which he told them they would have to save the state—and the nation—from Enron and the energy deregulation catastrophe. The speech became a mass campaign pamphlet by early February, then a second *Defend the General Welfare* pamphlet. Both were massively distributed while the youth and leading LaRouche representatives began to hit Sacramento, amid power blackouts and incredible electricity price spikes. LaRouche made his famous "put the toothpaste back in the tube" speech on re-regulation in late February (see below); the youth movement accelerated its mobilization West Coast-wide.

By late April, LaRouche West Coast leaders had lengthy meetings with California government advisers, and on May 1, a large campaign-sponsored Los Angeles town meeting broke testimony from an electrical workers' union leader on deliberate withholding of available power by the energy pirate companies.

Between May 3 and mid-May, actions were taken by the California governor's office, the legislature, and the state Attorney General's office against Enron, Reliant, et al., including testimony from the Governor's representative in Washington, D.C. which charted the energy company's criminal frauds and "gaming of the market." The first actions by state and even Federal regulators followed. By the end of May, there was a dramatic and sudden drop in the wholesale price of energy in California, by an order of magnitude almost overnight. Simultaneously began the plunge of Enron Co. stock from $60-80 a share, down to zero in November, and the bankruptcy of the company which LaRouche had called for in January.

Let LaRouche Speak

The lesson learned that truth, courage, and ideas can move governmental power for the general good in a crisis, spurred 18 months more of recruitment and aggressive mobilization by the youth movement, which spread nationally.

Characteristically, lawmakers and aides try to bring discussions of the financial and economic crisis down to the level of the "practical." But when the young organizers insist on the principle of the general welfare—one group told a Pennsylvania legislator, "We're starting with the Preamble to the Constitution! People died in the American Revolution to get the general welfare principle"—the message often gets through. Amid the panic characterizing the emergency budget sessions, most legislators are impressed by the new reality: "LaRouche has a real *youth* movement—that's good!" as one Virginia delegate put it, and extended a "two-minute" meeting into a much longer one. Just the young LaRouche activists' boldness and command of the situation can result—as in Michigan on Jan. 14—in meetings with the Governor, Lieutenant Governor, several leading members of the House and Senate, and Black Caucus leaders. A major objective, is invitations to the Presidential candidate himself to address state legislative sessions on the crisis.

California Reverses Electric Deregulation!

by Marsha Freeman

California's Public Utilities Commission (PUC) voted 5-0 on Jan. 16 to close the book on the state's disastrous "experiment" of deregulating its electric utility industry, which began in April 1994. Nine years ago, the Commission, then including none of its current members, promulgated an order that consumers should have a "choice" of electricity suppliers, supposedly to lower prices through competition. The "re-regulation" vote is an economic paradigm-shift with national importance and impact.

The California legislature, suckered by promises from Enron that electric rates in California would fall by as much as 50% under "competition," had voted unanimously in 1996 to end the nearly century-old regulatory compact between privately-owned utility companies and the citizens of the state, which had been implemented by the state Railroad Commission in 1912. Reliable, regulated energy had enabled California to attain one of the highest economic growth rates in the nation. Instead, the lifeblood of its economy was handed over to the "magic of the marketplace."

The results are known worldwide. Citizens and businesses suffered through 38 days of blackouts and service interruptions in 2000 and 2001. Prices skyrocketed, driving the largest utility in the state, Pacific Gas & Electric, into bankruptcy. A study released on Jan. 15 by the Public Policy Institute of California estimates that the energy crisis cost the state as much as *$45 billion* in higher electricity costs, lost business, and slower economic growth. The state's utilities were downgraded to "junk" rating by Wall Street credit agencies and are unable to raise capital to build new capacity. And the state budget is in the hole for nearly $10 billion, simply stolen by "new economy" magicians who made California's energy supply nearly disappear.

While the crisis unfolded in Winter 2000-01, Lyndon LaRouche's campaign mobilized nationwide around his call for the total re-regulation of California's utility industry and the bankrupting of Enron and the other "energy pirates." Pushed by that mobilization, Gov. Gray Davis (D), the legislature, and the Commission began in May 2001 to take steps to reverse deregulation: shutting down the speculation-based state spot market; entering into long-term, fixed-price contracts with suppliers; and reasserting the responsibility of the state to protect the welfare of the population. As to re-regulation, LaRouche's representatives were told, "You can't put the toothpaste back in the tube."

That is now being done, in California, and in other states.

