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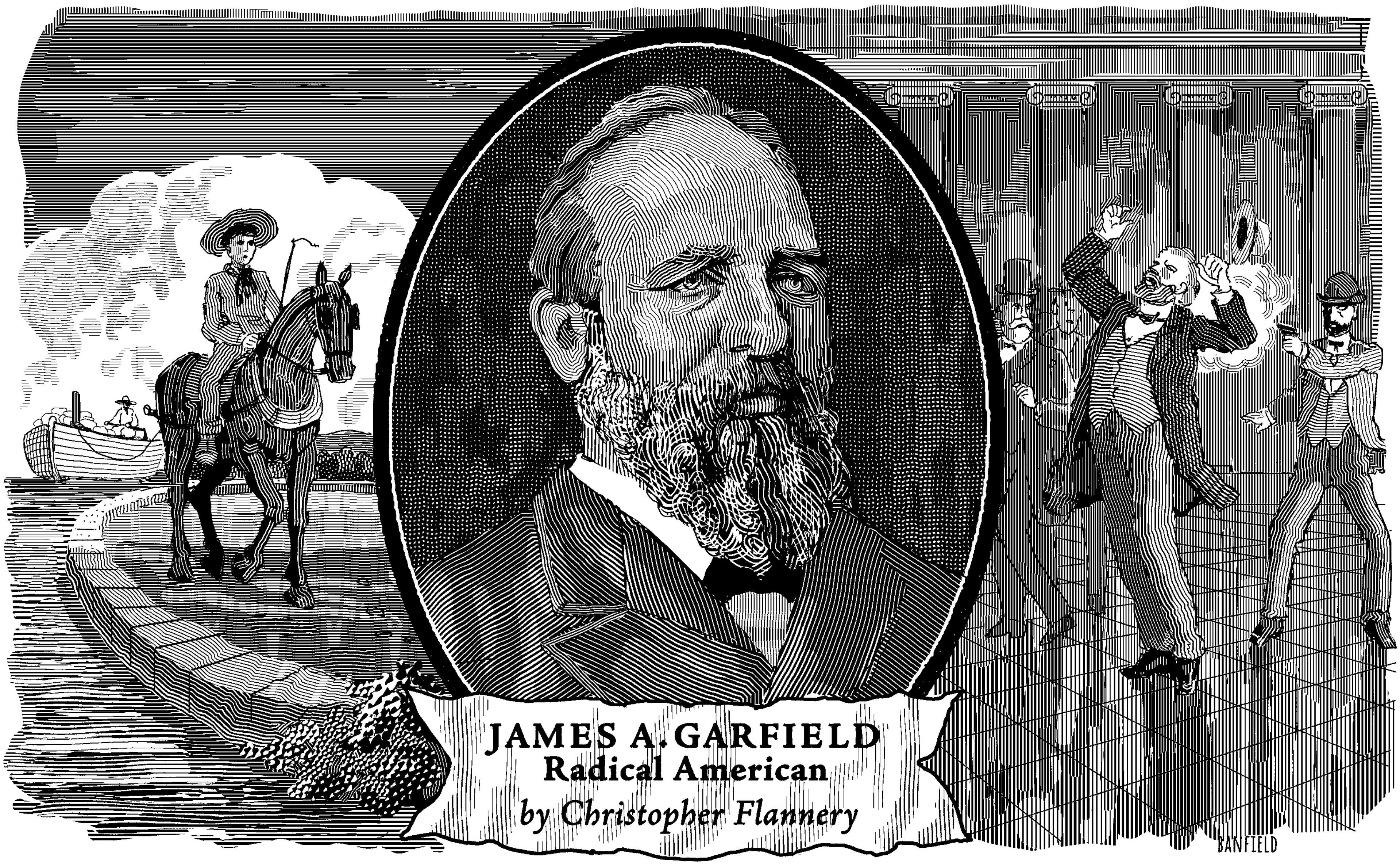

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Book Review by Emmet Penney

Power Politics

Power Failure: The Rise and Fall of an American Icon, by William D. Cohan.
Portfolio, 816 pages, $40

California Burning: The Fall of Pacific Gas and Electric—And What it Means for America's Power Grid, by Katherine Blunt.
Portfolio, 368 pages, $29

In *The Education of Henry Adams* (1918), the great-grandson of the second president, grandson of the sixth, and a distinguished author and historian in his own right described his encounter with the electrical generators displayed at the 1893 and 1900 world's fairs. The inventions awed him. "One lingered long among the dynamos," he wrote, "for they were new, and they gave to history a new phase." Adams described the experience in the third person:

> As he grew accustomed to the great gallery of machines, he began to feel the forty-foot dynamos as a moral force, much as the early Christians felt the Cross. The planet itself seemed less impressive, in its old-fashioned, deliberate, annual or daily revolution, than this huge wheel, revolving within arm's-length at some vertiginous speed, and barely murmuring.

