Demand for natural gas used in electricity generation is reflected in utility and non-utility consumption data. The Energy Information Administration (EIA) has statistics on total consumption of natural gas for electricity generation during the years pre- and post-electricity deregulation (approximately 1991-2000) in California. Electricity is generated by both regulated utilities and non-utility generators. As the electricity industry adjusted to regulatory reform, increasing quantities of electric power were provided by non-utility power generators, including industrial firms who were co-generators of electricity and steam. Over this period the use of natural gas for total electricity generation has varied from year to year and has not shown a clear trend.
Table 1. California Natural Gas Consumption by Non-Utility and Utility Generators, and Prices to Electric Utilities, 1991-2000
(Million Cubic Feet and Dollars per Thousand Cubic Feet)

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Utility and Utility Generators</th>
<th>Non-Utility Generators</th>
<th>Utility Generators</th>
<th>Prices ($/Mcf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>787,596</td>
<td>338,582</td>
<td>449,014</td>
<td>$2.95</td>
</tr>
<tr>
<td>1992</td>
<td>922,630</td>
<td>358,198</td>
<td>564,432</td>
<td>$2.81</td>
</tr>
<tr>
<td>1993</td>
<td>892,550</td>
<td>426,489</td>
<td>466,061</td>
<td>$3.05</td>
</tr>
<tr>
<td>1994</td>
<td>980,428</td>
<td>379,138</td>
<td>601,290</td>
<td>$2.56</td>
</tr>
<tr>
<td>1995</td>
<td>787,974</td>
<td>393,276</td>
<td>394,698</td>
<td>$2.28</td>
</tr>
<tr>
<td>1996</td>
<td>708,632</td>
<td>390,607</td>
<td>318,025</td>
<td>$2.75</td>
</tr>
<tr>
<td>1997</td>
<td>751,666</td>
<td>373,719</td>
<td>377,947</td>
<td>$3.08</td>
</tr>
<tr>
<td>1998</td>
<td>831,370</td>
<td>560,216</td>
<td>271,154</td>
<td>$2.79</td>
</tr>
<tr>
<td>1999</td>
<td>918,035</td>
<td>773,380</td>
<td>144,655</td>
<td>$2.76</td>
</tr>
<tr>
<td>2000</td>
<td>1,083,801</td>
<td>954,052</td>
<td>129,749</td>
<td>$6.04</td>
</tr>
</tbody>
</table>

Note: Non-utility use excludes coke-oven, refinery, blast furnace gas, and landfill gas.

28737

Obtained and made public by the Natural Resources Defense Council, May 2002
[The information follows:]

******* COMMITTEE INSERT *******
Mr. HONDA. My understanding, it was 5 percent--.

Mr. BLAKE. Yes.

Mr. HONDA. --and then the increase in the rates was about what? He said 10 times.

Mr. BLAKE. Well, I think he's looking at the marginal cost, the marginal rate rather than--.

Mr. HONDA. I think he was talking about the cost of natural gas. You were talking about how the bidding goes, and there is a big gap between the cost of transport of natural gas and the price of natural gas to California and that there is a bunch of steps between that and the bidding.

I agree that the bidding process is kind of strange, but I think that there is probably a lot of questions of what goes on between those steps, and it is probably a wonderful area for examination.

My other question is, if you said that the structure was faulty, in the process of deregulation does not the plan have to go before the Federal Energy Regulatory Commission before it is completed?

Mr. BLAKE. My memory is that it would have gone before.

Mr. HONDA. And if it went before them, why was not the faults at least questioned at that point?

Mr. BLAKE. I don't know what was in I wasn't in government at the time. I don't know what was in the record at that time.
Mr. HONDA. But you are criticizing it right now.

Mr. BLAKE. I think the issue is they know that people from the outside were saying, disconnecting the wholesale rate from the retail rate, relying wholly on the spot market would create an issue; and whether those comments were made by FERC at the time, I honestly don't know.

Mr. HONDA. But it did go through the process.

Mr. BLAKE. Yeah.

Mr. HONDA. And the function of FERC is to make sure that they have oversight over unreasonable, unjust rate increases. So the process was in place. So, like Mr. Brown says, there is probably enough fault to go around for everybody.

Mr. BLAKE. Yes, including the Federal level outside of California.

Mr. HONDA. The question of supply before deregulation, did the State of California receive power and negotiate power from outside of California also?

