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FERC Will Not Budge on 'Market-Based' Rates

After months of intense political pressure from the California Congressional delegation, LaRouche Democrats, and Republican representatives worried about their re-election chances, on June 18 the Federal Energy Regulatory Commission (FERC) in Washington promulgated an order it claims will mitigate outrageous electricity prices in the West.

The purpose of the order was not to restore critical electricity infrastructure to government regulation, in order to protect the general welfare of citizens. It was, in FERC's words, designed to "provide breathing room for the markets to right themselves," to "stabilize the market in the short-term and permit California time to repair its market mechanisms."

The order includes the following features:

• A benchmark price, or ceiling, for the price of spot market power that can be sold to the state's Independent System Operator (ISO) in a declared emergency, will be set by the price of the most expensive power bid into the ISO's auction during the previous emergency.

This will provide windfall profits for companies whose modern facilities produce power substantially below the set price.

• The price limit will extend to the spot markets of the other ten states in the Western States Coordinating Council during a California emergency, to discourage companies from shopping around for the highest selling price.

This could cause severe disruptions in the price and availability of power in the Northwest, where demand peaks in the Winter, not the Summer, because the price is pegged to California's conditions.

• The ceiling for power during non-emergencies, for all 11 states, will be 85% of the benchmark, highest-cost price.

When there is no shortage, and companies are only running their most efficient and lowest-cost units, setting the price at 85% of the most expensive power will add to the windfall profits.

• The benchmark price will be in force 24 hours a day, not just in emergencies.

While this might curb the incentive for wholesale suppliers to "game" the market and drive up prices even when there is no emergency, it also prevents the price from ever going significantly below the cost of the most expensive power.

• Power generators may sell electricity to the ISO above the "mitigated" set price, but must justify the increase to FERC.

For one year, FERC has had complaints of overcharging from California utilities, the Public Utility Commission, the ISO, and other state officials. Documentation has been presented which shows that there has been more than $6 billion in overcharges by power pirates. FERC states that its investigations have found less than $200 million in overcharges, and not one penny of refunds has been made to the state.

• Public as well as non-public utilities and generators in California must sell excess power into the ISO spot market when it is needed.

There is no enforcement mechanism included in the order, and firms that have been under a must-provide order from the ISO, have found ways to game the market to drive up the price, by simply claiming that units were down for maintenance.—*Marsha Freeman*

EIR Testifies

EIR submitted testimony to the Senate Energy Committee for the June 19 hearing, which placed the California energy crisis in the context of the ongoing breakdown of the financial system. As the system blows, after 30 years of unprecedented speculation, the cartel arms of the financial community are grabbing everything they can get to boost financial profits, which includes the gouging of California by the Enrons, Reliants, etc.

The testimony described the required policy response to the crisis, which goes beyond defensive attempts, such as those led by the Congressional Democrats, to curb the power of the cartels. Overall re-regulation is required—including breaking the power of the energy cartels—to stem the economic and financial collapse. A New Bretton Woods financial system, including bankruptcy reorganization, is required, as a collaborative effort among nations. This action must be taken to write off the world's $300-600 trillion in unpayable debt burden, which the gougers are attempting to get paid.

The testimony concluded with a survey of the nation-serving infrastructure approach, including the approach to energy infrastructure—which many nations are now adopting—required to achieve an economic recovery. The Democratic Party's history in supporting this approach as recently as the 1996 Kennedy-Daschle-Bingaman Report, on the government's responsibility for building infrastructure, was also highlighted.

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