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Bush-Cheney Energy Plan: Reliant Robbers Über Alles

by Marsha Freeman

On May 17, the Bush Administration released its National Energy Policy, centered on what is described as a "long-term" energy plan. The main feature of the report, promoting increased production of domestic oil, led House Minority Leader Rep. Dick Gephardt (D-Mo.) to remark that it "looks like an Exxon annual report."

The major criticism of the policy, from Democrats spearheaded by California Gov. Gray Davis, is that it is largely pay-back to the oil and gas cartels for their financial support of George W. Bush's election campaign (and his entire political career). Nowhere does the report provide remedy for the *actual* energy crisis that is threatening the health, safety, and economy of the United States—the destruction of a reliable, affordable supply of electricity, brought about by deregulation.

Two months ago, President Bush would not even mention California in public. Under political pressure from LaRouche Democrats, Congressmen and state legislators throughout the country, and organizations of senior citizens, low-income, and consumer groups, the third paragraph of the 163-page National Energy Policy bemoans the fact that California is facing blackouts, curtailed production, and higher prices.

But Vice President Dick Cheney, who oversaw the production of the administration's energy policy, insists that California's problems stem from a "flawed" deregulation plan, that "a fundamental imbalance between supply and demand defines our nation's energy crisis," and that the medicine is deregulation of the electric utility industry.

The corruption of the administration by Texas-based oil, gas, and electricity interests—such as Enron Corp. and Reliant Energy—is the centerpiece of the energy plan, giving billions of dollars of financial "incentives," subsidies, and new areas of exploitation to oil and gas companies, at prices consumers will not be able to afford. But the real scandal of the National Energy Policy is that, for the benefit of those same greedy oil and gas interests, it promotes the spread throughout the country of the very deregulation that is wrecking the state that produces one-sixth of our economic activity.

The Reliant Rip-Off

Where has "competition" led in California? There have been suspicions for the last year, that wholesale suppliers have not been "competing," but rather were "gaming the market," to drive up the spot market price, by lowering the output of a plant, or taking it offline. California has found itself suffering blackouts, because a record-setting one-third of its power plants were down for "maintenance."

The same day that Bush's National Energy Policy was released, California Gov. Gray Davis began to name the names of the companies that are bankrupting his state. Houston-based Reliant Energy (see profile in accompanying article), which sold electricity to the state that week at a mind-boggling $1,900 per megawatt-hour, was the only wholesale supplier to refuse to sell California electricity last Winter, when it was ordered to do so by then-Energy Secretary Bill Richardson.

Davis called Reliant "obstructionist," and warned that actions by Reliant and other generators this Summer will determine whether or not he signs a windfall profits tax, and seizes the electricity they produce, or the plants themselves. "I reserve the right to do what is in the state's best interest," he told the *Los Angeles Times*.

The following day, on May 18, in an interview with California newpapers, Public Utilities Commission head Loretta Lynch revealed that the PUC has uncovered strong evidence that power companies drove up the price of electricity by gaming the market, and that the state finally had sufficient evidence to go to court. "There are instances where plants could have produced, and they chose not to," Lynch told the *Times*.

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Pennsylvania State Rep. Harold James addresses a May 22 rally led by LaRouche forces, who descended on legislators in the state capitol in Harrisburg. Two days later, Enron, Reliant, and "marketers" failed to get the latest 30% rate increase they wanted.

Lynch said PUC investigators found that when state operators declared a Stage 1 alert (low reserves), plants not needing repairs were suddenly taken offline. This aggravated the shortages, causing the price to soar. Then, other plants owned by the same companies sold their electricity on the spot market, and made a killing.

On May 19, during a hearing by the California Senate, and under oath, Lynch displayed charts that tracked electricity prices and power generation at three different plants on a single day last November. In the middle of the day, for no apparent reason, the plants reduced their output of electricity, which created a "shortfall" in supplies, leading to a spike in prices. Once prices spiked, the three plants suddenly increased their electricity production to nearly full capacity, selling power at the higher rates. Lynch would not reveal which companies own those particular plants, due to pending lawsuits.

Smoking Gun Revealed

On May 20, the *San Francisco Chronicle* reported that its independent investigation revealed that Reliant Energy was a major manipulator of the California market. Operators of a Reliant-owned power plant told the *Chronicle,* on condition of anonymity, that last year they repeatedly received phone calls from the company's headquarters in Houston, instructing them to change the output at the 1,046 MW Etiwanda plant, sometimes at ten-minute intervals. Each time they decreased output, the plant employees watched on a computer as the spot market price rose. Then, the phone call would come from Houston to ramp production at the plant back up. (A May 2000 report by the California Energy Commission cited Reliant's plants, as some of the "major beneficiaries of high real-time pricing" last Spring.)

Ramping power plants up and down increases the wear and tear on the equipment. Plant operators told the *Chronicle* that the acceptable period for bringing the unit from minimum to maximum levels when the Etiwanda plant was owned by Southern California Edison, was about 80 minutes, to avoid stressing the machinery. By increasing the fatigue at the unit through rapid ramping of equipment, Reliant was increasing the likelihood that real shutdowns for maintenance would be required.

Besides ramping output to game the market, according to the Independent System Operator (ISO), the total shutdown of plants has been the primary means for driving up prices. The *Chronicle* found that Reliant had the largest amount of capacity shut down, when nearly 15,000 MW were out of service. During one shutdown, the ISO had explicitly asked Reliant to keep the unit online.