The dynamos heralded a "consolidation of force, which ruthlessly stamped out the life of the class to which Adams was born," he said further, "but created monopolies capable of controlling the new energies that Americans adored." As electricity spread from urban central stations to small towns and isolated farms, America became a commercial juggernaut, no longer patrician but middle-class and middlebrow.

Perhaps the best symbol for this shift in America's cultural and economic foundations was the home that General Electric kitted out for Ronald Reagan, who served as the firm's spokesman from 1954 to 1962, during the concluding phase of his acting career. The height of commercial opulence at the time, Reagan's home was a live-in advertisement for G.E.'s prowess at delivering modern convenience. Reagan described it as a "dream home overlooking the Pacific Ocean that GE stuffed with every imaginable electric gadget." It cost nearly $1.5 million in today's money and stood as the picture of the Affluent Society's middle-class desires and expectations.

And yet the industries that underwrote that dream are now coming apart. General Electric, once among the world's most formidable companies, is selling itself off for parts. Pacific Gas and Electric (PG&E), one of the Golden State's major utilities, groans under the weight of its mismanagement and legacy commitments. The decline of these once proud titans suggests something troubling: modernity is no longer new.

General electric's arc is traced in *Power Failure: The Rise and Fall of an American Icon* by William D. Cohan, a former Wall Street investment banker who has previously written books on Goldman Sachs and Bear Stearns. The company grew from Thomas Edison's early efforts in electricity production. When the Wizard of Menlo Park proved better at invention than at management and finance, Charles Albert Coffin assumed the reins and transformed American life forever.

Coffin, Cohan writes, "had a 'holy faith' in electricity." Among G.E.'s most impressive early achievements was the equipment "for the six-mile electric elevated rail used at the 1893 World's Fair in Chicago." (Henry Adams could have ridden it.) Electricity began to course through American cities, pushing the height of buildings up with elevators, banishing the dark with the "great white way" of streetlamps and illuminated signs, and purging urban centers of their ammonia and manure reek as electric trolleys replaced horses. When Coffin handed off the company in 1922 he said, "Of one thing only, I am certain. That is that we are just in the beginning of an electric age."

He was right. G.E. would go on to grow over the course of the world wars by pioneering radio and television broadcasting, nuclear power, and appliances that transformed domestic life. The company's turbines and power-plant business worked hand in glove with electric utilities across the country. The more appliances G.E. sold, the more demand there was for electricity, which meant that utilities then had to turn around and buy more power plants from G.E. It branched out further into man-made diamonds and plastics. And it was in the plastics division that the company's greatest CEO, Jack Welch, got his start. With Welch, Cohan's story of G.E. really begins.

Welch, a charming, scrappy, irreverent Irish Catholic mama's boy from Massachusetts, joined G.E. in 1960 as a chemical engineer. His career nearly ended in 1963 when an explosion in a factory Welch was managing blew off the building's roof. Nonetheless, Welch possessed gifts for management: he saw through B.S., understood how to cultivate other leaders, and sought sound counsel. Though he was fearsome and intimidating, even the men Welch fired loved him, as Cohan's interviews reveal. In 1981 he became the behemoth's CEO.

Persona aside, Welch's genius idea for G.E.'s growth centered on one of its most obscure components—G.E. Capital, created during the Great Depression to help struggling families purchase electrical appliances on credit. After Welch discerned that it could be the basis for a financial services business, it quickly became the company's fastest-growing division, extending small loans more regulated banks would reject. By 1981 one of its subdivisions, G.E. Credit, had $9.3 billion in assets.

