EIR Economics

'Re-Regulate or Die': Energy Hyperinflation Grips U.S.

by Paul Gallagher

The biting sarcasm of Shakespeare's lines for Richard III, were needed to describe the U.S. power and fuel crisis as the new year opened:

"Now is the Winter of our discontent
Made glorious Summer by this son of Bush!"

The President-elect struck Summer poses with the members of his proposed Cabinet, while U.S. manufacturing crashed, and Winter fuel and power bills jumped 50-100% for households nationwide; wholesale electricity prices are up thousands of percent from a year ago, shutting down production of aluminum, farm fertilizers, and other commodities.

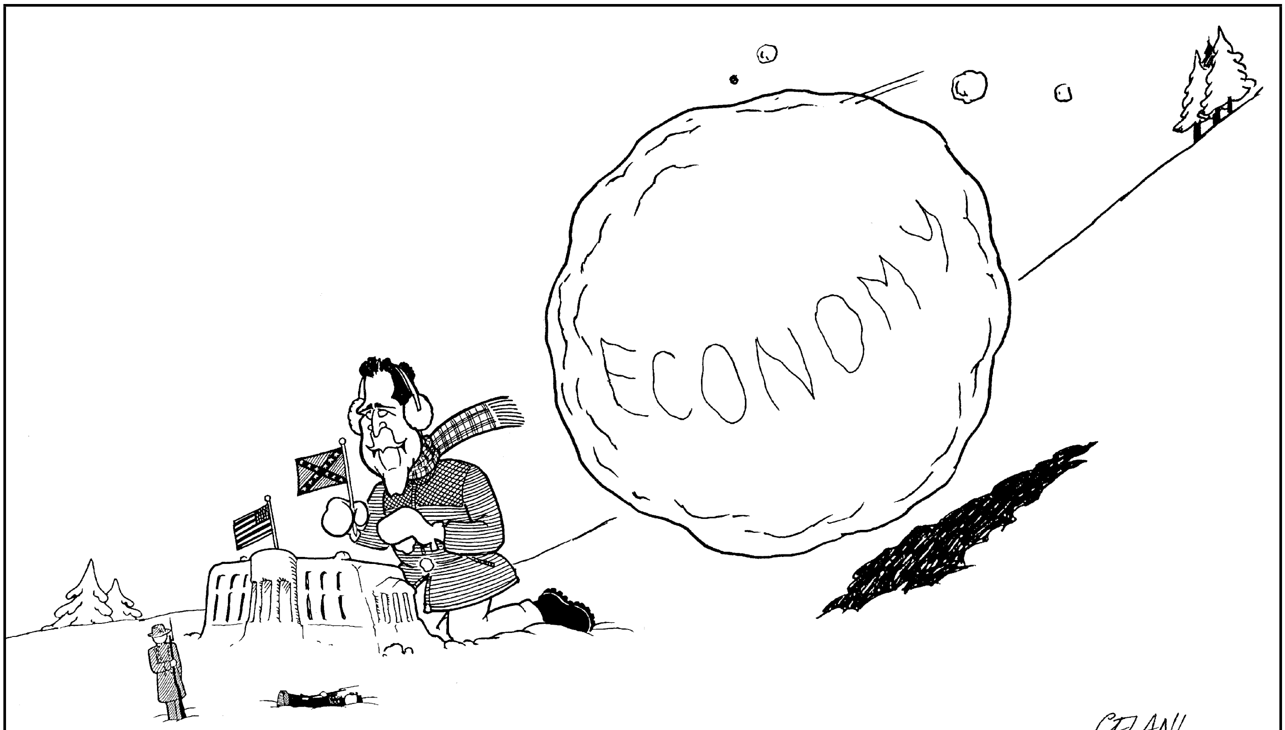
California's two largest public power utilities may default during January, on billions of dollars of short-term debt. This would set off at least $20 billion in "cross-defaults" on the utilities' other debts, and possibly the loss of electrical power in the state. Southern California Edison and Pacific Gas & Electric (PG&E) have suddenly built up a short-term debt estimated at $11 billion, borrowing from banks to pay wholesale electricity prices 100 times and more what they were a year ago. The companies have cash reserves of not much more than $1 billion each, and so are bankrupt unless they can keep borrowing at this dizzying, "junk bond" pace. They are paying these hyperinflated rates to "electricity robber baron" conglomerates—Enron Corp., Reliant Energy, Dynergy Corp., and Duke Power—which bought up California's power-generating plants under the insane deregulation act passed by the legislature in 1996. Southern California Edison has already announced it may go bankrupt.

