Energy Fiasco Threatens California Hospitals

by Linda Everett

Since 1995, thirty-four hospitals in California have closed their doors permanently, eight in the year 2000 alone. The remaining hospitals are under such severe financial stress that 64% of them are currently operating in the red. Among the factors contributing to the hemorrhaging of red ink are: the Balanced Budget Act of 1997, which gutted billions of dollars in Medicare payments to hospitals; so-called managed health care's looting of vital public health infrastructure (in 2000, health maintenance organizations and managed care organizations owed California hospitals more than $1 billion for services provided HMO enrollees); low medical payments and the increasing number of uninsured patients; and a $24 billion unfunded state mandate to retrofit hospitals to better withstand earthquakes. Now comes the rapacious profiteering by energy pirates made possible by energy deregulation. The policies of these energy barons have left hospitals reeling, and, if current policies are not changed, will shut down more critically needed facilities upon which the nation's general welfare depends.

On Jan. 25, a spokesman for the California Healthcare Association (CHA), which represents 500 acute-care facilities in the state, told *EIR* that some of its hospitals are paying in excess of 100 times their normal electricity rates, including $500,000 to $1 million a week in fines, because, to ensure the safety of their patients, they are refusing to abide by their interruptible service contracts, and utilize electricity when the Public Utilities Commission (PUC) has called for an interruption of services throughout the state.

Most California hospitals had signed interruptible service contracts back in the 1980s; these contracts stated that the hospitals would accept a power blackout, if necessary, to prevent a generalized rolling blackout, in exchange for which customers were charged 15% lower than normal rates for electricity. Hospitals had not experienced any interrupted service during the 20 years since—until last year. When hospitals tried to opt out of the contracts in November, as was specifically permitted by contract, the PUC refused to allow it.

Another blow hit hospitals in the state when, in November, the PUC, despite requests by the CHA, eliminated the six-year price freeze hospitals had on electric rates through March 2002. So, hospital rates went up 15%—the same as for other industrial users. This alone may cause hospitals to increase annual spending on power to $110 million a year.

"An increase in electric rates," the CHA warned in a Jan. 2 letter to the PUC, "will result in reduction or closure of hospital services and possibly the closure of some hospitals." This may be the final blow for California hospitals, which are already operating at negative margins—in part because they are owed more than $1 billion in back payments from managed care companies and HMOs.

In a letter to California Gov. Gray Davis (D), the CHA asked that he exempt all hospitals in the state from such energy interruptions, and that all hospitals be allowed to opt out of their interruptible contracts with utility companies, without being hit with massive fines. The hospitals are also asking that electricity rates resume at the original, lower rates.

State Sen. Nell Sota has introduced legislature that specifically exempts all hospitals, schools, and handlers of perishable food from the interruptible contracts. The public and political pressure worked. On Jan. 26, the PUC temporarily suspended interruptible service contracts with the hospitals. But, with hundreds of millions in fines yet to be paid, this still leaves hospitals financially crippled.

Bush's Friends at Enron in Action

On Feb. 1, the energy wholesale pirate, Enron, which was the largest funder of President George W. Bush's gubernatorial and Presidential campaigns, abrogated its long-term contracts at locked-in energy rates with its major corporate and institutional customers, including Kaiser-Permanente hospitals throughout California. The move would force these customers to purchase electricity at rates as much as 35% higher than what they were originally paying under their Enron contract. This allowed Enron to sell the power from those long-term contracts for much greater profits on the energy spot market. A day after announcing its planned halting of service to dozens of major clients, Enron said that it would absorb any increase in rates its former clients faced. A Kaiser-Permanente representative told *EIR* that while Enron changed its contractual basis with its facilities, it would find other energy sources for the hospital company.

But, the crisis is far from over. Each energy interruption or rolling blackout puts the lives of patients in danger. During such events, hospitals depend upon their back-up generators; but, these were never meant to be used as an alternative power source, except in event of some major catastrophic event, such as an earthquake. The generators supply only 20-40% of a hospital's power needs, covering intensive care units and operating rooms—but no refrigeration for perishable items, such as medications and blood supplies, nor for surgical recovery rooms, among others.

Thus, the so-called free market is, in reality, a wrecking ball aimed at the nation's health-care infrastructure. Should this insanity spread to other states, they can expect the same horrific consequences.