'An Expensive Public Policy Mistake'

At the Jan. 16 PUC meeting, Commissioner Carl Wood described California's experience with electricity deregulation as "a disaster for ratepayers, utilities, and their employees." It is appropriate for the Commission to close its proceedings on deregulation, Wood stated, because "no amount of tinkering with market design can fix the problem. It is inherent in any market system for electric generation."

This "most expensive public policy mistake in the history of California," he stated, was the result of the earlier Commission's "almost religious belief in market forces, rather than regulation." The experiment cost Californians $20 billion more for power in each of 2000 and 2001, above the cost of 1999, he reported.

Commissioner Wood also scolded policymakers, saying that what happened "was not only predictable, it was predicted." Between 1994, when the first deregulation steps were taken, and 1999, when he was appointed to the PUC, Carl Wood was the Secretary of the Coalition of California Utility Employees (CUE), which had been formed to try to protect utility workers from the coming onslaught of deregulation.

As the unions had expected, Wood said at the meeting, "deregulation stripped the utilities and their customers of a valuable asset—thousands of the most experienced employees." Workforce levels were reduced by an average of 35%, he reported, as utilities were forced to sell their generating capacity to out-of-state power conglomerates, interested only in making money, not in the integrity of the electricity grid system. Overall, the "blind faith in the market caused a previously unheard of degradation in reliability," Wood stated. This was due, in part, to the dramatic reduction in maintenance staff, which increased plant outages. It was also the result of the merchant generators making decisions to run the plants only when they could get the best price for the power, regardless of when the power was needed.

'Fundamental Problem Is the Market Itself'

A study released in September 2002 by the PUC documented in exacting, hour-by-hour and plant-by-plant detail, that the state's five largest independent generators—Duke, Mirant, Dynegy, Reliant, and AES-Williams—held back electricity to create an artificial shortage and higher prices, causing 38 blackouts and service interruptions, between November 2000 and May 2001. The PUC report outlines California's new steps to monitor power plant outages, and to penalize companies that do not produce electricity when needed, in order to ensure reliability. It also lists the enforcement steps that must be taken by the Federal Energy Regulatory Commission (FERC) in Washington; FERC has usurped regulatory power of the states by executive *fiat,* through "rulemaking."

After the California Public Utilities Commission promulgated its first deregulation rules on April 20, 1994, Carl Wood's Coalition of California Utility Employees (CUE) submitted comments to the Commission that June 8. Commissioner Wood, at the Jan. 16, 2003 Commission meeting, summarized CUE's opposition to deregulation back then. Even without anticipating the super-manipulation of the market by schemes like "Death Star" exposed in Enron's collapse, CUE warned that the Commission's deregulation order "does not consider other, universally accepted, features of competitive markets." One of those is the "disequilibrium" caused by relying on "supply and demand," in an industry where meeting demand requires up to a decade of lead time to put new capacity on line.

"Although poorly designed market rules or the exercise of market power may have exacerbated the impacts of a tight supply," Wood stated at the meeting, "the fundamental problem is inherent in the market itself. If subject to only market forces, electric generation will exhibit boom and bust cycles."

If demand outstripped supply, the only way new capacity would be built would be if prices rose, as an incentive for the "market." Reliability would suffer until the "disequilibrium" were corrected. Such catch-up could take years. If there were to be an "oversupply," the idling of plants and layoff of workers would jeopardize the future of the grid system. Wood stated that not only the union coalition, but other economists, had predicted what California has experienced over the last three years, but the Commission "blindly ignored" such warnings, "in favor of a naive and simplistic belief in 'competition.' "

The 1920s history of the electric utility industry proved that the "market" would simply be a vehicle for the large-scale speculation and looting of the financial and physical infrastructure of the industry without regulation; it had been eliminated with the reforms of the 1930s, under President Franklin Roosevelt.

California is still waging a fight to recoup the nearly $9 billion looted from its citizens by the energy conglomerates; to renegotiate the long-term contracts that are set at considerably higher prices than the going rate for electricity; to jail those responsible for the crisis; and to force Federal regulators to re-regulate, as they themselves are. And California is not alone in this paradigm-shift. Numerous states have put deregulation on hold, and others have decided not to even give it a try. Now, some states are talking about a roll-back from deregulation: "putting the toothpaste back in the tube."

