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-

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ingly precious power supplies.

Because the state of California had enacted so-called environmental legislation, which made it nearly impossible to build baseload coal or nuclear power plants over the last decade, and because the end of the Cold War had sent the defense- and aerospace-intensive state into an economic tailspin in the early 1990s, no new plants over 50 megawatts were built in the state. California seemed to be awash in "extra" generating capacity, as its economy declined. But the increase in population, and blossoming of "information age" and entertainment companies through the second half of the 1990s, began to eat away at this so-called suplus power, leading to an absolute shortage.

As the price of electricity soared from $30 per megawatt-hour to more than $1,400 last Summer, thanks to price gouging by suppliers, two problems were created. Of the state's three large investor-owned utilities, San Diego Gas & Electric had sold off its generating capacity, qualifying it to charge unregulated rates to customers. Citizens in that city saw their rates double and triple by the middle of the Summer, as the utility's cost of buying power zoomed.

While that caused an immediate financial burden on customers, and led to a public outcry, and eventually, to a minor rollback in rates, the state's two other privately owned utilities—Pacific Gas & Electric and Southern California Edison—had not yet divested themselves of their generating capacity, and were still under a two-year rate freeze. They could not pass on the fivefold increase, charged by suppliers, to their customers, and recoup their costs. All they could do, was borrow money to keep buying power in order to keep the air conditioners running and the lights on.

To add insult to injury, these two utilities are not allowed to use power from the plants in California that they still own and have not sold off yet, but the power must be put up for auction along with the out-of-state supplies. The companies can end up paying more than five times for the power they themselves produce.

By the end of the Summer, the utilites knew they could not continue on this path indefinitely. As reported in the Jan. 4 *Wall Street Journal,* in August, PG&E hired lawyers to help the utility prepare for possible bankruptcy proceedings. Throughout the Fall, warnings from the utilities, which at times were losing $1 million *an hour*—the gap between what they were paying suppliers and what they could charge customers—were going unheeded, as PG&E and SCE reported that they had accumulated more than $6 billion in debt.

Meanwhile, the carpetbaggers who had bought the power plants the California utilities had built, and could charge whatever the "market" would bear for power, were raking in windfall profits. Houston-based Reliant Energy, which owns 17% of California's electric capacity, reported in December that its income rose 37% in the third quarter. Reliant bought five power plants from Southern California Edison in 1998. Minneapolis-based NRG Energy posted a 221% increase. Charlotte-based Duke Energy saw its income rise 74% (it holds 14% of California's capacity), and Arlington, Virginia-based AES walked away with third-quarter earnings 131% higher than the previous quarter (holding 19% of California's power plant capacity).

With the Autumn, and cooler weather, utility executives expected prices to calm down to their pre-Summer levels, allowing their companies to raise new capital and catch their breath. To their amazement, prices remained artificially at levels still five times what they were the year before. They began to realize that speculators would never again offer power at non-inflated prices, no matter what the supply and demand. On Sept. 24, for example, prices reached $150 per megawatt-hour, while demand was only two-thirds that seen on a Summer peak day.

Federal Half-Way Measures

On Oct. 16, Southern California Edison filed a joint petition with PG&E with the Federal Energy Regulatory Commission (FERC) in Washington, asking the Commission to take immediate action in response to the unjust and unreasonable wholesale prices, by capping what the power suppliers could charge, and determiming how the utilities could be refunded some of the money that suppliers had robbed. Ten days later, SCE filed a four-point "market reform and rate stabilization plan" with the state Public Utilities Commission.

FERC responded on Nov. 1 with a proposed order they said would "restore confidence that wholesale markets in California can produce just and reasonable prices and consumer benefits." But FERC had no intention of rolling back deregulation—their goal was to "make it work better." While FERC found that the wholesale market "produced wholesale prices for electricity that are unjust and unreasonable, and that remedies are necessary," they claimed they did not have the authority to order retroactive refunds to the cash-strapped utilities for the $8 billion they had paid out and not recovered.

On Nov. 8, Pacific Gas & Electric filed a suit in Federal District Court in San Francisco asking the court to declare that, as a short-term measure, the Federally approved wholesale power costs the utility has incurred to serve its customers be recoverable in its retail rates to customers.

A week later, an early cold spell hit California, and alerts had to be called as demand soared and reserve margins fell below what is prudent for the integrity of the electric grid. Because the entire West Coast felt the blast of cold air, power that California expected to import from Washington and Oregon, was cut by a third.