Welch's unequaled soft skills and ruthless pursuit of 15% earnings growth led some to call him the "CEO of the Century." When he retired in 2001 the conglomerate had an ancient difficulty on its hands: succession. Who could follow a CEO who had increased G.E.'s market value from $12 billion to over $410 billion in two decades? Welch chose Jeff Immelt, who had joined the firm during Welch's second year in charge and climbed the corporate ladder. G.E. was not just the most valuable company in America when Immelt took over, but "was also named the 'most respected' company by the *Financial Times* and the 'most admired' company by *Fortune*," according to Cohan.

Immelt likes to tell people he had one good day as CEO—his first: September 7, 2001. Then, like many Americans, Immelt awoke to the horrors of the 9/11 terrorist attacks. G.E., as it happened, insured all four planes used in the attack, the Twin Towers, and 7 World Trade Center. That alone was a $1 billion write-off. "And there was the potential ripple effect," writes Cohan. "GE owned 1,200 aircraft and the world's largest jet engine business." One of the most potent expressions of G.E.'s greatness was now seen, on replay all over the world, as a missile hurtling toward skyscrapers. After September 11, G.E.'s stock price dropped 34%.

More trouble ensued. Before the end of 2001, Enron and Worldcom went from surging businesses to disgraced failures. After revelations about Enron's financial chicanery, no one felt comfortable with G.E.'s 15% growth anymore. Investors wanted to know what G.E. was doing in there. Eventually, savvier Wall Street analysts began poking around and discovered something heavy industry analysts had missed: G.E. was over-leveraged. Within 60 days, the macroeconomic conditions that allowed for Jack Welch's G.E. to flourish evaporated before Immelt's eyes.

To his credit, Immelt recognized he needed to get out of G.E. Capital but just couldn't pull the trigger. Immelt's strange brew of confidence and confusion compounded into gun-shy management that left G.E. drifting. "I wish I had reset the company in 2002," Immelt told Cohan. "I can explain to you why I did what I did, but it certainly would have been easier for me [to do the reset] and maybe even better for investors." Had he hastened the G.E. Capital exit and returned to the manufacturing roots of the company, Immelt might have withstood the next tsunami: 2008's financial crisis.

G.E. Capital, as over-leveraged as any of the major banks, was ineligible for the federal bailouts that kept them alive. After all, it wasn't a real bank. Cohan details painful conversations during which Immelt is reduced to begging for help from Treasury Secretary Hank Paulson. Eventually, his effort won out, but saving G.E. from the crisis didn't save it from Immelt.

Part of his troubles stemmed from being thin-skinned, his greatest shortcoming. If Welch wanted loyalty, Immelt wanted fealty, which cost him some top-tier talent. Immelt's self-blindness on this point borders on the Sophoclean. He swears up and down to Cohan that he kept the best people around him. But in interviews with other G.E. captains and board members, Cohan learns that Immelt cut first-stringers from the team each time they challenged his direction. More painfully, the people he fired were often right. Welch wanted the friction of conflict to spark positive results, but Immelt took criticism as sedition. Some described him as "imperial" and "delusional."

Eventually, Immelt's efforts would collapse with his credibility. In 2017, he was asked to resign, having run the greatest company in the world into the ground. How did Jack feel about Jeff's tenure? "I f[---]ed up," he confessed to Cohan in 2018. "And I don't know why." Welch's hands weren't completely clean, though. Part of G.E.'s downfall came from soured insurance assets acquired in the 1980s.

Welch spent 20 years as CEO, Immelt 17 years, and *his* successor, John Flannery, only 15 months. By then, faction became general within G.E.'s board, exacerbating years of mismanagement that continued to undermine its success. General Electric, once synonymous with the American future, now seems to belong to the American past, a tragic fact not lost on Welch himself. "Reminiscing about this pisses me off," he told Cohan.

In 2018, California utility Pacific Gas & Electric committed manslaughter: 84 people perished in a wildfire ignited by the company's Caribou-Palermo transmission line. *Wall Street Journal* reporter Katherine Blunt argues in *California Burning: The Fall of Pacific Gas and Electric—And What It Means for America's Power Grid* that the tragedy was the result of "chronic mismanagement, criminal neglect, [and] existential risk."

Beginning in the late 19th-century's "white coal" era of hydro dams, PG&E gobbled up competition, consolidated, and vertically integrated. Americans weighed the dangers of economic concentration against undeniable benefits. California's irrigation systems and opulence, for example, sprang from PG&E and other enormous utilities.

