Reregulate Energy, and Keep Privateers Out of the Cabinet

by Marcia Baker and John Hoefle

This "Testimony to the Energy and Natural Resources Committee, U.S. Senate, in Opposition to the Confirmation of Senator Spencer Abraham as Secretary of Energy," was submitted by EIR *economics experts on Jan. 17, 2001.*

Chairman Bingaman, and Members of the Committee:

Our publication, *Executive Intelligence Review,* has forewarned for over two decades, against the kinds of policies that led to today's acute energy crisis: namely, the policies of dumping nuclear power, of deregulation, of speculation, and all the consequences of "casino economics." In recent weeks, emergency energy proposals based on guidelines by Lyndon LaRouche, *EIR* Founding Editor, and now newly announced Presidential candidate, have been introduced before the Boston City Council, passed in California Democratic Party County meetings, and are being debated in state capitals throughout the country.

Millions of Americans are hit directly by the energy crisis, and chain-reactions of shutdown are spreading throughout the economy. As of January 2001, electricity rate hikes in the range of 10-40% have been imposed in California, Massachusetts, Washington, and many other states; these come on top of natural gas, heating oil, and propane prices skyrocketing. Factory shutdowns, agriculture dislocation, and threats to vital services (schools, hospitals, water, and sanitation) are now the order of the day.

It is from this crisis perspective—and also based on the larger context of the unprecedented global financial and economic-breakdown crises now breaking, that we urge you to reject the nomination of Spencer Abraham for the position of Energy Secretary. Our testimony opposing the Abraham nomination, has been prepared to provide the Senate with summary documentation of the nature of the energy emergency, and the urgency of facing the larger crisis.

We conclude our testimony with excerpts from Lyndon LaRouche's statements on energy policy, made on a live international webcast Jan. 3, in specific response to a question from *Detroit News* reporter George Weeks, about former Michigan Senator Abraham's and Bush's energy policy. On that same webcast, at the time the news broke of Federal Reserve Chairman Alan Greenspan's Jan. 3 interest rate cut, LaRouche stated, that President Clinton should immediately take two measures:

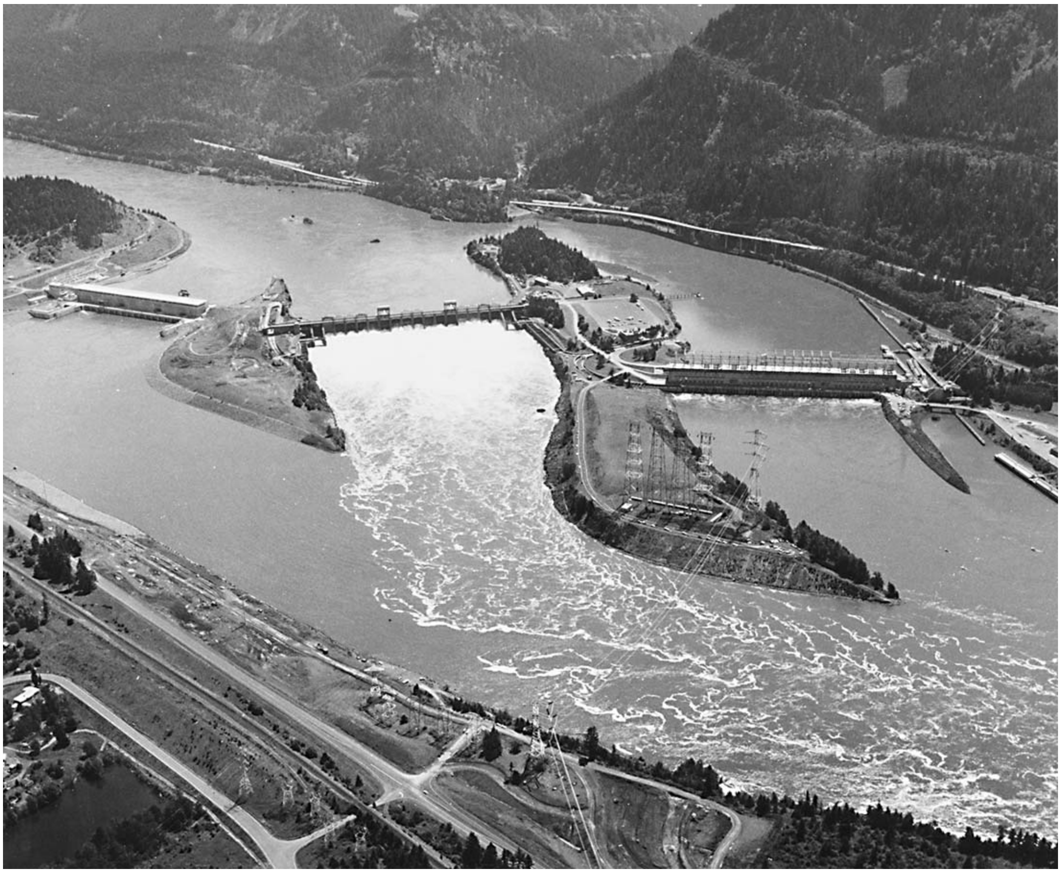
- First, he should use Presidential powers to create an emergency fund of credit which would be directed into urgently needed, major employment projects, like construction of power plants in California.
- Second, he should immediately *reregulate* those sections of the economy, particularly the energy utilities, in order to prevent a power emergency.

