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When China Owns Our Utilities

By Lynn N. Hargis

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It is a great irony that on the day President Bush called for a thorough review of China's proposed acquisition of a California-based oil company, Unocal, the United States Senate voted 85-12 to send an energy bill to conference that would allow China to own local US public utilities, without a murmur from the administration, lawmakers or the media. Perhaps this is an example of the government and the press being unable to address something that is not literally exploding under their noses at the moment. Indeed, a reputable reporter and Enron veteran assured me that China wouldn't be interested in acquiring US utilities, because they couldn't ship the electricity to China! I gently suggested that the Chinese might want to buy utilities for the same reason that America's most famous investor, Warren Buffett, wants to buy utilities (or the reason he gives, anyway): to obtain steady, reasonable and reliable utility revenues (from captive utility customers).

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Buffett denies that he, like so many others in the past, wants to simply use utilities as "cash cows" to fund other, more profitable business ventures. This was what led to the collapse of the utility holding companies during the Great Depression, and resulted in the passage of the Public Utility Holding Company Act of 1935 (PUHCA), the law that the Senate has just voted to repeal. Owning utilities just for profit was enough for the Power Trusts of the roaring 1920s and '30s, who invested the utility revenues in numerous non-utility schemes before they crashed, resulting in 53 utility holding company bankruptcies and 23 bank loan defaults pre-PUHCA. Owning merchant (PUHCA-exempt) power plants has also offered enough temptation for a number of modern utilities, including Enron, Mirant, NRG, NEG, and

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others, to invest in non-utility businesses that similarly crashed and burned, with the merchants declaring bankruptcy. Whatever side benefits might accrue to China from owning utilities (including nuclear power plants) within a country that could potentially become hostile towards them would just be gravy.

The Chinese, as it turns out, already own a good chunk of America, but most of their investment is held in government bonds that don't pay highly. One could hardly blame the Chinese for setting their investment sights a little higher, and numerous recent articles indicate that they plan to do exactly that, by making investments in US companies. Why wouldn't they follow Warren Buffett's advice and buy utilities, when bidders are currently bidding over \$250,000 just to share the investment acumen of the Oracle of Omaha over a single lunch? And Bill Gates, the Number One World's Richest Man (Buffett is only Number Two, but he tries harder) has not only bought shares in utilities, but has just purchased a huge chunk of shares (at \$83,000 a pop) in Buffett's Berkshire Hathaway holding company that has recently announced its decision to acquire more utilities. Why should the Chinese ignore the advice of such sterling and acclaimed capitalists if they want to increase their capital? If a utility acquisition also gives them the opportunity to take down the US electric grid if they so desire (we now know it is notoriously prone to going down), why that's just a side benefit. If, short of war, the Chinese simply want to stall our national economy a little, couldn't they take a lesson from the California electricity crisis in 2000-2001, from which California, the fifth largest economy in the world, is still struggling to recover, by withholding their generation from the "market?"

And where are the patriotic defenders of our country, our economy, our utility investors (our pension plans) and ourselves as electric and natural gas consumers who would prevent such an economic - or potentially, security - disaster? Apparently they are not in the United States Senate nor in the House, which has already voted to repeal PUHCA. And, indeed, where is the media to report on this potentially catastrophic occurrence? Still talking about Enron, apparently.

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