Mr. BLAKE. Before?

Mr. HONDA. Dereg.

Mr. BLAKE. Yes.

Mr. HONDA. Okay. So the reliance on supplies didn't necessary happen in the boundaries of California.

Mr. BLAKE. No, and I think that is a good point.

And to the point on the original design of the system, the deregulated system, if you maintained a structure where
you had more supply than demand, I think that what they had
structured might well have worked. When you shifted to where
you have more demand than supply, the problem--.

Mr. HONDA. Demand have only 5 percent. We had
reserves--we had supplies that we relied upon and negotiated
from without the State, so the real issue about energy and
the crisis that we face today was precipitated by a faulty
deregulation plan. And perhaps there could have been some, I
guess--it is not my word--I heard the word "gaming" the
market.

So, you know, when there is terminology, there must be
behavior; and if there is behavior, then somebody is doing
it. So, you know, I am kind of concerned about gaming the
market.

Does the Department of Energy get into those kinds of
concerns?

Mr. BLAKE. That is direct responsibility of FERC, that
it does have oversight on unreasonable rates.

And just to pick up on another point that you made--.

Mr. HONDA. Well, let me continue. Then if you say that
is FERC, does the Department of Energy have any
responsibility in encouraging FERC to pursue the
responsibility? If they in fact had determined that there
was something that was unjust and unreasonable, is there a
responsibility on the part of the Department of Energy to
pursue this or encourage them?

Mr. BLAKE. Well, I think the President, not just the Department of Energy, has called on FERC to exercise that responsibility. FERC actually has ordered rebates under this administration, which was not the case previously.

Mr. HONDA. When did this happen?

Mr. BLAKE. I think they ordered it January, is my memory, but I can double-check on that.

Mr. HONDA. And then they stop; and since then we have been asking for, in their terms, market mitigation measures to look at the increased rates, because it was still unfair and unjust.

I think the other area I am a little concerned about is the budgetary actions. The budget is a reflection of our priorities, and I understand that the Department of Energy's budget has been--is less than it was last year or in the previous administration. Is that a concern of yours?

If we are looking at increasing our activities in the area of conservation, which you said, increasing our activities in research, and your own laboratories have said that if we pursue conservation and alternative research that we can be less dependent by something like 47 percent, is that a direction that the Department of Energy will be pursuing based upon the laboratories that are under your Department, based upon their conclusions?
FERC issued orders on March 9 and March 16, 2001, requiring that various suppliers of wholesale electricity to California make refunds for certain sales in January-February 2001 or provide the Commission with a justification of the pricing of such sales.
Mr. BLAKE. The labs play an important role in the research and development efforts of the Department. The Department is pursuing energy conservation and renewable energy. Those are part of the budgetary requests. There have been some supplemental requests that address that.

The Department's budget obviously addresses a number of other things as well, and you know there is a balance in the programmatic increases and decreases there. I don't think you would look just at the energy, what the Department does related to the energy plan for the budgetary impacts and what the budget submission was.

Chairman NUSSELE. Mr. Hoekstra.

Mr. HOEKSTRA. Thank you, Mr. Chairman.

Mr. Blake, good morning and thank you for being here.

I think the question that I have--Bill's offered the same kinds of questions that Mr. Collins had--is that what is going on in energy?

And you talked about natural gas prices in California, the tenfold increase in prices there for electricity. I know that when I go home and I talk to my constituents they have a hard time understanding what this deregulation and these prices, price fluctuations--they simply ask a very matter of fact question: Who is getting the extra profit?

We had a situation where in one day gas prices went up by 20 percent, and they all--all the gas stations did it at like
11 o'clock in the morning. So gas went up by 30 cents a gallon. And, you know, they don't see any problems in the Mideast. They don't see any fluctuations in the price per barrel. They don't read about a refinery going down. Refineries are running at high capacity.

So the question they come back with is, hey, Pete, who got the 30 cents? You know, who is getting the extra 30 cents this afternoon and what is it being used for?

I hope that the Department of Energy does an analysis of where this extra income is going and what is driving these costs factors. Because with a lack of a clear explanation, what is happening with consumers is there is a distrust of market forces. There is a distrust of deregulation. There is a distrust of the consolidations and the mergers that are going on in the industry and the basic conclusion that perhaps it is time for more regulation rather than less regulation.