LaRouche put it this way:

"There's only one thing you can do. The system is going to blow. What do you do? You *don't use monetarist methods*. Monetarist methods caused the problem. Yes, you may use credit. You do what Roosevelt did with Jesse Jones and the Reconstruction Finance Corporation; that's what you do. You take and earmark—don't lower the interest rates. Create a special vehicle. Go to the Congress. Get a special fund authorized by the Presidential powers under the Constitution. Get some money allocated, real fast, an emergency fund, to get going, as seed money, to get some major employment projects in construction. . . .

"For example, let's take the case of California. We've got, right now, one of the major crises of the nation is the situation with the Edison of Southern California, and the PG&E. Now, there's a shortage of energy. Well, why not, immediately, through the Federal government, create, first of all, two steps: Establish reregulation, emergency reregulation. Do it under Clinton. Don't wait for Bush. Do it now! I'd have Clinton do it right now, while he's still President. Reregulate! On an emergency basis, under emergency powers of the President. You've got an emergency, California! A hell of an emergency. Reregulate—it's a national emergency. And then get some money in there, we're going to fix this problem. We're going to 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. That's our mission."

In this testimony, we will not take up particulars of Senator Abraham's personal record to call for his disqualifi-



Bonneville Lock and Dam, which has helped provide a reliable source of power to the United States for years, is targetted for privatization by Secretary of Energy-designee Spencer Abraham. The free-trade policies of the Bush team will make an already disastrous energy crisis, worse.

cation, even though he has several times called for the abolition of the very Department he has now been nominated to head. The relevant point about the man and his philosophy, in the case at hand, is that the energy and economic policies associated with George W. Bush, with which Senator Abraham is aligned, are demonstrably at odds with the interests of the nation, even to the point of providing piracy-rate profits to Bush campaign-associated Texas energy companies, at the expense of keeping the lights on. We document this below, in the case of California's electricity and gas crisis.

Moreover, the Bush "team" profiteering goes beyond a conflict-of-interest scandal—which is historically unprecedented. The danger presented is that, with the unfolding energy and economic crisis, and the financial blowout, if a Cabinet is allowed to be formed of the disposition represented by Abraham, along with others proposed, especially John Ashcroft, then conditions are created for the Federal government to be used to impose rule *by force* under circumstances of social upheaval. The analogy here is to 1933 "emergency decree" policies asserted by Hitler. That is the degree of crisis, and danger represented by the persons and policies nominated.

The California and nationwide energy crisis, and the global financial and economic emergency, confront lawmakers with the task of reasserting traditional U.S. general welfare policies. In the case of energy, there must be reregulation, and infrastructure building. Spencer Abraham is not the man for that job.

We here provide the essentials for evaluating the immediate tasks for the head of national energy policy at time of crisis. In order, below:

1. The California and nationwide energy crisis.
2. The scandal of the Bush associates' energy cartel.
3. The national and international financial and economic breakdown process.
4. LaRouche proposals: Reregulate, issue emergency credits to rebuild.

1. California, Nationwide Energy Crises

California and the Northwestern states are now experiencing an extreme energy supply and price crisis. On Jan. 11, a Stage Three statewide electricity shortage emergency was put into effect in California, the second such extremity in six months. Washington and Oregon are similarly hit. Electricity prices (on the new, deregulated "wholesale" market) have hyperinflated from, in the range of $30 per megawatt hour in 1999, to $1,200—even $3,000 per megawatt hour—as of December 2000. Two of the three major distribution utilities in California, Southern Edison and Pacific Gas & Electric, have racked up $12 billions in debt only from June to December 2000, because of the Weimar-style hyperinflation. They can neither buy electricity nor natural gas—whose price likewise has hyperinflated, especially in the Western states. The total debt of these companies is in the range of $20 billions.

