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EIR
ENERGY CRISIS UPDATE

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Agenda for National Energy Emergency Action

I. Blackouts, Price Chaos Hit Southwest States—National Re-Regulation Needed

On July 2, for the first time in its history, southern Nevada suffered rolling blackouts, affecting 10,000 users for about an hour. Blackouts also struck Arizona in early July. These incidents resulted directly from the chaotic electricity "market" and distribution conditions in the West, which guarantee the likelihood of outages. The Southwestern blackouts occurred notwithstanding the new, limited controls on wholesale electric prices that the Federal Energy Regulatory Commission (FERC) was forced, by political pressure, to make in June for ten Western states. FERC's limited actions are part of the problem, not the solution. The vulnerability for electric failure, and price chaos, show dramatically the need for a return to *national energy regulation,* as proposed by Lyndon LaRouche's Presidential campaign.

On July 10, a leader of the drive for re-regulation of energy, Nevada State Sen. Joe Neal (D-Las Vegas) reiterated that "anything short of national re-regulation of energy won't work." He was speaking of what led up to the first-ever electric blackouts in his state this month, and, in particular, of the behavior of the marketer/generator energy companies.

On July 2, temperatures hit over 100° in a regional heat wave, and demand hit a new record. Nevada Power would have had enough electricity to meet demand, but for two plants operated by Southern California Edison, which held back power, because of confusion over how much they could charge for it. Under the new FERC rules enacted in June, the regional benchmark price can change when California declares a Stage 1 emergency, which it did on July 2. So, confusion and blackouts ensued.

What happened, was that out-of-state generators, using "price confusion" as an excuse, pulled about 1,500 MW of electricity off the market, forcing the California Independent System Operator to declare a Stage 2 emergency. Officials said they called FERC's hotline to find out what the new price should be, and they got no answer! Reached at home that night, the Commission officials said they would figure it out during the day—July 3.

As it turned out, California was not in a power emergency long enough to change the benchmark price, which was set at \$92 per MW-hour, plus a 10% credit charge for California. But industry observers predict that the suppliers will repeat this "confusion" scenario when there is an emergency declared again, potentially triggering a new price cap, and risking outages.

II. Refunds for California? Don't Expect To Make a Deal with the Houston Cartel

On July 10, after two weeks, negotiations conducted by FERC broke down, between the energy cartel companies and the state of California, over how much companies would refund for their having overcharged the state for electricity in past months. On July 10, California Gov. Gray Davis (D) held a press conference to announce that he is holding out for multibillions in refunds, and will sue if necessary. His beginning negotiating figure was in the range of \$8.9 billion; the FERC judge spoke of \$3.5 billion; and the companies talked merely a few hundred millions. There was no resolution.

The legal recourse Davis suggests, simply dramatizes the political reality that a citizens' mobilization is required to force the issue of returning the nation to a re-regulated energy supply overall, with reasonable prices—retail, wholesale, and for costs of production. There's no way to think you can have a "deal" with the current deregulated energy company crowd—not over refunds, supplies, nor any other basic. Especially recalcitrant has been the "Houston Cartel"—Reliant, Enron, Dynegy, El Paso, and other Texas based big-name marketers, generators, and gas suppliers.

The second-quarter revenue figures of the energy companies reflect the hyper-profiteering that was the intention of energy deregulation in the first place. On July 12, Enron reported a 40% increase in Q2

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earnings, over Q2 2000, on revenues of $50 billion.

Enron, the largest contributor to the Bush I and II political campaigns, on July 11 filed a lawsuit against the California Senate Committee investigating energy market manipulation, charging that the state has no authority to demand documents. Enron's representative in Sacramento personally told this to the committee, which then voted 6-0 to hold Enron in contempt.

III. Energy Hyperinflation Slams Economy

■ Rises in electric rates, natural gas bills, and other energy costs, are causing havoc cross-country. Mid-America Energy (Warren Buffett) just increased retail electric rates 10% in Iowa.

In California, home to almost 19,000 farms and 640,000 small businesses, natural gas prices rose more than tenfold over the last year, and electricity rates, just recently increased, will add at least 20% to each customer's bill. A *USA Today* survey reports that 26% of the small firms in California plan to raise their prices this year. Shockwaves are hitting agriculture in the state. For example, it cost $150 a ton for natural gas to dry plums for prunes in 2000, but $275 this year. Many farmers are destroying their crops, to cut losses.

Nationally, planting of spring wheat this year went way down. Idaho has the lowest acreage in ten years. Idaho Power Co. raised rates 31% for irrigators this year. This pattern is typical.

■ Cutoffs of residential electricity and natural gas are proceeding at unprecedented rates, after the pile-up of months of hyperinflated bills. Nationally, as of May, there were an estimated 4.3 million families (7-10 million persons) facing energy bill arrearages totalling almost $910 million, in 19 states and the District of Columbia, according to the National Energy Assistance Directors Association.

In the Pittsburgh area, Columbia Gas of Pennsylvania reports shutting off service to 3,065 customers through May, up 15% over all of those terminated during 2000. In Rhode Island, there were twice as many cutoffs this year, as of May, than the same time last year—3,969 now, compared to 2,107 then—despite a 65% increase in heating aid this year. In Baltimore, the number of shutoffs this year is approximately 15,000.

■ Energy costs are busting school budgets. According to the *American School and University* trade journal, many school districts face up to 70% higher electricity and gas bills since January, than they had anticipated, e.g., Nashville, Tennessee, and Madison, Wisconsin. The Oregon *Statesman Journal* ran a survey of school crises, estimating that schools had budgetted for some $7.8 billion for the 2000-01 school year, but many were out of money as of mid-year. Planners are now facing huge cuts in programs and staff.

IV. Energy 'Shopping' Is Flopping

As the rip-off nature of energy deregulation is becoming more obvious, suspected even by non-thinking consumers, the many state "choice" programs are bombing out.

The deregulation pitch is: You are supposed to shop around for a new, cheaper, supplier. But consumers are rejecting "choice." In Massachusetts, as of April, the new (pirate) energy firms have a mere 2,801 customers (0.11% of all customers)—the lowest number since deregulation went into effect there in April 1999. In Washington, D.C., after six months of deregulation, a mere 16 of the District's 200,000 residences had switched to new suppliers; and only 1,733 of the District's 27,126 companies.

In Pennsylvania, supposedly a dereg "success," the new pirate suppliers serve about 591,596 customers in the state (11%), but that number includes 223,747 customers who were arbitrarily removed from PECO, and awarded to Enron's New Power Co. If this number of people who *involuntarily* "chose" New Power are subtracted, then only 7% of the customer base in the state has chosen to try a new supplier.

V. White House Tries To Keep Up Appearances on Energy Policy

As of mid-July, the White House was scheduling a frenzy of political activities to create an aura of concern over energy. On Capitol Hill, there is an attempt for legislative initiatives this month, based on the May 17 Bush/Cheney "National Energy Program," whose guiding principle is: hands off those scalper prices. Timed with this, is a public relations drive involving energy events for Cheney to address, along with cabinet-level spokesmen, and certain Congressmen.

In Pennsylvania—politically a swing state—Cheney is to speak to a town meeting in the Pittsburgh area on July 16, set for early evening to grab TV time. Other "town hall meetings" are being scheduled around the country the same week. Media sources report that Bush himself will be kept out of the energy discussion.

The White House communications staff is saying the purpose of the blitz is to get their "story" out. But it's their "story"—the story of how the cartel companies want unlimited rights to set rates, to drill, to own transmission lines, to profiteer, etc.—that's causing the political uproar in the first place.