An Anti-Deregulation Bandwagon

Learning from the California debacle, Arkansas, New Mexico, Oklahoma, and West Virginia, which had passed deregulation laws, have delayed implementing them. Eighteen states have dropped consideration of such legislation, and eight are still studying the issue.

On Jan. 12, the *Orlando Sentinel* carried a headline, "Florida Deregulation Up in Smoke, Power Companies Move On." Writer Christopher Boyd reported that regardless of how hard Gov. Jeb Bush pushed, "a year after the movement to reshape Florida's electricity market collapsed," those who "want to trade kilowatts like pork bellies concede it won't happen anytime soon." Boyd quotes Florida Power & Light spokesman Bill Swank: "We have rates that are below the national average, and reserve margins of electricity, which is the result of the Florida regulatory climate."

Other states, that have already started down the slippery slope, are considering how they can turn back. At the end of 2002, the Virginia State Corporation Commission (SCC) released a 32-page report on electric competition, noting that going ahead with the next stages of deregulation means turning over what regulatory authority remains, to the Federal authorities at FERC—which sat through 2001 doing nothing while California went bankrupt. The SCC states that "retail competition is not successful in most areas of the nation." In California, it resulted in "severely damaging the economy. . . . Ultimately, California abandoned its retail choice and has moved back toward more traditional regulation."

The SCC is concerned about FERC's current drive to conglomerate utility transmission systems and wholesale power markets into Regional Transmission Organizations (RTOs), which FERC would "regulate." The SCC warns that "investigations centered upon the California and Midwest crises and the collapse of Enron have revealed abuses, improper trading, and misleading reporting practices of a number of energy companies." The Commission recommends that Virginia's utilities stay out of the RTOs.

In Ohio, the Consumer Counsel, in his annual report on the state's electric market, warned on Jan. 9 that residents could face "volatile electric rates" next year, when power is fully deregulated. After a three-year transition, the utilities can start charging "market prices" for power, beginning on Jan. 1, 2004. Dayton Power and Light Company is trying to have the regulatory commission scrap the current plan, and extend the current rate freeze for another two years, to keep rates down and preserve the financial health of the industry through reasonable, guaranteed rates-of-return.

On Jan. 19, the *Connecticut Post* reported that "Connecticut's new competitive energy market is a mess." Consumers will be thrown into the "free market" in less than a year, but residential suppliers are "all but non-existent." There is fear that "residential electric bills will skyrocket once the state fully converts to a deregulated market."

But not everyone has yet learned to take the re-regulation advice of Lyndon LaRouche. Connecticut State Rep. Terry Baker (D-Stamford) said that the state had invested millions of dollars in deregulation. "You can't turn a pickle back into a cucumber," was Baker's new saw. LaRouche has proved you *can* put the toothpaste back in the tube, and deregulation into the trash can.

LaRouche in 2001

Put the Toothpaste Back in the Tube!

In two webcast speeches on Feb. 18 and 19, 2001, Presidential pre-candidate Lyndon LaRouche addressed the mobilization he had started the previous month with a mass campaign pamphlet demanding re-regulation in the California electricity crisis. When many young LaRouche organizers put pressure on California legislators, the officials all began parrotting the same "talking point" they had been given to resist the pressure of the truth. "You can't put the toothpaste back in the tube" (i.e., reverse deregulation), they told the LaRouche forces. LaRouche responded, and his campaign escalated. By May, changes in California and Washington were sealing Enron's fate.

Let's take the case about this California problem. Our organizers went out in California, organizing in the state capital and other areas, and they ran into a prepared talking-points argument, "You can't put the toothpaste back in the tube."

Well, you see, the answer is the obvious answer. Well, people who are not stupid can do that. How do you put the toothpaste back in the tube?

Very simply, you take the tube. Get yourself some toothpaste. Get the relevant tube. Now, it's probably a used tube, so what you have to do, is you take the bottom end of the thing, where it's crimped; you cut through the crimp. Now, you use a careful tool to open the rear end of the thing up. Now, before you put anything inside it—this is very important, they tell you, you can't put the toothpaste back in the tube; you have to show them how stupid they are!

Now, before you put the toothpaste in, you've got to think. This may be a great challenge for some of you guys. You have to say, well, there's a lot of gunk inside that thing, isn't there? So, what's the sense of putting the toothpaste in the tube, if when I've got in there, and I try to get it out for my toothbrush, I can't get it out, because it's plugged. So the first thing you do is, you clean out the interior of this thing, including the apertures through which the toothpaste comes. Once you've