As of Jan. 16—the time of preparation of this testimony—Southern Edison's parent company stood in default for a $100 millions payment to a creditor; in upcoming days, both utilities face more due dates of unpayable obligations. In Sacramento, the state legislature was in emergency session to consider Gov. Gray Davis's proposal for the state to interpose in the markets in an attempt to continue electricity supplies.

In financial terms, the California and other U.S. utility debt default is enough to blow up the U.S. and international financial system. Under certain "cross-default" clauses, the California utilities debt places up to $20 billions in default. Thus, technically, California is not at all a "mere" state energy crisis, but the manifestation, in energy, of the general economic breakdown process, and financial disintegration under way.

Nationwide, variations of the so-called "California crisis" are worsening in all regions, and for all modes of energy—electricity, natural gas, oil, gasoline, propane, fuel oil. National U.S. utilities debt is in the range of $400 billions and growing, with other companies—outside California, and in natural gas as well as electricity—in various stages of arrears.

How did this come about? In brief, the immediate causes were the lack of expanding energy generation facilities, and deregulation policies that resulted in marginalized supplies, and allowed speculation and hyper-profits. Beginning in the 1970s, generating capacity per household in the U.S. began to fall year by year. At the same time, there began changes particular to each mode of energy (fossil fuels, oil and gas, electricity, etc.) made in the name of increasing "markets" and competition. This was a ruse from the start, as is now evident. In reality, mergers and acquisitions, along with the deregulation of various kinds now under way in about 26 states, have led to increased, centralized private control, shortages, and soaring prices.

• The average price of natural gas has soared from under $2.75 per 1,000 cubic feet in 1999, to over $10 in December 2000. A small group of newly merged transmission and gas companies—directly interconnected with the Bush campaign and proposed Administration—are raking in huge profits (detailed below).

• The rise in the per-barrel price of oil over Y2000—fueled by speculation in "paper oil" in London and on the New York Mercantile Exchange—has resulted in severe hardship for citizens and economic activity, and huge profits for the cartelized oil companies. E.g., BP-Amoco made 94% increase in profit for third quarter 2000 over 1999.

We are now seeing the chain-reaction effects throughout all sectors of the economy. Kaiser has placed a surcharge on fabricated metal products. The electricity hyperinflation in California, origin of 20% of all U.S.-produced dairy products, will create severe *national* shortages in supply, and whopping high prices for milk goods. Nitrogen fertilizer production—dependent on natural gas—is so cut back and high-priced, that corn planting will be far reduced in acreage this Spring (on top of very low Winter wheat acreage last Fall). Vital services, such as sewage treatment, hospital operations, and so on, are threatened in many states.

2. The Bush League and the Energy Cartel

The incoming Administration's stated policy is to continue the deregulation of energy, a policy of economic destruction of which the chaos in California is just the leading edge. Deregulation is a scam designed to let financial middlemen—the Enrons, Reliants, Dynegys, and AESs of the world—skim off a large chunk of the billions of dollars Americans pay for energy every year, and Senator Abraham has been given the assignment of protecting this scam. Anyone who would carry out such an assignment, is morally unfit for public office.

Not only is Texas the center of those energy speculators which California Gov. Gray Davis has accurately characterized as "pirates," but the circles around the coming—and the former—Bush Administration are in many ways indistinguishable from these energy privateers. California was the lead state to deregulate in 1996, and by 1998 began the process of forced sell-off of generating capacity to the new echelon of private "merchant generators." Some 40% of the state's generating capacity is now in the hands of these firms, posting fabulous profits. The following are prominent among the nation's energy profiteers:

• Enron, based in Houston, is the leading historical contributor to the political campaigns of President-elect George W. Bush. Enron Chairman Kenneth Lay is one of the chief advisers of Secretary-nominee Abraham. Enron is also one of the leading forces in "energy futures"—namely, in transforming the pricing of electricity from a "cost of production plus reasonable profit" model, to a "whatever the market will bear" speculators' dream.

• Reliant Energy, based in Houston, reported that its income rose 37% in December 2000. Reliant bought five power plants from Southern California Edison in 1998, and owns 17% of the 40% forced sell-off. One of its directors, James A. Baker, III, was chief of staff and Secretary of State in the Administration of former President George H.W. Bush. Baker has also been a consultant to Enron, as have a number of officials of the former Bush Administration and even former

President Bush himself.