Texas-based Enron, whose lobbyists wrote California's deregulation law (and those of many other states), is a corporation very closely tied to President-elect Bush's family interests, and a huge contributor to his campaigns. And it is leading the pack of speculative conglomerates now blackmailing utilities nationwide for power and natural gas.

California Gov. Gray Davis's emergency meetings on Dec. 28-29, with President Clinton, Treasury Secretary Lawrence Summers, and Federal Reserve Chairman Alan Greenspan, made clear that a debt-collapse crisis is lying underneath the power and fuel crisis in the West Coast and New England states in particular. The financial Bloomberg News Service quoted a Chase Manhattan economist warning that with U.S. banks shutting off lending, "a credit issue can pose the potential to become a systemic threat." But Greenspan was evidently too preoccupied with saving the stock markets with panicky interest-rate cuts. Although even Bloomberg drew the clear analogy between the Federal Reserve's emergency bailout of the Long Term Capital Management hedge fund in Autumn 1998, to save the stock and derivatives markets, and the looming default of California's utilities in 2001, Greenspan did nothing.

The financial crisis of the power utilities then triggered a natural gas crisis as well: Pipeline companies (which include the same Enron and other conglomerates) refused further sales of natural gas unless Southern California Edison and PG&E paid cash in advance for the deliveries; and also threatened to cut off electricity sales, "fearing" that the utilities would not pay for them. This situation, which sounds exactly like Russia or Ukraine during the last decade's looting of those countries, will cause natural gas customers to be cut off, and intensify the threat of further blackouts in the state.

On Jan. 4, the State Public Utility Commission raised the electric rates for customers of Southern California Edison by 9%, continuing a national drumbeat of electric-rate inflation—but this will do the utility no good in keeping the short-term bank credit lines expanding, which are keeping it from bankruptcy. The utilities' stocks immediately fell sharply, and Moody's Investors Service is warning of a downgrade in their credit ratings.



Playing White House.

No Fertilizer, No Aluminum

Wisconsin-based national farm leader Greg Blaska told *EIR* on Dec. 29, that fertilizer production is now significantly halted by the extreme cost of natural gas as a feedstock for anhydrous ammonia. One big producer, Terra Corp., has halted fertilizer production in Texas and Arkansas, and is trying to make a killing selling the natural gas it has stored or on delivery. Blaska said that a big reduction in corn planting can be anticipated in the Plains States of the United States, because fertilizer is unaffordable, and may become unavailable at any price.

In the Northwest, aluminum production is shut down, due to the astronomic price of wholesale electricity, ranging to $3,000 per megawatt-hour and more (compared to a normal price in recent years of $25-30). First Kaiser Aluminum, and then Alcoa and smaller producers, shut down their aluminum production operations and sought to sell their contracted electrical power. For the same reason, production of liquid nitrogen, used for cooling in industry and science, has stopped.

In the Midwest, the big distributor Columbia Gas nearly doubled its billing rates during December to its customers in Ohio and Michigan. At the end of the year, natural gas wholesale prices hit an all-time high near $10 per million btu, having started the year at about $2. In Pennsylvania, whose governor has claimed that deregulation "worked" in his state, 500 customers of Philadelphia Gas Works found their gas deliveries suspended as of Dec. 20, in order to keep service going to 500,000. In New York and Connecticut, citizens' bills for Winter heating oil for their houses, ran as high as $700 per month.

