EIR
ENERGY CRISIS UPDATE

Prepared May 31, 2001

Agenda for National Energy Emergency Action

I. Senate Changeover June 5

With the new Democratic Senate Majority, the Senate Energy Committee Chairman will be Jeff Bingaman (D-N.M.), replacing Alaska Sen. Frank Murkowski. Before taking chairmanship June 5, Bingaman announced he would give an energy briefing in Washington at the Energy Newsmakers Breakfast (sponsored by *Energy Daily*).

Sen. Carl Levin (D-Mich.), the incoming head of the Senate Permanent Subcommittee on Investigations, announced before taking over the Committee, that he will investigate whether recent oil industry mergers have lessened competition, and led to gasoline price hikes. He has already asked the General Accounting Office, a Congressional investigating arm, to undertake an independent probe. Recent mergers combined Exxon and Mobil Corp., Chevron and Texaco, British Petroleum and Amoco; and Tosco Corp. is about to merge with Phillips Petroleum Co. *EIR*'s analysis on the mergers' relationship to higher gas prices has circulated widely in Washington.

Senator Levin said, "The oil companies need to explain why gas prices have increased so dramatically, given that there has been no comparable increase in the per-barrel cost of oil to them."

What about Enron? On May 25, California Sen. Dianne Feinstein (D) contacted Levin to ask for hearings specifically on the new charges made in the May 25 *New York Times* by Federal Energy Regulatory Commission (FERC) Chairman Curt Hebert, that Enron—a Bush family corporate backer—is the controller of White House energy policy (see p. 8).

With the increasing disgust at the blatant mega-profiteering of Bush energy cartel companies, such as Enron, Reliant, and El Paso, and with state legislatures backing away from energy deregulation, there is now opportunity to force the issue in Congress of *re-regulating* energy.

The months-long LaRouche mass organizing drive of state capital "Lobbying Days," emergency town meetings, and campus mobilizations, is creating tremendous political heat, and citizen leadership. After 600,000 copies of "LaRouche on the California Energy Crisis" were circulated during February through April, in May, a new 24-page pamphlet, "Join LaRouche's Battle for The Common Good," has been released (www.larouchein2004.com).

II. Federal Cost-Based Pricing

On May 26, Rep. Jay Inslee (D-Wash.) announced that he would file a petition for action by the House Energy Subcommittee on June 5, to discharge his pending bill for energy pricing based on cost of production (plus a fair profit).

The Energy Subcommittee is still chaired by Joe Barton (R-Tex.), and still has before it the May 1 "Barton Bill," the infamous "Electricity Emergency Relief Act" (better known as the Emergency Rule Act). That draft law, H.R. 1647, orders the Federal Emergency Management Agency (REMA) to be ready for blackout emergencies, and otherwise would grant sweeping powers of Federal eminent domain to FERC, for infrastructure siting giveaways to private power cartel companies.

But the Barton Bill is fast becoming a political liability. Technically it is in mark-up stage, but back it, and you may find yourself out of office come 2002.

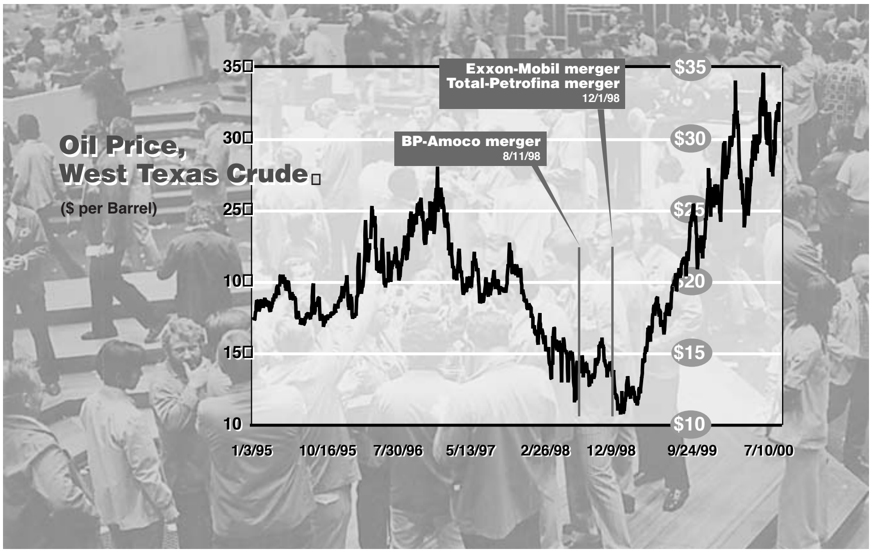
Inslee's bill, the "Energy Price and Economic and Stability Act of 2001" (H.R. 1468), instructs FERC to implement short-term cost-of-service-based energy rates. There are counterpart bills in the Senate. Senators Feinstein and Gordon Smith (R-Ore.) have a bill to cap wholesale power prices for a specified period of time.