• Dynegy, based in Houston, owns California power-generation capacity in partnership with several others, including NRG Energy, which posted a 221% third-quarter income increase compared to the previous quarter.

Others that acquired generating capacity, and are now making killer profits are: 1) Charlotte-based Duke Energy, whose income rose 74%; and 2) Arlington, Virginia-based AES, the global energy mega-company whose third-quarter earnings were 131% higher than the previous quarter.

3. International Economic and Financial System Breakdown

This looting of energy payments occurs at a point in which the international economic and financial system is breaking apart, and the U.S. stands at ground zero of that collapse. The widely touted growth of the U.S. economy during the Reagan/Bush, Bush, and Clinton years has been a growth in debt, financial claims, and casino-like derivatives bets globally, but centered mainly in U.S. institutions.

Globally, we estimate there are some $400 trillions of financial claims outstanding, ten times the size of the gross world product, which itself is a figure bloated by the effects of the financial bubble. The institution with the highest exposure to this bubble is the recently merged J.P. Morgan Chase & Co., which by itself has some $23 trillions in derivatives bets, more than twice the U.S. GDP! The Federal Reserve's recent lowering of interest rates to protect the troubled Bank of America and its $7 trillions derivatives portfolio is indicative of the instability such uncontrolled betting creates.

The fate of the U.S. banking system and financial markets is inextricably intertwined with this bubble; if the bubble pops, the banks, the markets, and Wall Street go with it. The Senate knows it, the House knows it, the Executive Branch knows it, and the media knows it. But rather than take the steps repeatedly outlined by Lyndon LaRouche to put this system through bankruptcy and begin to rebuild the productive sector of the economy, the policy has been to pump up the bubble by escalating the looting of the population and the productive base. The energy deregulation scam is but one aspect of this looting scheme.

Cannibalization of the population and the productive sector only works in the short term, however. The more you steal from the population, and the more you disinvest in infrastructure, manufacturing, health care, and education, the less able is the economy to service the enormous debt overhang of the bubble—day by day, the economy becomes more bankrupt. Eliminating "useless eaters" creates more "useless eaters," and the process feeds upon itself. Eventually the point is reached—as it has now—where the physical economy itself begins to break apart.

The California crisis, in which a physical-economic electricity crisis—combined with savage looting—has created a financial crisis, represents just such an event, and serves as a warning to all that the piper is demanding payment for decades of foolish policies and ideas.

The Establishment knows that its mountain of financial claims can never be paid, and that a serious crash is coming in one form or another, and that leads us to an even darker side of deregulation. With the rampant mergers among energy companies, and the shifting into a "whatever the market will bear" pricing scheme, the Establishment is positioning itself to grab the income streams which remain after the crash. The rapid consolidation of control in energy, food production and distribution, telecommunications, strategic minerals, precious metals, raw materials, and other essentials of life, represent preparations for exerting power after a crash. As the empires have known for ages, he who controls the necessities of life, controls the people. This is the policy to which the Bush Administration and its Energy Department are committed, and this is how civilizations end. This policy should be stopped now, by the Senate.

4. LaRouche: California Is a Test for Energy Policy

Only the traditional, "general welfare" approach to dealing with the energy crisis will work. The principles are in U.S. standing law, including the Federal Power Act of 1935, the Public Utility Holding Company Act of 1935, the Atomic Energy Act of 1946, and other precedents. What is immediately required is to deal with the two causes of the worsening crisis: first, to remedy the lack of supplies of electricity and fuels (including transmission, refining, and all such essential logistics); and second, to roll back the deregulation. Even well-meaning stop-gap attempts to keep the lights on through taxpayer subsidies, or rate hikes, only line the pockets of Bush-team speculators, and hurry the nation down the road to destruction. Workable proposals must proceed from the economic national interest overall.

On Jan. 3, during a live webcast, newly announced 2004 Democratic Presidential candidate Lyndon LaRouche gave his evaluation of Spencer Abraham and the Bush energy policy in response to a question from *Detroit News* reporter George Weeks.

"Look, talk about energy policy. Two major things are involved here, first of all. First of all, how many kilowatts are we generating? What does it take to support a community? What does it take to support an industry? What about the energy-flux density of our energy sources? What about reliability, in terms of supply and price? You know, these kinds of questions have to be faced first. And this is *exactly* the kind of thing you're not likely to get from Bush.