Yet the accretions of time have had their way. PG&E has been around for so long that its archive of equipment is more Smithsonian Institution than World of Tomorrow. The Caribou-Palermo equipment was nearly a century old when it fell to the ground and ripped a curling lip of fire across hundreds of acres. Three main drivers have brought PG&E to its sorry state: the inborn incentives of the monopoly utility industry, electricity restructuring, and the so-called "energy transition" to renewable energy generators.

Blunt does an excellent job of spelling out the utilities' basic incentives: they get a regulator-set rate of return on capital expenditures, but not on operations expenditures. In other words, they make more money building the wind and solar plants politicians want than they do guaranteeing safety.

One of the most consequential changes in the industry has been the effort to restructure monopoly utilities' territories into spot markets overseen by grid operators. Beginning in the 1970s with Jimmy Carter, and finally gaining a head of steam in the 1990s, the determination to force utilities into competitive markets became reality. In California, Enron (again) and the anti-nuclear group the Natural Resources Defense Council (NRDC) put massive weight behind restructuring. Both recognized that upsetting the traditional monopoly model would help new entrants onto the field, specifically wind and solar farms.

Blunt doesn't mention this in *California Burning*, but does recount how Enron then turned around and inflicted Third-World rolling blackouts on the Golden State. In response to the crisis, Governor Gray Davis made utilities keep their rates low, understanding that demand for electricity is inelastic, but failing to appreciate what effects those rates would have on providers. By 2001, the California Public Utilities Commission (CPUC) had no choice other than to approve massive rate hikes; the damage had been done.

"The next morning," writes Blunt, "PG&E filed for bankruptcy protection." At the opening of the 21st century, PG&E became "one of the few utilities to have ever undertaken the long and arduous Chapter 11 restructuring process." Blunt's book has many such moments with California politicians. At one point San Francisco's mayor, London Breed, entertained municipal acquisition of her city's portion of PG&E's territory. The intention was to run it as capably as she has San Francisco.

Regardless, electricity restructuring stuck. Enron and the NRDC were proven right—policymakers and businesses dove headfirst into fitting as many renewable resources as they could onto the grid. Governors Arnold Schwarzenegger, Jerry Brown, and Gavin Newsom have all made bold commitments to paving the Golden State with wind turbines and solar panels to stave off climate change, often with encouragement from the federal government. This cost Californian consumers and PG&E billions, raising rates. (It should be noted that Blunt believes this headlong dive into renewable energy has been ultimately salutary, a position I do not share. Had the state invested in nuclear instead, it would have decarbonized five years ago.)

Even PG&E's regulator got wrapped up in the green dream. "CPUC's intense focus on climate policy came at the expense of one of its core responsibilities: holding the utilities accountable on safety," writes Blunt. PG&E found itself similarly distracted. The results of the negligence were fatal: in 2010, an old and poorly welded gas pipeline exploded in San Bruno, killing eight people while destroying 38 homes and damaging 70 others.

The long-term consequences for PG&E and the state have been on full display. California's grid has become reliant on natural gas to keep the lights on, making it vulnerable to price swings in the gas market. At the same time, the threat of blackouts has made it prime real estate for companies that sell personal generators: back-up diesel aggregation accounts for a little under 15% of the state's electricity capacity. And Californians pay roughly 60% more than the national average. In August of last year, California's grid operator begged residents to cut their power usage to avoid rolling blackouts during a heat wave, just as it did when Enron was around. Not all of this is PG&E's fault—electricity restructuring stripped utilities of the responsibility for system reliability—but it bears a substantial portion of the blame.