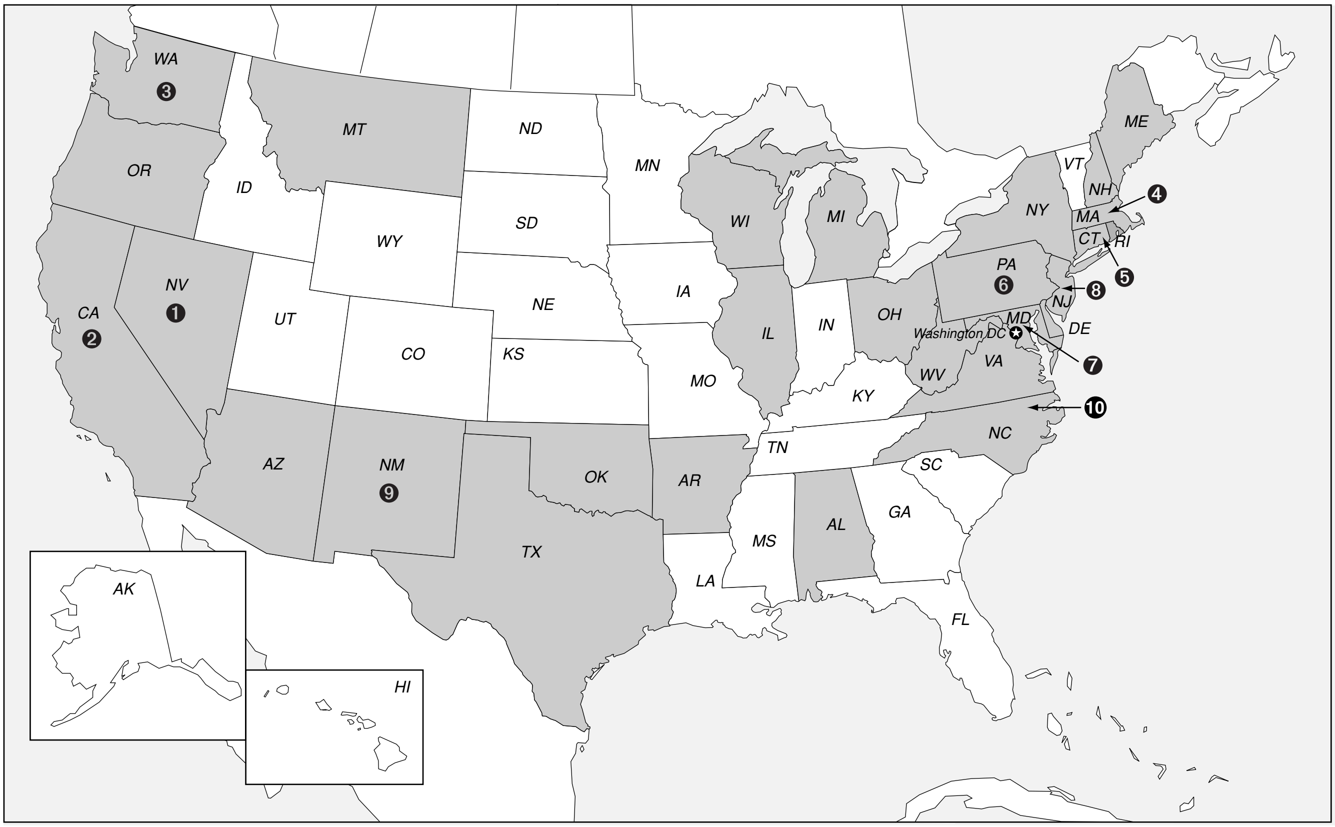
Across the southwestern U.S. border in Mexico, the Federal government on Dec. 29 attempted to intervene in the disasters caused by a tenfold increase in natural gas prices over three years in that country, by offering a temporary subsidy of the price. Because of the North American Free Trade Agreement stipulations for a completely deregulated free market, the government had to make the subsidies only three months in duration, and repayable at full cost in a year. It offered the affected companies help in buying derivatives contracts to cushion their losses! It did not work: By year's end, all four of the iron-production plants of Mexico's biggest steelmaker, Monterrey-based Hylsamex, were closed down. Some 1,350 workers were laid off, among thousands of others in Mexico's industrial Northeast, and Hylsamex's chief executive said that the plants would stay closed while the gas price remained above $3 per million btu.

