

Common Cause

BIG MONEY AND THE ENERGY CRISIS EXECUTIVE SUMMARY OF WIRING THE CAPITOL: POWER INDUSTRY POLITICAL SPENDING FUELS ENERGY CRISIS

California Common Cause commissioned the Capitol Research Group to research power industry political spending and noted energy author Peter Asmus to interpret the data and provide expert commentary on the role of political money in the current energy crisis. The following is California Common Cause's assessment of their report Wiring the Capitol: Power Industry Political Spending Fuels Energy Crisis.

“Nobody in the Legislature is standing up for what’s right because they don’t want to give up campaign contributions,” proclaimed Harry Snyder, a long-time Consumers Union spokesperson, in describing the California state legislature’s response to the energy crisis.¹

The contributions to which Snyder was referring flowed in huge amounts and in sophisticated ways into the campaign coffers of state lawmakers during the last election cycle, as big energy industry players looked to protect their interests in the oncoming state energy crisis.

With state elected officials on the receiving end of the industry’s overwhelming generosity, consumers have cause to question whose interest will be in the minds of lawmakers as they craft a legislative response to the crisis: the public interest or the special interests of well-financed energy industry players.

Energy interests invest heavily to gain political influence. In the last two-year election and legislative cycle, the investor owned utilities and the private power producers and marketers at the center of the state’s energy crisis spent more than \$17 million in political contributions and lobbying expenses at the state and local levels to influence energy policy makers in California.

Political decision-makers are heavily indebted to energy interests. California elected officials who are responsible for resolving the unprecedented electrical power crisis confronting the state

¹ Bill Ainsworth, “Effect of Political Money May Cloud Issue,” *San Diego Union Tribune*, January 23, 2001.

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received more than \$4 million in campaign contributions during the 1999-2000 election cycle from the very same energy interests whose fate they must decide.

The state's three most powerful elected officials alone received nearly \$1 million in campaign contributions from the investor-owned utilities and private power generators in the last election cycle. Energy interests doled out campaign cash in a very sophisticated way during the 1999-2000 cycle, giving nearly one-fourth of their total candidate campaign contributions to the three state elected officials who are likely to have the greatest influence over the state government's response to the crisis: the Governor, the Speaker of the Assembly, and the President Pro Tempore of the Senate.

Gov. Gray Davis received over \$600,000 in contributions from investor owned utilities and power generators during the 1999-2000 election cycle—a period during which he was not even on the ballot. The recipients of the next largest amounts reaffirm the adage that “money flows to power.” The leader of the State Senator, President Pro Tempore John Burton received more than \$250,000 and Assembly Speaker Robert Hertzberg received more than \$220,000.

Investor-owned utilities also covered their bases, making campaign contributions to 99% of state legislators. Not only did energy interests dig deep into their pockets for contributions to the most powerful lawmakers in Sacramento, but they contributed widely as well, making sure that nearly every state legislator had something to remember them by. Of the 118 state legislators elected in or holding office in 2000, 117 received campaign contributions from the investor owned utilities at the center of the crisis. Only Democrat Gloria Negrete McLeod (AD 69) received no utility contributions.

Political spending by the state's three major investor owned utilities helped bring about the energy crisis and continues to shape proposals for its resolution. Southern California Edison (SCE), Pacific Gas & Electric Company (PG&E) and Sempra (the product of a merger between San Diego Gas & Electric Company and Southern California Gas) have long been among the top political spenders in California politics. During the 1999-2000-election cycle, these three utilities collectively gave \$4.2 million in contributions to legislative candidates, statewide candidates, political parties, other political committees, and statewide ballot measures. They spent an additional \$5.9 million on lobbying state government.

It is widely recognized that the political influence of the IOUs had a profound impact on shaping the failed deregulation legislation of 1996. Despite their diminished economic power and damaged public relations profile, the more than \$4 million that the utilities invested the political process in the last two years is helping them to shape many of the current gubernatorial and legislative proposals to resolve the current crisis in their interest.

Private power producers and marketers, who have profited handsomely from the state's deregulation scheme, have stepped up their political spending to protect their interests in Sacramento. Only marginal participants in campaign contributions and lobbying expenses in 1996, they contributed more than \$1 million to state candidates. The collective effort of producers and marketers to use political money to increase their clout in Sacramento is even more amply demonstrated in the dramatic rise in their lobbying expenses. During the 1995/1996 legislative session these groups collectively spent \$246,011 to lobby state government. During the 1999/2000 legislative session that amount skyrocketed to \$3,141,064—a twelve-fold increase. In the last

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election cycle, Enron led all energy producers and marketers in campaign contributions and lobbying expenses, giving more than \$300,000 to state candidates and spending more than \$345,000 in state-level lobbying.

