

CHAPTER 1



THE BIG SHORT

The Grid and I

I JUST FINISHED REREADING a frightening book, *The Big Short*,¹ which describes the financial meltdown of 2008 and the few people who saw it coming. The book followed how these insightful people placed bets (“shorts”) on the fall of complex credit instruments, including credit-default swaps. Some of the people who bet against the credit instruments made hundreds of millions of dollars.

The credit system had little oversight, and it propped up an overheated housing market. “Liar loans” were common: in these loans, the borrower did not have to include any documentation. The overheated housing market, in turn, propped up the wider economy. Shortly after the credit system crashed, everything crashed.

In today’s grid governance, I see more parallels with the 2007 financial system than I would like to see.

In 2007, people bought obscure credit instruments, which themselves were based on credit “tranches,” and these tranches were backed by “liars mortgages,” with no down payment and no credit check. And yet, it was assumed that all these tranches were basically secure. The best way to get rich was to buy the bad tranches because there was no danger of massive default on any tranche. The bad tranches had higher interest rates and were more highly profitable.

In the old days, you could loan mortgage money to cardiac specialist Dr. Jim and his wife, Diane, a schoolteacher. This couple had a sizable down payment, high income, and high credit ratings. In 2007, loaning money to a strawberry picker who had no down payment, little income, and no credit rating was an acceptable way to wealth. The quality of the loan didn’t matter anymore. The world of credit was completely upside down, and trouble was sure to come. It did.

The financial activities described in *The Big Short* have many parallels with the current state of much of the power grid in America. In the old days, regulatory bodies wanted to see a grid with reliable power plants and, hopefully, plants that used several different types of fuels. A varied grid meant that, if one fuel had shortages or rose in price, the grid would still be stable, and cost would remain relatively stable.

In current grid governance, none of these things matter. In many areas, power plants that make steady, reliable power can’t make a profit. Several large utilities are trying to sell or shut down their nuclear, gas, and coal plants in these areas. These utilities plan to operate plants only in other parts of the country.

Utilities are leaving the Regional Transmission Organization (RTO) areas. These areas have auctions for electricity (and for many other facets of electricity supply). They are also the areas about which you can see occasional news stories about grid-wide problems. A typical news story would be “such and such a grid operator warns of possible electricity shortfalls this summer.”

In many areas of the country, but especially in RTO areas, power installations that can operate only intermittently, such as solar and wind installations, are the sure bet for becoming wealthy. In the mortgage situation, the intrinsic value of the mortgage didn't matter. In the RTO area, the value of the power produced doesn't matter. As a matter of fact, less-valuable power is more profitable. Trouble is sure to come, and it is on its way. In these areas, we are on our way to an expensive and fragile grid.

Natural gas is inexpensive. This is a good thing. However, the constant statements that other types of plants "can't compete" with natural gas is not about the plants: it is a consequence of insider decisions on the grid. That is why this book is an exposé.

Nobody has the responsibility

IN THE RTO AREAS, no group or agency has the responsibility for grid reliability. This agency can do a little of this, and that agency can do a little of that, but no agency is charged with ensuring reliable power. No agency is in charge of ensuring that there are enough power plants and power lines to keep the grid operating.

In RTO areas, the grid is becoming more fragile and more expensive. Fragility is the most dangerous problem. In the near future, "rolling blackouts" may become common in many RTO areas. This book is about why this will happen and what we can do to prevent those blackouts.

What about the "free market," which could conceivably use its invisible hand to bring reliable electricity to the customers? There is no free market. There are false markets, ruled by insider decisions.

In my opinion, a grid meltdown is coming. Reliable power will become part of the Good Old Days that parents tell their children about.

Unlike the heroes of *The Big Short*, I am not in a position to place some sort of bet that will make me rich. Instead, I will write

about the grid and where it is headed. At the end, I will include a few ideas about how grownups (mere “ratepayers”) can step up to the plate and take charge.

The ratepayers are the true stakeholders of the grid: we pay for it. It is time that our voices be heard.

The insiders of RTO

THE ELECTRICITY MARKETS in the RTO areas serve nobody well. First of all, they aren’t markets. Most types of plants are constantly on the search for their “missing money”: the RTO regulations do not allow them to recapture even their costs. Incentives of various types lead to fragile grids, and nobody is the wiser. Huge decisions are made in closed rooms with only insiders (called “stakeholders”) present, and the press is often not allowed.

I have come to hate the term “stakeholder.” Insiders do the same back-room dealing as the most cynical of big-city bosses in the old days, but this time, it is done in groups called “participant committees.” The people in the committees are called “stakeholders” and other such euphemisms for “insiders.”

Tacitus described Roman conquest as “They make a desert, and they call it peace.” I would describe the RTO areas as “They reward their favorites, and they call it a market.”

As a matter of fact, I almost did not write this book. My earlier two books (*Voices for Vermont Yankee*² and *Campaigning for Clean Air: Strategies for Pro-Nuclear Advocacy*³) were comparatively straightforward: one was people’s statements in favor of our local power plant, and the other was a compendium of ideas on how to be an advocate for nuclear power. I can guarantee that, if you follow the advice in the *Campaigning* book, you will make a difference. You may or may not keep your local plant from being shut down by anti-nuclear activists, but you may save it from premature closing, and you will

make it impossible for anti-nuclear activists to completely dominate the conversation.

With this book, I felt differently. The grid in RTO areas has a closed-door governance. In many cases, you can't find out what is going on and what decisions are being made. Why should I write a book saying: "This is how you are going to get beaten up. Get used to it"?

Finally, I decided that putting a spotlight on the grid was worthwhile. The first step toward "not being beaten up" is to notice where the attack is coming from or likely to come from. This book shows what happens on the grid and what to watch out for. How to at least find out about important dockets and why they are important. How to write letters about those dockets. And so forth.

Most of the book is factual, but some of it is about how to advocate for change.

In the RTO areas, it's hard to make any difference at all. But if you don't try, nothing will happen. You or your children will wake up to an expensive, unreliable grid. The grid's fragility will have economic and health consequences. And you won't have even tried to stop it.