Bankrupt and Carrion for the Vultures, PG&E Turns Off the Lights in California

By Patrick Ruckert
October 12, 2019

For the past one, two, three or even four days in northern California upwards of 2.5 million people have had no electricity in their home, business, school or work place. It was no natural disaster that disrupted the power grid, but a deliberate shutting down of electricity transmission by the largest private utility in the country in more than one-half of the counties in the state.

As is normal about this time each year, the Diablo Winds come off of the Sierra Mountains into the valleys and hills of the coastal region of the state. A similar phenomenon occurs in southern California, though there it is called the Santa Ana Winds. Winds of up to 70 mph are common, and if a spark or flame is met by the winds, devastating fires sweep through the forests and homes of the state.

In 2017 and 2018 it was Pacific Gas and Electric (PG&E) equipment that provided the spark for some of the fires that burned thousands of homes and killed more than 100 people. Found responsible for the tragedy, PG&E was liable for about $30 billion in damages and thus filed for bankruptcy in January of this year.

Shutting down the power grid as precautionary measure to prevent the company's equipment from starting more fires this year is nothing but a measure of self-protection by PG&E.

Being the largest private utility in the country with tens of billions of assets in facilities, equipment and the power providing infrastructure that delivers natural gas and electricity to eight million customers, PG&E in bankruptcy began looking like an easy prey for the vulture funds like Elliott Management run by the notorious predator Paul Singer. Singer and his hedge fund partners swoop in on the debt plagued companies (and countries like Argentina three years ago), buy up the debt of the company for pennies on the dollar then sue and sue until they receive full face value of the debt.

So, we have two stories here. First how in the hell can California, supposedly the most modern and

advanced state in the nation, be thrown back to existing as we did more than a century ago-- without electricity? The second story is actually a continuation of story that bankrupted PG&E (and Southern California Edison) in 2001. Again, another story of predators. That time the name was Enron.

A Fire in Paradise

In November, 2018, as the Diablo winds swept into the northern California town of Paradise with its 25,000 people living in what is called the urban/forest interface, a spark from a PG&E piece of equipment was quickly turned into a raging inferno. The wind whipped the flames and sent sparks flying hundreds of yards and gobbled up a football field size of territory every second. More than 14,000 homes and businesses burnt to the ground and 86 people died in the fire. The estimated damage for that fire was $16 billion.

This was not the first fire that PG&E equipment was found to be the cause of fires. Their equipment was found to be responsible for 17 of 23 major fires in the state in 2017, which killed 15 people and destroyed 5,000 homes. More generally, throughout the state, it has been utility equipment and facilities that has been responsible for about 2,000 (1,500 of them attributed to PG&E) fires in the past four years (though most of them were small and quickly extinguished). The state of California has an inverse condemnation law that holds utilities liable for fire damage caused by their equipment even if the company did not act negligently, and the company may not pass on these costs to its customers. Though the California legislature passed a law last year that allows the utilities to assess rate payers for some portion of these charges.

So, when the Diablo winds were forecast for this past week, PG&E announced that it would be shutting down its grid, and did so, with some areas being without electricity for four days. It is estimated that the economic loss from the shutdowns to businesses and individuals to be about $2.5 billion.

Whether the equipment is old and worn out or tree branches down a power-line, with more than 25,000 miles of high voltage transmission lines and 81,000 miles of distribution lines (with two-thirds of those overhead, not underground), for PG&E to ensure that none of that infrastructure starts a fire is a Herculean task. Why not bury the lines? Money. It costs about $3 million per mile to do that, and 81,000 miles works out to $243 billion. PG&E is burying about 100 miles per year now. In addition, trimming trees near lines over thousands of miles of lines requires thousands of trained tree trimmers, which does not exist even in the entire country.

And as the American Society of Civil Engineers report every four years on American infrastructure has reported, the U.S. energy sector gets a D+, since most of the national electrical grid was built in the 1950's and 1960's. So too in California.

Added to that is the literal criminal manner that the company has been managed. PG&E was found guilty of six federal felonies and fined $1.6 billion for a gas pipeline explosion in San Bruno (a suburb of San Francisco) that killed eight people in 2010. Management has also been found to have pressured employees to falsify safety data in regard to pipelines from 2012-2017.

