EIR

ENERGY CRISIS UPDATE

Prepared March 15, 2001

Agenda for National Energy Emergency Action

Criminal Charges Against Energy Cartel

On March 2, U.S. Rep. Bob Filner (D-Calif.) wrote San Diego District Attorney Paul Pfingst, urging that criminal charges be brought against Duke Energy of Houston, Dynegy of Houston, Reliant of Houston, Southern Companies of Atlanta, and Williams Companies of Tulsa, for fraud, grand larceny, extortion, and anti-trust violations. Filner cites the findings by the Federal Energy Regulatory Commission (FERC) in November, that these firms charged excessive prices, and the California Independent Systems Operator report, that excessive prices were charged in January on more than two-thirds of all energy purchased.

Filner's letter also cites a report by San Diego's KGTV, that the Duke Energy plant manager admitted that its largest turbine was withdrawn from service 50% of the time during the recent Stage 3 alert in California, shutting down 222 megawatts of power, for no good reason. Duke also shut down its second-largest generator—and turned down its other generators as soon as the Stage 3 alert was declared.

It is not just that certain individual companies are culpable, but, as *EIR* has documented, the *system of deregulation* is undermining the entire economy, from energy to health care. If a reassertion of Constitutional authority over economic practices in the public interest (such as re-regulation of energy) is not made, we are facing economic dictatorship and chaos.

In Washington, D.C., 750,000 broadsides, titled "Depression Hits! LaRouche Vindicated, Asks Citizenry: Roosevelt or Hitler—Which Path Will You Choose?" were printed in mid-March by the multi-candidate political action committee FDR-PAC, which gave the how's and why's needed for energy re-regulation, in a subsection headlined "Stop Energy Privatization." The broadside also focussed on the fight to keep open D.C. General Hospital in the District of Columbia (see article in *National* section).

I. Scope of Energy Crisis: Physical Economy

The cumulative impact of five months of Winter energy bills (gas, propane, electricity), with prices for one or all types of fuel and power far higher than 18 months ago, is now triggering chain-reactions of economic and financial crisis. The illustration here shows a monthly gas bill (Western Pennsylvania) with "cost adjustment" energy rate hikes now familiar to almost everyone.

In Michigan, for example, bills may go up 100% on or after April 1.

In this situation, along with falling stock values, mass layoffs, and state budget crises, the many myths about deregulation are fast evaporating. Namely, that energy prices are soaring due to supply-and-demand imbalances; that California is a failure, but Pennsylvania is a "success"; and that mega-profits for energy cartel companies are just the result of "competitive market behavior." An update on Pennsylvania is given below; and also reported, are the refutations of other myths, by U.S. Rep. Peter DeFazio (D-Ore.), sponsor of a national power re-regulation bill, HR 264, from his March 6 testimony to Congress.

■ **Pennsylvania:** A proposal to raise electricity rates 30% for 1 million people in the state who are customers of GPU, Inc., is now before the Public Utility Commission (PUC). This would affect 20% of all the electricity accounts in Pennsylvania. The week of March 12-16 in Harrisburg, hearings were scheduled every day before the PUC for a decision 1) to allow GPU, based in Parsippany, New Jersey, to raise user rates for electricity by 30% (which would also affect 1 million people in New Jersey); and 2) to approve a proposed merger of FirstEnergy, based in Akron, Ohio, and GPU. The $4.5 billion mega-merger of these two Fortune 500 companies would create the sixth-largest investor-owned utility in the nation. The customers facing the 30% rate hike reside in different parts of the state, from Johnstown and Gettysburg, to Reading and Easton.

The Big Lie is fast vaporizing that Pennsylvania's energy deregulation is a "success." A leading opponent of deregu-

Columbia Gas of Pennsylvania

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Current Charges for Residential Service

Monthly Customer Charge		$10.81
Distribution Charges	123 Ccf at $.28185 per Ccf	$34.67
Distribution Charges	169 Ccf at $.28857 per Ccf	$48.76
Gas Cost Adjustment	123 Ccf at $.07719 per Ccf	$9.49
Gas Cost Adjustment	169 Ccf at $.07459 per Ccf	$12.61
Gas Supply Charges	123 Ccf at $.72615 per Ccf	$89.32
Gas Supply Charges	169 Ccf at $.52007 per Ccf	$87.89
State Tax Adjustment Surcharge		-$.24
Total Basic Charges		$293.31
Total Billing This Month		**$293.31**

