legislature or the Governor has the ultimate decision authority.

May 29, 2001

President George W. Bush, on his first visit to California since the election, meets with Governor Gray Davis to discuss energy. After the meeting, Davis announces his intention to "pursue every recourse available to me" (including filing a lawsuit) to compel FERC to impose price caps. Bush publicly reaffirms his opposition to price caps.

The federal appeals court rejects the lawsuit filed against FERC on behalf of legislators and the City of Oakland (see 5/22/01). The 9th US Circuit Court of Appeals states that "Petitioners have not demonstrated that this case warrants the intervention of the court." The attorney for the case states his intention to file an appeal.

June 1, 2001

Governor Gray Davis issues a proclamation ordering the ISO to provide 48-hour advance notice to the public if the ISO expects to order rolling blackouts.

Note: This chronology is based on information from various web sites, including the [US Energy Information Administration](#), the [Federal Energy Regulatory Commission](#), the [US Department of Energy](#), the [California Public Utilities Commission](#), the [California Independent System Operator](#), the [California Power Exchange](#), [Governor Gray Davis](#), the [California State Assembly](#), the [California State Senate](#), and [Pacific Gas & Electric](#). It is also based on various bill analyses and news articles. While every effort has been made to ensure accuracy, the information reported above is only as accurate as the reports it draws upon.

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