In April this year the judge in the bankruptcy case found that the company had diverted $4.5 billion dollars from its tree trimming budget to pay out in stock dividends to its investors. And in Paradise the company had planned as far back as 2013 to replace the aging transmission equipment there, but has never done so.

Slightly shifting the blame from PG&E, the *Wall Street Journal* on October 11 pins at least part of the problem on California's notorious, and well-deserved reputation as an environmentalist haven, stating "that green energy mandates have cost PG&E money that could have been spent on safety...." The *Journal* continued:

"For years the utility skimped on safety upgrades and repairs while pumping billions into green energy and electric-car subsidies to please its overlords in Sacramento. Credit Suisse has estimated that long-term contracts with renewable developers cost the utility $2.2 billion annually more than current market power rates."

This entire arena of wildfires has become much more destructive and widespread over the past decade with seven of the state's largest fires occurring in the past five years. While "climate change" is often cited as the cause of these much more intense fires, other factors, some long-term, also play an important role. For most of the past 100 years both federal and state forests have a fire fighting policy of putting out any fire that occurs as soon as possible. That combined with environmentalist restrictions on logging and designating more and forests as wilderness, has created a density of trees and brush that is many times even what is found in its natural state. In California the five year drought that ended two years ago, combined with a bark beetle infestation, killed more than 130 million trees, adding to the fire fuel waiting for a spark.

Enter the Predators

That PG&E neglected safety in both its natural gas operations and its electricity distribution in favor of distributing billions for its commitment to "shareholder value," is no surprise to those who know the history of the utility industry in the United States. (That is not to say that the banking sector and other parts of the economy are much different.) To break the hold of the utility cartels in the 1930s led President President Roosevelt to establish the regulation of those companies during that time.

And regulation worked until the 1990s, when Wall Street speculators, gamblers and predators convinced state legislatures around the nation to deregulate their power industries. California was "gifted" with Enron at the time, which proceeded to create artificial power shortages by shutting down power plants and drove electricity prices up to as much as $3,000 a megawatt-- 30 times the normal price. And since the state utility companies like PG&E and Southern California Edison were not allowed to pass on to customers the Enron price, both companies were driven into bankruptcy.

In January of this year as the responsibility for the Paradise fire was being attributed to PG&E, the shares in PG&E stock fell 70 percent. Yet PG&E while announcing that it could not make payments to those fire victims from 2017 because it was short of cash, announced a $75,000 raise for its senior vice president of gas operations. After filing bankruptcy at the end of that month, the thousands of claims by fire victims were automatically put on hold, and those people were to fight it out with other unsecured claimants, bond holders, and creditors.

As the bankruptcy filing was getting underway, the hedge fund Elliott Management Corp intervened, offering $4 billion of funding to keep the company out of bankruptcy, of course planning to take over a substantial part of the company for that piddly amount. Even with the collapse of its stock, PG&E had 10s of billions in assets.

To note: While all this is going on it should be remembered that PG&E was on probation for the San Bruno conviction in 2010. The judge in that case, in January this year, demanded that PG&E make its

power lines safe and spend $150 billion!!! on tree trimming and upgrading its equipment. If the company could not do that, then it must be prepared to turn off power whenever the wind conditions threatened, like now. So, this is why PG&E shut down the electricity for half the state this week.

There is more. In comes Elliott Management once again.

This week, on October 10, the judge in the bankruptcy case ruled that the bond holders, led by the hedge fund Elliott Management Corp, would be permitted to submit a bankruptcy plan in addition to the one being run by PG&E. And as is the usual practice of Paul Singer, the head of Elliott Management, he has lined up some of the fire victims to be part of his group, “establishing his credentials” as a friend of the poor victims.

PG&E issued a statement in response, saying, “We are disappointed that the bankruptcy court has opened the door to consideration of a plan designed to unjustly enrich Elliott and the other ad hoc bondholders and seize control of PG&E at a substantial discount.”

Exactly how Elliott would seize control is not clear, but past practice by this vulture should be a loud warning that no one will benefit by Elliott's intervention but the predators and a few fire victims used by Elliott for cover, and probably, in the end, like with Enron almost 20 years ago, rate payers are likely to be paying quadruple their present cost for electricity.

A final note: As reported by Bloomberg on October 10, most rooftop solar setups don't work in a blackout. Since most are designed to supply power to the grid and not directly to the house, so those without battery backup are as deep in the dark as everyone else. Batteries are expensive-- as much as $6,000.