"Look, for example, one very—thing that sticks in your craw, when you look at Bush: *What about Rainwater?* What about the involvement of Enron? What about *these* things which are tied closely to Bush, which are the *cancer* destroying the energy system of the United States? I don't think that a Secretary of Energy under George Bush, be he good or bad, has any chance of doing a good job at this time.

"My view on the entire Bush Administration, is that members of the Congress—chiefly Democrats, but also honest Republicans—have to get together and *put a leash on this Bush Administration,* to make sure it knows where to do what on the lawn, and where not to do it. You have to create a condition under which Bush says, 'Okay, I'm the President, but I have to heed what this angry bunch of constituents is telling me I better do, or else.' Under those conditions, you might be able to find a Cabinet appointment in the Bush Administration, which has enough independence of the Rainwater phenomenon and other things in the Bush background, to be able to make an honest decision on things like energy.

"But at present, the way the Administration is now constituted, the way it's framed up to be, given the situation in the Congress *at this moment*—it may improve later, but at this moment—I don't think the United States *has a chance* under a Bush Administration. I think we're looking at a short road to Hell, under George Bush—*unless* we can create the condition in the country, where the fact that a weakly elected, or quasi-elected President has to recognize that he doesn't carry much weight with the country as a whole, and the best thing he can do, is sit back in that office, and pay attention to some orders and pressures from his constituents—and the orders and pressures coming from his best advisers, who tell him, 'Mr. President, you better do *this*.' And he says, 'Why? I'm the President.' 'Well, we *call* you President, but you really *aren't*. You're just the man that signs the checks, and signs the bills.' "

Reporter Weeks further asked, "Sir, when you say that we're on the short road to Hell under George Bush, are you talking energy, or overall?"

LaRouche replied: "Overall, everything. Energy's just—Look at the California situation: What is the Bush policy on what are you going to do about PG&E and Southern Edison? What's he going to do about it? That's a test, that's a test on energy policy—right now. We've got a situation in New England, that's going to be developing on the heating oil question, that's going to rise up again. We've got all over the country an energy crisis.

"Well, let's take California. Let's take PG&E and Edison. That is the marker which tells you exactly what the entire Bush Administration policy is going to be on energy—right then and there. You don't have to find out in Michigan, you can find out right there."

As you undoubtedly know, just today PG&E defaulted on $600 millions in debt—and there is no clear policy coming from anywhere to guarantee the power-generating capacity in this region, which serves over 20 million people. So the question is before you now: Will you select an Energy Secretary who will reregulate and provide the energy we need, or will you hand the system over to the energy pirates wholesale?

Energy Crisis Hits America's Poor Hardest

by Mary Jane Freeman

All across America, households must spend 10-50% more for their energy needs than they did last year. The primary causes of this drastic increase in prices are speculation and deregulation, as *EIR* has documented over the last six months. While this increase has already caused plant shutdowns and major disruption of power to California, it is life-threatening to America's poor and low-income families. Unless the incoming Congress and Administration substantially increase funding for the Federal Low-Income Home Energy Assistance Payments (LIHEAP), millions of low-income households will face freezing before the Winter is out.

A report, "The Winter Energy Outlook for the Poor," issued by the non-profit research corporation Economic Opportunity Studies (EOS), and partly funded by the U.S. Department of Energy, reveals a dire picture for 27 million low- and moderate-income households. As of Dec. 20, 2000 when the report was issued, these households—because of energy price increases—would receive energy bills estimated at $45 billion for FY 2001 (October 2000 to September 2001). Yet, the amount of LIHEAP funds available to assist these consumers is $1.85 billion, i.e., a mere 4% of their costs (see **Figure 1**). "Many poor families in cold climes will not be able to heat, eat, and pay the rent," Consumer Federation of America executive director Stephen Brobeck said at a press conference releasing the report. "They will certainly suffer discomfort and possibly great health risks, including death."

This means that one-quarter of America's households do not have the means to keep warm this Winter—already the coldest November and December on record, nationally, since 1898, according to the National Weather Service. Who are these Americans? They are the 27 million households of low- and moderate-income families who, on average, now must pay 19% of their *total annual income* for their energy needs, as shown in the report. For America's very poor, those at or below the Federal poverty guideline which itself is inadequate, the average percentage is even higher, at 22%, and of these, using fuel oil, it can be as high as 37%—that is, about one-third of their annual income! These figures were based on Department of Energy (DOE) data as of December 2000. But as of early January 2001, the new numbers are much worse. The highly inflated speculative prices of fuel sources, means that these Americans have to choose between paying either their heat, rent, food, or medical bills. This is not a choice, but a death warrant, in many cases.