California

As of early June, the situation in the state is critical. On May 30, a Stage 2 Electric Emergency was called in the afternoon, when electricity reserves fell below 5%. On the financial side, there is no way that the timing, terms, and amount of the state's prospective bond issuance can meet the out-of-control wholesale electricity prices. The circumstances for resorting to using the state's new Power Authority, to take over and run generating plants, seems more "practical" by the hour. This contingency has been pointedly mentioned by Gov. Gray Davis (D), who otherwise is activating lawsuits.

After meeting with President Bush on May 22, Davis said that California is prepared to sue FERC to compel it to fulfill its mandated role in controlling wholesale power prices. Days earlier, Davis denounced the FERC plan, due to go into effect June 1, for only nominally addressing wholesale prices.

On May 25, three California state agencies made legal filings, calling on FERC to reconsider its position, and to impose tough price curbs during power emergencies. The filings singled out AES Corp.



The graphic shown is from an EIR *cover in September 2000. The same graphic was featured in an FDR-PAC education packet in wide use since Fall 2000.*

and Williams Co., Inc., demanding that FERC revoke the authority of these firms to charge market-based rates, on the grounds that the record shows that these companies unlawfully profited from California's energy crisis.

The state is asking that "cost-based" rates, with a percentage of reasonable profit added on, be the basis for pricing, not market-based pricing. The three state agencies making the filings were the Public Utilities Commission, the Independent System Operator, and the Electricity Oversight Board.

A civil suit is being readied for filing by California officials, in the U.S. Ninth District Court of Appeals in San Francisco, against FERC, for endangering 34 million people with electricity blackouts and price hikes, under Bush policy direction. California Attorney General Bill Lockyer hopes for criminal charges.

California Reps. Henry Waxman, Anna Eshoo, and other California Democrats spoke to reporters on Capitol Hill on May 25, with renewed calls for Federal pricing regulation. "We are calling on the President to either instruct FERC to put these limits on prices in place, or endorse the [price cap] legislation that all of us are backing," Waxman said.

III. The General Welfare

The international LaRouche movement is conducting an expanding educational drive to make known the American Constitutional concept of the "General Welfare" as a guiding principle for emergency policies, such as controlling runaway energy prices, and restoring electricity reliability. Under this concept, temporary price caps, cost-based, plus-a-fair-profit pricing, and selective Chapter 11 bankruptcy actions, can be used as required.

As late as February, energy was not even an "issue" for the Democratic National Committee. At that time, the DNC website listed 59 issues, and did not even include "energy" in that category! Nor did the word "energy" appear, even in passing.

How far the tide had turned, is shown by the flak given to House Minority Leader Richard Gephardt (D-Mo.) at a closed-door House Democratic Caucus meeting in mid-May, for Gephardt's wishy-washy Democratic energy plan, released May 15, in opposition to the May 17 Bush-Cheney National Energy Policy. The Gephardt statement, released with great fanfare at a Washington, D.C. Exxon station, was specifically weak on energy price controls.

IV. Cartel Counter-Offensive

The effectiveness of the LaRouche mobilization for energy re-regulation is shown by the scale of counter-effort from the Bush League energy cartel. In late April, a new 400-member corporate coalition was formed of energy cartel associates, to propagandize for the Cheney National Energy Program. The approach was described in a May 21 secret memorandum quoted by the *Washington Post* (May 30), written by lobbyist Wayne Vallis. "In my opinion, $5,000 is a very low price to join," Vallis said. "To join the coalition, you must agree to support the Bush energy proposal in its entirety, and not to lobby for changes to the bill. Should the bill change, you must support the changes in the legislation or drop out of the coalition. If you are caught attempting to lobby behind the back of the White House, you will be expelled from the coalition. I have been advised that this White House 'will have a long memory.' " Vallis expressed still deeper political concerns: "The White House recognizes that Bush's whole administration hinges on how he does out of the chute with his energy bill. If the President fails or is perceived to fail on this test, he will immediately become a weak President, jeopardizing both the 2002 and 2004 elections."

One hundred and one U.S. independent oil refiners, oilfield companies, and refiner/marketers reported a net income of $2.96 billion in the first quarter of 2001, a 214% increase over their $942 million net income in the first quarter of 2000, according to the Department of Energy's Energy Information Administration on May 29. Leading the pack were the 50 independent oil and gas producers, with a 282% increase in net income, followed by a 166% increase for the 45 oilfield companies, and a 96% increase for the six refiners. The price of natural gas at the wellhead rose 177% over the period, and the price of oil for refiners fell 8.5%, helping the refiners to post a 52% increase in gross refining margin per barrel of oil.