The truth about Pennsylvania's deregulation "success": A typical gas bill from Western Pennsylvania for February 2001. The "cost adjustments" (circled) appear regularly, as prices rise under Federal gas deregulation. Instead of one charge (as in the old days of regulation), one must pay a "monthly charge," "distribution charges," "gas supply charges," and "tax adjustments," to several entities. Everyone is in on the take.

lation, State Rep. Camille "Bud" George (D), chairman of the House Energy Committee, said in a March 7 press release, "While defenders of deregulation cry foul whenever Pennsylvania is mentioned in the same sentence with the debacle in California, the fact is that GPU is claiming it is losing its shirt in the open market and needs rate powers to save it from its mistakes."

A member of Pennsylvania's PUC is Nora Mead Brownell, president of the National Association of Regulatory Utilities Commissioners, and outspokenly in favor of deregulation and the interests of the energy cartel. She was appointed by Gov. Tom Ridge (R), who backed deregulation to the hilt. Pennsylvania's deregulation law was enacted in late 1996 (after notorious stealth meetings), only four months after California's.

Earlier this year, the *Los Angeles Times* reported how an aide to then-Texas Gov. George W. Bush said that Bush interceded with Ridge, to be sure Enron Corp. got plenty of action as Pennsylvania's deregulation proceeded. So far, Pennsylvania has been a big "success" in this regard.

Earlier this year, an Enron company called New Power, which was formed in 2000 with IBM and AOL (and based in Purchase, New York), was handed more than 300,000 customer accounts in Pennsylvania. This came about under the state deregulation law, which requires pre-existing utility companies, in this case, PECO, to shed customers, in the name of creating more competition. A state computer made a random selection of PECO customers and reassigned them to New Power/Enron.

New Power is also on stand-by to gain hundreds of thousands of customers in Virginia, when the deregulation timetable (January 2002) will require Dominion-Virginia Power to surrender customers, to make things "more competitive." Gene Lockhart, president of New Power, told the *Washington Post,* "We're quite aggressive about Virginia, particularly the corridor going up Interstate 95 to the District," in the burgeoning Washington, D.C. suburbs.

Enron's New Power makes no power at all. It is a power marketer. Sources in the industry told *EIR* that the company doesn't even have its computer set up to send out bills yet, but Ridge's PUC is allowing New Power to help make things "competitive," by taking on thousands of new customer accounts. In exchange for these accounts, New Power promised to charge customers a lower rate (2% less) than at present—for a while. No wonder Enron calls Pennsylvania, "successful."

II. Scope of Energy Crisis: Financial

■ **California:** Non-payment of utility debts is hitting pension funds and municipalities nationally.

Across the country, pension funds, municipalities, and school districts are conducting an accounting of the money they are losing through debt defaults by California's two big, near-bankrupt utilities. Some of this paper was unsecured, short-term promissory notes, issued by the utilities in December, just before the worst of the electricity crisis hit. For example, a suburb of Phoenix, Arizona loaned $2.5 million, and has had to cancel public works projects.

In a review by the March 13 *New York Times,* many instances are noted. In March, Pacific Gas & Electric missed a payment of $50 million to the State Teachers Retirement System of Ohio, which manages and invests pensions for 180,000 teachers.

Another $26 million was not paid to the Tennessee consolidated Retirement Fund, which also holds paper from the utility's parent company. On Jan. 30, Edison International, the parent company of Southern California Edison, failed to make a $19.2 million payment on commercial paper held on behalf of the Denver International Airport. In Texas, 340 cities, counties, and school districts hold $20 million in PG&E commercial paper. When that news leaked out, investors pulled $1 billion out of the government financing pool, according to the *New York Times* review.

The California utilities are just the most prominent entities in default, or near-arrears, among the many companies with some $400 billion of nationwide utility debt, now fast turning bad, thanks to the out-of-control deregulation. Only a Chapter 11 bankruptcy process has the power, and public interest orientation, to bring back order and economic functioning.