One plant operator reported to the *Chronicle* that on one occasion, Reliant ordered a unit at Etiwanda shut down because the ISO would not meet the price of $1,000 per MWh, while the legal price cap was $750. The company's response, according to this source, was, "It's our unit. Shut it off."

For months, the ISO has been warning that this Summer will bring rolling blackouts to California. According to the Summer 2001 assessment of the North American Electric Reliability Council (NERC), released on May 15, the situation in California will be considerably worse than the ISO has projected. The NERC calls many of the ISO's assumptions "overly optimistic."

- The ISO estimated a peak-demand shortfall this Summer of between 1,500-3,647 MW. The NERC believes the shortfall will be 4,500-5,500 MW. It takes 1,000 MW to ser-

vice about 1 million homes.

- The ISO estimates there could be 55 hours of blackouts this Summer. The NERC's *optimistic* number is 260, or 15 hours per week. The total could rise to 700 hours, under the worst conditions.
- The ISO projects that 43,841 MW of capacity will be available for peak demand this Summer. The NERC states that this does not include reduced supply "for financial reasons," if companies refuse to sell power, because of the state's credit problems, or withhold power for a higher price.
- The ISO's figures assume that 3,000 MW of new capacity will be available by the end of the Summer, compared to Gov. Davis' plan of 5,000 MW. The NERC can only certify that 1,500 MW will be available.
- The ISO assumes there will be only 2,500 MW of forced (unplanned) outages this Summer. The NERC estimates more than 4,500 MW of outages, judging by events this past Winter.
- The ISO assumes California will be able to import 3,500 MW of hydroelectric power this Summer from the Pacific Northwest, while the NERC believes it will be zero.

The Fight for the General Welfare

Deregulation has driven California's largest utility into bankruptcy, if not the state itself, because President Bush's friends have been able to hold the state hostage for the highest prices they could extract for energy. Vice President Cheney claimed that California brought this upon itself, by not building enough power plants, due to strict environmental regulations, and opposition from the population. This is a myth.

When deregulation started, through an order of the Federal Energy Regulatory Commission (FERC) in 1992, regulated utilities stopped building new power plants, not knowing what deregulation would bring. Economist Severin Borenstein points out that "uncertainty about the rules of the new market," meant that between 1994 and 1998, no applications for major new plants were received.

Political leaders in California have had enough of deregulation. On May 22, state legislators brought suit against the FERC, stating that electricity blackouts and price hikes are a threat to the "public health, safety, and welfare of the state's 34 million residents," which has been "put in jeopardy due to the tragic consequences of rolling blackouts and punitive prices."

The FERC, the suit states, has provided no relief. The public officials allege that the FERC's refusal to enforce "just and reasonable" rates has created "a crisis of unprecedented dimensions." Were the FERC to enforce "just and reasonable" rates, there would be no incentive for power pirates to withhold power to create an artificial shortgage, and hike spot market prices.

But while the Bush Administration and its energy industry cohorts may think they will be able to convince the nation to cut its own throat, the fight for re-regulation of the energy industry is gaining momentum.

California vs. Reliant

Beating the Bushes For Justice

by John Hoefle

When California Gov. Gray Davis (D) singled out Houston's Reliant Energy for "bleeding the state dry" through manipulation of electricity prices, he was stating a truth which should be obvious to anyone who views the catastrophe in California from the perspective of the General Welfare of the population.

To understand the nature of the beast that has seized California, one must look East, not just to Texas but beyond, to Wall Street and the City of London, the centers of the world energy and financial cartels. The savage looting of the U.S. population, of which California is merely the leading edge, is nothing new; poorer nations recognize the policy immediately. What is new, is that the global financial system has become so unstable, that the United States itself is now being subjected to the same sort of International Monetary Fund conditionalities long imposed on what is euphemistically called the Less-Developed Sector. The bubble is popping, and the oligarchs of Wall Street and beyond are visibly beginning to steal everything that isn't nailed down. Reliant—nasty, guilty Reliant—is an instrumentality of that theft.

Morgan Lighting & Power

The company known today as Reliant Energy was formed in 1882 as Houston Electric Lighting and Power by a group which included local bankers and Mayor William Baker. In 1901, the utility was absorbed by J.P. Morgan's General Electric, through its United Electric Securities subsidiary. By 1922, then known as Houston Lighting & Power (HL&P), the company was a subsidiary of Morgan's Electric Bond & Share, a General Electric spin-off.

At the time of the election of President Franklin D. Roosevelt, the U.S. electricity industry was dominated by two men, banker J.P. Morgan and his one-time employee, Samuel Insull, whose empires consisted of layers of holding companies with wildly inflated asset values. The electricity-price and financial-asset manipulations of Morgan and Insull contributed significantly to the 1929 stock market crash and its aftermath, and the passage of FDR's Public Utility Holding Company Act of 1935 (PUHCA), which was designed to end such abuses and bring Morgan, Insull, and their crowd to heel. One crucial feature of PUHCA was to break up the giant holding companies by prohibiting them from owning unconnected utilities in separate states. As a result of PUHCA, Morgan was forced to divest HL&P in 1942. The ownership of the company changed, but the Morgan influence remained.