Electric plan fails to satisfy anyone
Proposal would temporarily raise rates for Edison, PG&E

By Myra P. Saefong, CBS.MarketWatch.com
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SAN FRANCISCO (CBS.MW) - California regulators are set to consider a temporary electricity rate hike Thursday that the state's largest utilities claim is far below what they need to remain solvent.

The California Public Utilities Commission will consider raising rates for 90 days by 9 percent for residential customers and up to 15 percent for large businesses. PG&E and Edison had hoped to raise their rates by 26 percent and 30 percent, respectively.

Both utilities say they have racked up billions of dollars in debt to buy power on the open market at prices far above the rates they're allowed to charge under California's deregulation plan.

Shares of Edison International (EIX: news, msgs) fell $2.75, or 18.3 percent, to close at $12.25 Wednesday, while PG&E (PCG: news, msgs) shares shed $2.56, or 13.1 percent, to close at $17. Both stocks closed at 52-week lows.

Edison condemned the proposal, saying in a statement that it granted "only an interim and inadequate rate increase - wholly disproportionate to the actual cost of wholesale power."

Consumer groups also expressed dissatisfaction, but for opposite reasons.

"We want us to pay less -- as was supposedly the whole point of deregulation," said Mindy Spatt, media director for The Utility Reform Network, a consumer advocacy group. "If this is the direction they're going in, it's not a direction that's going to fix what's wrong with the energy market in California," she said.

New appointee

In spite of the utilities' disappointment, the measure put forward by CPUC staff Wednesday appeared likely to win approval.

Late Wednesday Calif. Gov. Gray Davis, a democrat, appointed his own energy advisor to fill a newly vacant opening on the commission.

That gives Davis appointees three of the five votes on the commission. Appointees of former governor Pete Wilson, a republican, hold the other two.

Credit crunch

Pacific Gas & Electric warned late last week that it could run short of both cash and natural gas in February because 15 to 20 of the companies it buys power from won't sell to the utility if it doesn't have cash on hand.

The company said it has to borrow an average of $24 million a day to pay for the power it delivers to its customers.

"The real need is to allow the companies to regain their financial strength so that we can all focus on the real perpetrators of the problem, and those are the generators," said Ron Low, a Pacific Gas & Electric spokesman.

Southern California Edison, which serves 4.2 million residential and business customers in California, is in a similar bind. It warned last week that it may have to declare bankruptcy if actions to restore its creditworthiness are not taken. Its parent firm has already suspended its fourth-quarter dividend, and announced job and budget cuts.

In late December, Standard & Poor's threatened to lower credit ratings for California's two largest utilities to junk bond levels if a rate hike wasn't approved. Though the credit rating agency backed off the threat after the CPUC launched its emergency hearings, the risk continues to hang over the companies.

"Commercial lenders won't continue to lend money to procure electricity unless they have reasonable assurances that the state policy is that they'll have the opportunity to get their money back," said Tom Higgins, senior vice president of Edison International.

Bye-bye dividends

Even if the utilities are able to continue paying their suppliers under the rate-hike plan, the companies are likely to stop paying dividends, according to Brian M. Youngberg, a utility analyst with Edward Jones.

The two utilities "will likely cut or eliminate the common dividend sometime soon," Youngberg said, noting that Edison already suspended payment of its fourth-quarter dividend.

The reaction of credit rating agencies to the plan is also critical, Youngberg said. "Edison and PG&E "cannot access capital if downgraded to non-investment levels."

Edison sought a 30 percent rate hike to demonstrate to the financial community that there will be sufficient cash coming into the system to persuade them to lend, Higgins said. The requested raise translates into about a $15 increase in Edison's average residential bill of $55.

Lawsuits

The utility filed suit demanding that the Federal Energy Regulatory Commission force wholesalers to lower the rates they charge the utilities. A federal court in Washington is scheduled to consider the suit Friday.

On Tuesday, Davis said he would will file a "friend of the court" brief to support the lawsuit, which also requests that the FERC protect ratepayers from record prices charged by power generators.

The suit is an effort to "force FERC to do what it should have done months ago: require generators to charge more reasonable rates," said Davis. "Only then can we have stability and affordable electricity in California."

A second suit filed in Los Angeles would force the CPUC to allow utilities to pass through the wholesale costs of electricity to customers. A hearing on that suit is slated for Monday, Jan. 8 in U.S. district court.

Pacific Gas & Electric was looking for a 26 percent overall rate hike and about a 21 percent rate hike for residential customers, which would result in $11 to $12 rise in the average residential bill of $54.50.

"We're buying power at 40 cents per kilowatt hour," Low said, "and selling it for less than 5 cents." As result, the San Francisco-based utility estimates its debts through the end of December at $7 billion.

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