III. Energy Infrastructure: Crises and Reactions

■ **California is on Stage 2 alert again,** as of March 15, for the first time in over a week, after the Bonneville Power Authority announced that it is cutting back on water releases to generate electricity, in order to build up hydro reserves for the Summer. This shows how at-the-edge California and the Northwestern states are for electricity supplies.

■ **Severe drought** continues in the Northwest, which, because of its high reliance on hydro-power generation, means serious electricity and financial problems, leveraged into a severe crises by deregulation. With just one month left in the snow-accumulation season, "We don't have a chance of recovery at all this year," in the estimation of Idaho's Ron Abramovich, the U.S. Natural Resources Conservation Service specialist, Gannett reported on March 13. Idaho Power Co. will pay fees to farmers, who agree to forfeit their pre-contracted electricity for irrigation systems.

IV. Policy Response: Federal Level

■ **Lines were clearly drawn for and against price-controls,** at March 15 Senate Energy Committee hearing. The hearing took testimony on three draft bills by U.S. Sens. Barbara Boxer (D-Calif.) and Dianne Feinstein (D-Calif.) for price controls, and windfall profits rebates. On one side were the Bush Administration free-market ideologues, Energy Secretary Spencer Abraham, and FERC head Curt Hebert; and, on the other side, Western leaders, including Senators and Governors, and even Republicans who want some Federal intervention against out-of-control energy prices.

Abraham pushed the supply-and-demand line in all respects: Electricity prices are high because of high demand; electricity shortages for California this Summer must be viewed as inevitable; and California's deregulation failed because it capped retail prices.

Senator Feinstein admonished him outright. "I am surprised by the ideological hardness of your statement," she said, in response to Abraham's adamant refusal to respond to the California crisis, rejecting out of hand any price controls or serious action against the cartels. She warned that with the 5,000 MW shortfall expected this Summer, the cartel will be charging $5,000 per megawatt. "You are sending a signal that it is okay to charge $5,000 per megawatt," she said.

Feinstein announced that she has agreement from Sen. Gordon Smith (R-Ore.), to support legislation for price controls, which they hope to attach to one of the energy bills. Smith warned that the Administration will pay the consequences if it refuses to act in this crisis. He said that his constituents don't want supply-and-demand economics lessons, in the crisis they are facing; and if the Administration is worried that price caps will inhibit investments, what about unemployment? That will affect investments more.

FERC Chairman Hebert lapsed into incoherence, followed by dead silence, as he had done at the House Energy hearing on Feb. 28, when Feinstein confronted him with a chart showing that demand had remained stable throughout a period of 400% price increases in electricity.

Also, Hebert's recent cosmetic actions of ordering certain cartel companies to pay rebates on excessive charges for California sales for parts of January, were generally treated by the Democrats with contempt. On March 14, Hebert said that FERC has ordered two companies selling power to California—Williams and AES Southland—to show why they should not refund $10.8 million to California utilities, for certain practices in 2000. Fellow FERC Commissioner William Massey (D) accused FERC of "ignoring the elephant in the living room" for giving such slaps on the wrist, while failing to directly confront the merchant wholesalers on the outrageous prices that are charged routinely.

The rumors continue that Hebert, appointed FERC chairman on Jan. 22, may be replaced by another Bush nominee.

DeFazio Blasts Dereg Myths

Representative DeFazio, backer of HR 264 to return the United States to the pre-1992 system of regulated utilities, and cost-based-plus pricing, made sharp attacks on the practices and lies of deregulation, in statements prepared for the March 6 House Energy Subcommittee hearing. In his testimony, he refuted the lie that increased demand causes prices to spike, and other falsehoods. Quoted below is his rejection of the lie that "price signals" would tell consumers to conserve, thus lowering prices.

DeFazio placed into the record of the hearing a paper with extensive historical references to the FDR period of regulation. (See http://www.house.gov/defazio.)

■ **Lie:** "It is common to hear the argument that California's deregulation experiment has gone awry because deregulation of the wholesale market was pursued," DeFazio said, while retail prices were capped for California consumers. "Therefore, consumers are protected [from] . . . getting proper price signals telling them to conserve in order to bring supply and demand into line."