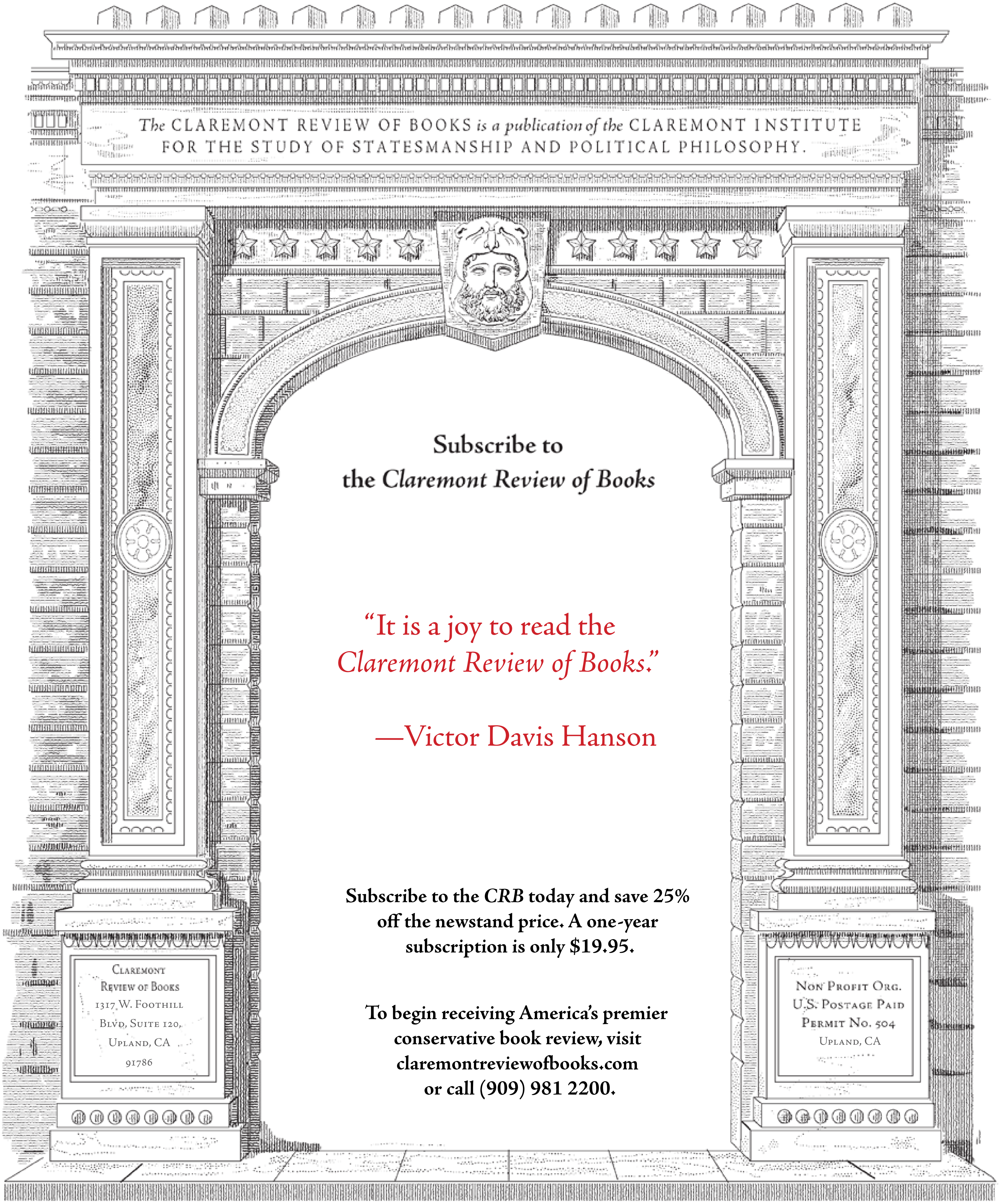
One bright spot: since the publication of Blunt's book, Newsom, who cut a deal with the NRDC to close the state's last nuclear plant, Diablo Canyon, has relented. PG&E will struggle less to keep the lights on; and the state won't have to burn more gas, as New York has been forced to do in the wake of its premature closure of the Indian Point nuclear power plant.

Though not every utility suffers the way PG&E suffers, its agonies speak to the general state of the American electric grid, our most vital piece of infrastructure.

Electricity gave modernity its seeming escape velocity from historical precedent. It gave modernity its status as the great solvent of tradition. But America's decaying infrastructure and its attendant industries—like PG&E and General Electric—suggest a novel paradox. In the 21st century, modernity cannot be left to its own devices. Besides a cultural and constitutional sense of conservation, we now must cultivate a sense of industrial conservation. We must steward modernity's great achievement: the grid.

Nowhere is this need more urgent than where G.E. and PG&E's failings collide: the energy transition. Last year, G.E. lost $2.2 billion on its wind turbine division, and the restructured portions of the electricity grid are losing reliable power plants to subsidized renewables in the spot market. "The arithmetic doesn't work," Federal Energy Regulatory Commission member Mark Christie recently testified before the Senate. "This problem is coming. It's coming quickly. The red lights are flashing."

Emmet Penney is the editor-in-chief of Grid Brief *and a contributing editor of* Compact *magazine.*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