If we don't come up with some specific answers and explanations that actually make sense, as well as a strategy that says, you know, here is what market forces will work in the long run and why they may not be working in the short term--I don't know if you have got any comments or response to that statement or not.

Mr. BLAKE. A couple of quick comments.

First, on the pricing, and, you know, there has been this
long-standing debate on price caps and whether price caps are an appropriate response to what is happening in the market and some notion of improper profits. It is worth just pausing and remembering that a price cap—if you have got an essential problem of supply and demand, a price cap addresses neither. It doesn’t improve your future supply, and it doesn’t affect your current demand. If anything, it makes your future supply more difficult to get on line and increases your current demand. It is a general comment.

On the oil and gas and pricing, there are constrained refineries. One of the things that the policy points out is we haven’t kept up in terms of building new refineries. And I note that as I came here this morning I asked what was the price of regular gasoline, and it is $1.60, which is 8 cents lower than it was this time last year.

One of the things that has happened is we saw an increase earlier than usual; and that, along with all of the other discussion, I think has created some of the issues that you raised. But it is worth bearing that in mind.

Mr. HOEKSTRA. We are going to need more help in understanding exactly why those prices come in, you know, because, my consumers, they understand supply and demand. What they are also facing in electricity, in natural gas and these types of other areas, they are coming out of a
regulated market where for a long time demand was not a
problem, supply was not a problem, and prices weren't a
problem. We had basically relatively inexpensive sources of
electricity and natural gas. And what they are now seeing is
they are seeing deregulation in these areas, and the
only--the end result they see is now, all of a sudden, we
have got a problem with supply, we have got a problem with
demand, and the only benefit I am getting as a consumer is I
am getting to pay these folks more money.

So tell me where the benefit of deregulating the market
in these areas is. That is a question that we face when we
go home, and it is a question that I ask, that says, you
know, do market forces really necessarily work in these types
of industries the way that we expect them to work in other
markets?

Mr. BLAKE. Those are very legitimate questions, and we
need to do a better job in education.

Because if you go back and you look at the concept of
these regulated markets with cost service regulations, what
the utilities did was basically add up their costs and put a
return on equity. If you look at the debates that existed in
the 1970s and 1980s of utilities building enormous plants
that people argued weren't necessary, the debate that I am
sure you are familiar with not that many years ago on
stranded investments, investments that were made in a
regulated structure, people said, we don’t need this. What is all this capacity for? It is far too expensive.

The basic concept was, and I think it is proven out in well-designed structure, the basic concept is the market is going to do a better job of allocating investment dollars and reduced costs. And I think you can look to a number of markets around the country where that is happening.

But your very questions emphasize the extent to which we have got to do a better job of education.

Mr. HOEKSTRA. Thank you.

Chairman NUSSLE. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Appreciate your bringing the author of the fossil fuel study to the committee. I assume you wrote this. That is why they sent you up here as the spokesman.

Mr. BLAKE. No.

Mr. MCDERMOTT. Who did?

Mr. BLAKE. There were two individuals employed at EIA, at DOE.

Mr. MCDERMOTT. At EIA?

Mr. BLAKE. EIA is the Energy Information Administration.

Mr. MCDERMOTT. And who are those individuals?

Mr. BLAKE. Ron Early is one name, and Jay Smith is the other name.

Mr. MCDERMOTT. Jay Smith. Thank you very much.
I would point out to Mr. Brown that South Carolina may stand alone. They may have a wonderful energy process, but you would do a service to the country if you stopped calling this a California problem. Because those of us who are further up the West Coast, the decisions made by FERC made it much worse for us when they said Bonneville had to ship electricity down to California and force them to do it. We wound up having our dams drawn down in a drought year. We are going to have salmon problems. We are going to have all kinds of problems. So this is a regional issue and people better get it clear in their heads that no State is going to stand alone and be able to do it all by themselves.

As the pressure that you see on the West Coast comes on, it is going to come across the country. That is the view of the Department of Energy, isn't it? Or do you think this is just a California problem?

Mr. BLAKE. It is not just a California problem.

Mr. MCDERMOTT. Is it just a West Coast problem?

Mr. BLAKE. It is not just a West Coast problem.

Mr. MCDERMOTT. How far does it come?

Mr. BLAKE. Well, I think the transmission issues that exist around the country. The bottlenecks are not just on the West Coast. There are bottlenecks in the Midwest and Southeast, Northeast. So you are right in saying that the issue is not just in California.
the Northwest face a particularly difficult--

Mr. MCDERMOTT. We were the first to get it is what you are saying, basically.