By mid-December, California's Independent System Operator reported the threat of widespread blackouts of power, now not only because of physical shortages of electricity, but because a dozen out-of-state suppliers were unwilling to sell California's utilities power, because they were unsure the utilities could pay for it.

On Dec. 13, Energy Secretary Bill Richardson, flanked

by Gov. Gray Davis and Sen. Dianne Feinstein (D-Calif.), announced in Washington that due to the emergency, he had ordered 70 Western region generators to sell power to California during the crisis. At the press conference, the California officials said that the state was about 15 minutes away from facing blackouts, had Richardson not stepped in. Southern California Edison released a statement that day stating: "For over 100 years, the people of Southern California Edison have been proud to provide the people of this state with reliable and affordable electricity. . . . Unfortunately, the ability to fulfill the electricity needs of California has never been more threatened."

CEO John Bryson reported that to fund the $3.5 billion deficit the utility had for power above what it could recover, and "to finance the additional procurement of electricity, Edison has had to borrow huge sums of money in the commercial markets. This situation is not sustainable." It was no secret that the utilities were marching down the road to default.

In the coming days, FERC took further steps to free the power generated in California by the utilities for their direct use, but FERC made sure to stress that *none* of the measures were intended "to reintroduce command and control regulation that has helped to produce the current crisis" (sic). FERC has been of the opinion that the utilities in California have not tried hard enough to move into market competition, and the solution to the crisis is to give deregulation a chance.

The week of Dec. 15, with FERC's cap of $150 per megawatt-hour in place, prices soared to $1,400. Southern California Edison accused FERC of refusing to "carry out its responsibilities under the Federal Power Act," to ensure just and reasonable wholesale prices, and, for the first time, a utility executive stated that "where necessary," lawmakers should "re-regulate California's electric system if we are to avoid severe economic dislocation in the state and potentially the entire nation."

Wall Street Weighs In

During a public conference call involving the financial community on Dec. 20, Standard & Poor's warned that the utilities will no longer be able to finance wholesale power purchases without clear and definitive action from decision-makers that ensures these costs can be repaid. Citing the threat of imminent default, S&P said it must see dramatic action within 24 to 48 hours in order to prevent a downgrade of Pacific Gas & Electric's credit rating to "deeply speculative."

The same day, Secretary Richardson extended for an additional week the emergency order requiring producers to supply power to California, as the electric grid tottered toward collapse. But now, the monster to be satisfied was not the profit- and speculation-driven power marketers, but the Wall Street financiers.

On Dec. 22, in order to restore "confidence" on Wall Street, Southern California Edison announced it was eliminating its fourth-quarter dividend. Unlike in other sectors, where shareholders may be corporate moguls who receive million-dollar stock options as bonuses, SCE explained that 85,000 of its shareholders are individuals who bought utility stocks to conservatively invest their retirement income, hence it does not take eliminating dividends lightly.

Edison also announced that it was cutting $100 million in system operations and maintenance investments, eliminating 400 jobs. "The reduction will affect needed investment in infrastructure, load growth, and system automation, as well as reducing substantially work done during overtime hours." The utility had put a freeze on new construction, and suspended equipment purchases and service contracts. Cutting operating and maintenance costs in the electric utility industry, where one fallen tree can black out an entire town, can only be described as a prescription for disaster.

On Dec. 26, Southern California Edison filed a writ of mandamus in the U.S. Court of Appeals in Washington, D.C., asking that the court *force* FERC to order power producers to set rates at a level that reflects the actual cost of electricity generation. On Jan. 2, 2001, at the request of the court, FERC issued a written reply that they opposed this course, again stating that the utilities have not yet given deregulation and the "free market" enough time to work.

On Dec. 28, the California Public Utilities Commission (PUC) filed in support of the utility's court petition. Governor Davis announced Jan. 2 that the state would file a friend-of-the-court brief on behalf of Edison, arguing that Federal law declares that the regulation of electricity is "necessary in the public interest." Davis termed FERC's inaction "contrary to public welfare."

After his meeting with Fed Chairman Greenspan and Treasury Secretary Lawrence Summers in December, Governor Davis stated on national television, "there are certain emergency powers I have. If I have to use them, I will." But to reestablish stability and foster growth in the utility sector will take more than emergency actions.

Just before the California PUC voted on Jan. 4 to eliminate its rate freeze—a hallmark of the deregulation policy—and grant a modest increase to near-bankrupt PG&E and SCE, Commissioner Carl Wood remarked, "We are voting the epitaph for deregulation in California today. Deregulation is dead."

Now the fight is to replace it with a policy based on the general welfare, which is where we started, fifty years ago.

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