■ **Refutation:** DeFazio said, "Given the essential nature of electricity, there is only so much consumers can do when getting a price signal. What's the difference between getting a 50% increase in your monthly electric bill versus a 350% increase? There is a limit to what consumers can do to conserve in the short term and invest in efficiency for the long term. One study found that if all costs were passed on to consumers as some of my colleagues are bizarrely advocating, 'the average residential monthly consumer, who paid approximately $55 a month before deregulation, would have paid approximately $600 a month when prices spiked in California this Winter.' I don't know about your district, but there aren't too many people in the 4th District of Oregon who could afford a $600 monthly 'price signal.' "

■ **DeFazio's proposals:** Conclusions of March 6 statement: "If Congress is not ready to admit energy deregulation was a mistake, there are other short-term and long-term steps that can be taken to mitigate the unfolding disaster." In brief, he called for: 1) imposing temporary electricity price caps in the West; 2) expanding Federal investment in "renewable" energy; 3) conserving; 4) reinstating a ban on Alaskan oil exports—see HR 660; 5) assisting poor households; 6) imposing a windfall profits tax on energy companies whose rates are found not to be "just and reasonable." Also, "Congress should create incentives and/or remove barriers to promote public and municipal power." Los Angeles is cited as a good example.

V. Policy Response: State and Local Initiatives

■ **Nevada:** On March 2, Sen. Joe Neal (D-Las Vegas) introduced SB 269, which would repeal all deregulation measures since the process began in 1997, and restore the state to its prior, regulated energy situation. Senator Neal is ready to present testimony at state hearings, on why this, and Federal re-regulation, are necessities.

■ **Montana:** State Sen. Ken Toole (D) plans to introduce two bills in the direction of restoring state authority over out-of-control energy supplies and prices. First, a bill to set up a state power authority; and second, to place a referendum on the ballot for 2002, asking voters to approve state takeover of hydro-plants inside Montana, to provide energy security. The plants were formerly owned and operated by Montana Power Co., which, deregulation orders, sold them off to PP&L, based in Pennsylvania. Toole proposes that the dams could be "condemned" by state authority, then acquired by the state. He proposes long-term state bonds for funding. If the legislature won't put the buy-the-dams proposition on the ballot, Toole proposes a petition drive. Despite Republican ideological opposition to this, House Speaker Dan McGee (R-Laurel) told the March 13 *Great Falls Tribune,* "Absent an industry solution to our energy crisis, this Legislature will keep all possible solutions on the table. We must attend to the concerns of the citizens of Montana." Mines and other operations are shutting down in the state under impossible electric rates; agriculture is a disaster.

■ **Pennsylvania:** With the request before the PUC, by GPU, for a 30% electricity rate hike, and for approval of a merger with FirstEnergy Corp., State Rep. Camille George (D-Clearfield/Centre Counties), the chairman of the House Environmental Resources and Energy Committee, has been speaking out against deregulation. He was one of 28 state representatives to vote against the scheme in 1996. He makes the point that the 1996 law pledged a nine-year rate freeze, now proposed to be broken. "Didn't deregulation promoters promise ratepayers in California and Pennsylvania that competition would flourish under deregulation, leading to lower prices? Well, one could go with the flow—all dead fish swim downstream—and believe the hoax that deregulation guarantees competition and lower prices. However, an honest appraisal of deregulation might save Pennsylvania from the deregulation abyss."

In his March 7 statement, George said, "Deregulation of the electric industry has not lived up to its promise of lower prices for most Pennsylvanians. . . . Where is the electric choice, the robust retail competition that was supposed to bring lower prices? . . . The merger, by law, must be in the public interest. Yet, FirstEnergy already has notified the PUC that it believes the rate cap must be broken and that employees will be furloughed, if and when the merger is approved. The public interest hardly seems served by higher rates and furloughed workers." George's statements are on www.pahouse.net/george.

VI. Considerations for Re-Regulation: National Energy-Management and Reconstruction

In mid-March, the third printing of "On the Energy Crisis," a pamphlet put out by Lyndon LaRouche's Presidential campaign committee, LaRouche in 2004, brought the total press run in five weeks to 600,000 copies. They are circulating in conjunction with an organizing drive in state capitals, and among constituency groups around the nation, intersecting hearings, town meetings, and other sessions grappling with the energy crisis and economic collapse (see www.larouchein2004.com).