California, the Epicenter

But the U.S. Federal authorities—including the Federal Energy Regulatory Commission (FERC), which is charged by the 1935 Federal Power Act with enforcing "reasonable" prices for wholesale interstate electricity sales—are refusing to intervene in the California debacle, which is the center of attention of the crisis across all North America. The California utilities have been forced to sue the FERC over its refusal to

FIGURE 1

Demands for Re-Regulation Coming from States with Energy Deregulation, as of January 2001



1. Nevada: Energy deregulation, approved and awaiting implementation, was set aside in September 2000.

2. California: The state legislature is in emergency session as of the week of Jan. 2. Legislation is being prepared to intervene in the power crisis. Demand for re-regulation made by Los Angeles County Democratic Committee.

3. Washington: Seattle Mayor Paul Schell, on Dec. 11, called on President Clinton to direct the Federal Energy Regulatory Commission to put a lid on power prices. He and City Councilwoman Heidi Wills held a press conference denouncing deregulation.

4. Massachusetts: In the Boston City Council on Nov. 1, Councilman Chuck Turner introduced a "Resolution on Emergency Governmental Action To Reduce Oil and Natural Gas Prices."

5. Connecticut: Legislation for re-regulation is being prepared by Sen. Thomas A. Bozek.

6. Pennsylvania: In October, House Resolution 618 was entered into the General Assembly: "Resolved, That the House of Representatives of the Commonwealth of Pennsylvania memorialize the President and the Congress of the United States to take emergency action to reduce oil prices, including . . . bypassing the oil multinational corporations completely by negotiating government-to-government purchasing agreements directly with the oil-producing countries."

7. Maryland: When new "marketer" gas companies began giving notice to customers that they could not continue providing service, the Maryland Public Service Commission intervened, under a state provision, to reconnect stranded customers with other utilities.

8. New Jersey: In the Camden City Council, an action (Resolution 638) was introduced on Oct. 12, 2000, calling on the President, Congress, and the New Jersey Board of Public Utilities "to take emergency action."

9. New Mexico: State Attorney General Patricia Madrid's call for the state to put a hold on any planned power-industry deregulation, was reported in the press on Jan. 5.

10. North Carolina: On Jan. 24, the legislature stopped deregulation.

Source: Electric Power Supply Association.

act; the state's Public Utility Commission stated that "the law says the wholesale prices will be just and reasonable. If they're not . . . they're illegal" (see accompanying article). But Washington has taken no action, and George W. Bush has not even taken note of the crisis.

Lyndon LaRouche, speaking of the California crisis at his Jan. 3 webcast, demanded, "Immediately, through the Federal Government, create two steps: . . . Establish reregulation, emergency reregulation. Do it under Clinton. Don't wait for Bush. Do it now! . . . And then get some money in there . . .

get some power generation going in that area. We're going to ensure a safe and adequate supply of energy, to industry and to populations throughout the area." The West Coast power grids have not had any significant growth in capacity for years, as *EIR* showed in its Aug. 18, 2000 special issue warning against deregulation. No nuclear plants have been built since Washington State's Public Power System was forced in 1982, by environmentalist pressure and Federal Reserve Chairman Paul Volcker's high interest rates, to abandon four nuclear plants and to default on their bonds.