Energy producers contributed huge sums of federal hard and soft money to protect their interests in Washington, DC. Among the interests with a stake in the California energy crisis, producers were the lead investors of political money at the federal level. Energy producers and marketers contributed over \$4.9 million in soft money to the Democratic and Republican parties and an additional \$2.1 million to federal political action committees in 1999-2000. Enron alone contributed over \$2 million in soft money to the Democratic and Republican parties.

This heavy political spending by energy producers at the federal level may help explain the reluctance of the federal government to intervene in the California energy crisis by capping wholesale energy prices.

The “Green” energy industry, which has not invested heavily in campaign contributions and lobbying expenditures, has received the short end of the stick in state energy legislation. The promise of alternative energy retailers flourishing in a free market deregulated scheme was a mirage. Alternative energy retailers have never contributed significant campaign contributions nor made significant lobbying expenditures. In the previous two-year cycle these groups together spent only \$13,500 on state campaign contributions and \$229,726 on lobbying state government. That amounts to about 0.3 percent and 1 percent of what IOUs and producers and spent, respectively, on campaign contributions and 4 percent and 10 percent of what they spent, respectively, on state lobbying. Therefore, it is not surprising that the deregulation legislation was stacked against them from the start and the legislature’s recent response to the crisis finished them off.

The legislature’s deregulation scheme provided disincentives for customers to forsake their utility providers for independent “green energy” retailers. It allowed the utilities to continue to bill customers who had opted to switch to other retailers for the utilities’ distribution costs and to charge those customers for the possibility that they might switch back to the utility. Ultimately, in the face of the current crisis, the legislature went even further by passing a law to prohibit the independent retail marketers from signing up any new customers.

Although alternative energy generators supply over 20% of the state’s electricity, they are not big political spenders either and were similarly disadvantaged by both the original deregulation legislation and the recent legislative attempts to respond to the crisis. In the 1999/2000 cycle these groups spent only \$139,343 on campaign contributions and \$526,928 on lobbying state government. That amounts to about 3 percent and 14 percent of what IOUs and producers and spent, respectively, on campaign contributions and 9 percent and 23 percent of what they spent, respectively, on state lobbying

The alternative energy generators’ lack of political muscle is evident in how they have been treated under deregulation and the recent responses to it. Under deregulation in-state alternative energy generators were more restricted in whom they could sell their power to and consequently received much lower prices for their electricity. When the state began to purchase power from out-of-state producers like Dynegy, Reliant and Duke, alternative energy generators were forced to continue to deliver their electricity to the utilities that were no longer paying them for it.

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Conclusion. It's too early to tell whom – if anyone – will make out best as state elected officials and their federal counterparts attempt to solve California's current devastating energy crisis, but consumers have good reason to believe it won't be them.

Powerful energy interests – the utilities and major power generators in particular – have played the big political money game in textbook fashion. In their attempt to have their needs are attended to first by lawmakers, these powerful special interests have given millions in campaign contributions and spent millions more lobbying state elected officials. And they have spent this money wisely, giving the largest sums of campaign money to the most influential lawmakers, making sure that every state legislator received a piece of the action, and hedging their bets in Washington by giving federal soft and hard money contributions to both parties.

Consumers only need to look at what has happened to companies in the “green” energy sector to see what can happen to those who fail to invest adequately in political capital. Alternative energy retailers and generators contributed significantly less to candidates and spent significantly less on lobbying than their more well-heeled industry counterparts, and they were the clear losers when the legislature took action.

In the end, however, the governor and the state legislature may find it difficult to act in a decisive way at all, as they struggle to meet the competing demands of different energy interests. As Laura Tyson, a former chief economic advisor in the Clinton administration who is now dean of the Haas School of Business at UC-Berkeley, put it: “The solution to the policy problem is moving agonizingly slowly because there are several powerful political groups that can block any piece of legislation”²

² Robert T. Garrett, “Bickering Follows Blackouts: State Politicians Argue as They Struggle to Find a Way Out of the Energy Crisis,” *Riverside Press Enterprise*, March 25, 2001.