Mr. BLAKE. The combination of the drought, the supply and demand.

Mr. MCDERMOTT. All the things that happened--.

Mr. BLAKE. Yeah.

Mr. MCDERMOTT. --happened on the West Coast first, but

the rest of the country is going to get it.

Second thing is, people have asked the question here, and I want to put a finer point on it. Mr. Collins kind of walked around it, and I keep dropping a bill in the Ways and Means Committee on an excess profits tax. Do you think 20 percent profit on your investment is adequate? I mean, you are a free enterpriser, right?

Mr. BLAKE. It depends on the investment and the risks and the return. I mean, what is the return?

Mr. MCDERMOTT. Energy would be a pretty solid return, wouldn't it?

Mr. BLAKE. Here is the reason why that is--what is the period of time over which you are going to recover your investment? What are the risks associated with the investment?

Mr. MCDERMOTT. Utilities commissions have been giving out 10, 12, 14 percent for years; and everybody's been buying
Mr. BLAKE. When you are a utility, you know that on the rate structure, if it is used and useful, you get a recovery on it. When you are developing as a merchant power plant developer, the fact that you built a plant doesn't mean that you will get a return. They are very different economic structures.

Mr. MCDERMOTT. So in this period what you are suggesting is that Enron and all these companies should make as much as they possibly can at the moment because there will be a dry period someplace, right?

Mr. BLAKE. No, I wasn't suggesting that.

Mr. MCDERMOTT. You don't think there should be any limit on them, do you, in how much they take out of the people?

Mr. BLAKE. I don't think price caps work.

Mr. MCDERMOTT. I didn't ask you about price caps. I asked you, as a public policy, do you think there should be any limit whatsoever on how much an industry takes out of an essential for living? In this country, you cannot live without electricity.

Mr. BLAKE. On the electricity structure, there is now a regulatory process where FERC ensures the wholesale rates are just and reasonable. So the answer to your question--.

Mr. MCDERMOTT. You call those--okay, that is good. I
like that. FERC just and reasonable. Do you say that the rates in California were just and reasonable?

Mr. BLAKE. I think FERC has made already some decisions that have required rebates on rates where they said they were not just and reasonable.

Mr. MCDERMOTT. Where have they given these rebates?

Mr. BLAKE. I mean, they apply to the wholesale market in California. I assume they go to whoever was on the other side of the transaction, the buy, sell and I don't know.

Mr. MCDERMOTT. So the rebates go to Southern California Gas and Electric. Does it flow on then down to the users?

Mr. BLAKE. I don't know in those instances who were the buyers that were subject to the--that got the benefit of the rebates and how it flowed down.

Mr. MCDERMOTT. But it is your testimony that the FERC has set in motion a plan that guarantees rebates to California producers.

Mr. BLAKE. Producers?

Mr. MCDERMOTT. Of electricity.

Mr. BLAKE. They would they have jurisdiction over wholesale rates. They have jurisdiction to assure that the wholesale rates are just and reasonable. They have made some conclusions that they aren't. I would think the rebates in that case would go to the buyers of that wholesale power, whoever those might be. It might be a municipality. It
might be an investor-owned utility. It might be the State.
I don't know enough about it.
Mr. MCDERMOTT. I will check that, because I don't think
there have been any rebates. At least I am not aware of
them.
Mr. BLAKE. I think they have been ordered and been found
but where the actual cash transaction is, I don't know.
Mr. MCDERMOTT. The next question I have--and Mr. Honda
has suggested that the budget sets the priorities. And when
you have the kind of cuts that are in this budget, in solar
particularly, which is one that really troubles me, because
solar energy, there is seven times the energy that California
uses in a given day falls on California, and I wonder why I
see nothing creative in this proposal that came out of the
Department of Energy on how to use the solar energy.
I have a bill in the House Ways and Means Committee on
granting the abilities to sell bonds to utilities so that
they can put solar panels on people's houses interest free
and let them pay them back in the rates. There is an
enormous sources of energy that are simply not--are not
talked about and certainly no money is put into this budget.
I can't understand who set those priorities except people who
are interested in gas, oil and coal. That is the only thing
I see.
Mr. BLAKE. No, I think the budget actually reflects sums
to renewable energy sources. I don't know the specifics on
the solar. I would just say—

Mr. McDermott. It reduced it by 53 percent. The only
increase was in the weatherization program. That is the only
one they increased.