While outgoing U.S. Energy Secretary Bill Richardson, despite holding emergency meetings with state governors, cannot bring himself to say the word "reregulation," echoes of LaRouche's emergency reregulation demand are being heard now around the country (see **Figure 1**). LaRouche's movement is leading these forces in California, as it did during December in Boston, Massachusetts (see *EIR,* Dec. 15, 2000).

The California legislature is in special session on the power and fuel crisis as of Jan. 2, after intensive lobbying, and rallies outside Public Utility Commission meetings, by associates and supporters of LaRouche. Assembly Speaker Robert Hertzberg described himself as "totally open" to the idea of reregulating the electric grid. San Francisco-area TV and radio coverage of the PUC hearings prominently covered LaRouche supporters' demands for reregulation, and LaRouche spokesman Harley Schlanger warning of the financial collapse threat. The Resolutions Committee of the Los Angeles County Democratic Committee on Jan. 4 passed a resolution for reregulation supported by LaRouche forces, which "calls for the reregulation of the electric utility industry in the State of California, possibly by providing funding from the California budget surplus to the electricity providers which would allow buyback of generating facilities."

In Tacoma, Washington, all electricity customers' rates were raised by 30% at Christmas time; the computer-based employers in the area are facing a supply crisis, as did the aluminum producers before them. When the city council held hearings on 100% rate increases, and faced the threat of shutdown of the city's sewage treatment plant before Christmas, LaRouche spokesman Patrick Ruckert led the charge for "reregulation, Roosevelt style." He was followed up by the county utility workers union leader who also took up the cry of "Roosevelt" measures.

The U.S. "Winter of discontent" is not letting up, but getting worse. The Winter energy assistance programs of some states, such as New Hampshire and Rhode Island, are being overwhelmed with household aid requests, have long waiting lists, and are in danger of being halted. The threat of freezing deaths is real throughout much of the country. Reregulation and crash construction of new capacity—not yet mentioned by the outgoing Clinton "energy summiteers," and not even contemplated by the Bush-Enron crowd—must nonetheless be immediately carried out.

How Dereg Catastrophe Ruined California

by Marsha Freeman

Electricity supply shortages in California, which began in Summer 2000, have now cascaded through the Western United States, forcing planners in the Northwest into emergency meetings to figure out how to meet demand, with fewer resources, in that region. Various proposals have been put forward to extricate California from the disaster that electricity deregulation has created. Most are either half-way measures, or would make the problem worse.

In fact, there is only one solution to the crisis, and that is to return to the policies that provided this nation with reliable, reasonably priced, and universally available electric power for fifty years. Those policies, codified in a series of laws signed by President Franklin Roosevelt in the mid-1930s, began from the understanding that adequate electricity infrastructure is needed to provide for the general welfare of every citizen of the nation.

Roosevelt's policies required that long-term, reasonably priced credit was available to maintain and expand the electricity infrastructure; that utilities had a requirement to provide universal service, at a reasonable price; that in return, they were assured a reasonable rate of return on their investment, allowing them to remain creditworthy, and attract investment; and that Federal and state governments had the power to intervene if the above conditions were not satisfied, to protect the citizens and the industry and commerce of the nation.

There are objections today that the deregulation genie cannot be put back into the bottle, that it is too late to reverse course. There were many who did not believe that President Roosevelt could rein in the Wall Street financial interests that controlled and were wrecking the infant electrical industry in the last Depression. It is only a matter of political will, and it is becoming a matter of survival.

To the Brink of Bankruptcy

Shortages of supply and the doubling of electricity rates in California made national headlines last Summer. The 1996 state-mandated deregulation, requiring that utilities divest themselves of their generating capacity if they were to continue to distribute power, has given out-of-state mega-conglomerates which bought the plants, control of more than 40% of the state's power resources. When unusual heat battered California, starting last May, these power suppliers saw a chance to make a killing by ratcheting up the price of increas-