Thank you, Mr. Chairman.

Chairman Nussle. Thank you.

Thank you very much, Secretary Blake.

There is no question that this is not merely a California
problem or a West Coast problem or west of the Mississippi
problem. This is a national concern, and that is why we are
here today, because of its impact on the overall economy and
therefore its impact on our budget. The purpose of this
hearing today is to examine that and to get a handle on why
we need, after many years of neglect, a national energy
strategy so that we can put some predictability into the
system.

I appreciate your testimony today. I applaud the
administration for putting a product on the table for
discussion and debate.

Other committees of jurisdiction are now engaged in
debating that, coming up with ideas, proposals. We have many
members who have ideas as Mr. McDermott suggested. I have
some. Many other members of the committee have alternatives
and ideas, and that is where the debate needs to happen.
But it is clear from this hearing that it needs to be done now. We have to begin the process because it will have a short-term, medium-term and long-term effect on this budget; and we have got to get our arms around it immediately.

We appreciate your testimony here today and the fact that the administration would at least start this process. Thank you very much.

Mr. BLAKE. Thank you very much. Congressman Spratt, members, thank you.

Chairman NUSSLE. At this point in time, we invite to the witness table a colleague from California, Congressman Bob Filner, who represents the 50th District--have I got that right, Bob?

Mr. FILNER. Yes, sir.

Mr. MCDERMOTT. You see, when you come from a State like Iowa and you have only have five, 50 is a big number. That is why I just want to make sure--the 50th District of California, which encompasses San Diego, the southern half of the City of San Diego.

Representative Filner was elected in 1992, as I understand, and serves on the Transportation and Infrastructure Committee and Veterans affairs Committee, is that correct? Any other committees you serve on?

Mr. FILNER. No, that is enough.
The Honorable Joe Barton  
Chairman  
Subcommittee on Energy and Air Quality  
Committee on Energy and Commerce  
U.S. House of Representatives  
Washington, DC 20515  

Dear Mr. Chairman:


The three inserts requested by Representatives Boucher, Tauzin and Burr are being prepared and will be forwarded to you as soon as possible.

If we can be of further assistance, please have your staff contact our Congressional Hearing Coordinator, Lillian Owen, at (202) 586-2031.

Sincerely,

Michael Whatley  
Director, Office of Congressional and Intergovernmental Affairs

Enclosure
July 31, 2001

The Honorable Spencer Abraham
Secretary of Energy
U.S. Department of Energy
Fleming Building
1000 Independence Ave. SW
Washington, DC 20585-1000

Dear Mr. Secretary:

I'd like to follow up with you personally on a recent invitation extended by Jeff Skilling for an event Enron is hosting, "U.S. Energy Policy at a Crossroads: Alternative Futures for the Current Energy Crisis," in Washington, DC on October 3-4. We would be honored to have you as a featured keynote speaker to communicate your vision of America's energy future. The energy industry is at a critical juncture. Through this event, Enron is committed to creating an open dialogue for the industry to work together collectively and constructively to find solutions and discuss ways to get them implemented.

Your involvement in this industry forum represents an opportunity to engage with the most senior level stakeholders in our sector—key opinion leaders, policymakers, regulators, and business executives. This forum resonates with the industry. Our efforts thus far have generated a positive response, and we anticipate a productive and insightful discussion.

I'd appreciate your being part of this forum. Your participation would greatly enhance the prospects of a positive outcome.

Sincerely,

Kenneth L. Lay
Chairman of the Board
Enron Corp.
P.O. Box 1188
Houston, TX 77251-1188
713-853-6773
Fax 713-853-5313
kenlay@enron.com

Endless possibilities.™
The Honorable Spencer Abraham  
Secretary  
Department of Energy  
Washington, DC 20585

Dear Secretary Abraham:

Thank you for your recent letter to Joe M. Allbaugh, Director, Federal Emergency Management Agency (FEMA) regarding the Department of Energy’s strategy to support the National Energy Plan and FEMA. I apologize for the delayed response.

Your letter has been forwarded to the appropriate FEMA officials responsible for the Plan’s implementation. They will be in contact with your staff very soon to discuss a collaborative effort between FEMA and your Department.

Sincerely,

M. C. Earman  
Acting Executive Officer  
Readiness, Response and Recovery Directorate