

Deregulation Introduces America to a New Dark Age

by John Hoefle

With the lights going out in California, Wall Street and the energy cartel have launched a propaganda campaign designed to convince Americans that California blew it, that California somehow managed to snatch defeat out of the jaws of victorious deregulation. There is *some* truth in this—the best lies always contain a bit of truth as a hook—but what the California electricity crisis really represents is a view into the future of America, if deregulation and the forces behind it are not stopped.

At its core, the California crisis is a physical-economic breakdown—the state lacks sufficient electricity generation and distribution infrastructure, thanks largely to the population's corruption by pseudo-scientific environmentalist nonsense and not-in-my-back-yard activism. If you don't build power plants, you won't have power.

Sitting on top of this physical-economic breakdown, is the parasite of deregulation. Deregulation is a scam, a fraud—waving promises to “save you money” like a carrot on a stick, the energy cartel has built a pipeline into the wallets of millions of Americans, pumping out cash.

What we are witnessing, is the beginning of another great energy hoax—this time the end-game. It began last Summer, with the sudden appearance of gasoline shortages, followed in quick order by shortages of heating oil, natural gas, and electricity. With the shortages came price hikes, the effect of which have been an across-the-board rise in the energy prices paid by consumers, and record profits for the energy cartel.

Some of the effects of this price gouging have been well publicized, such as the bankruptcies of two big California utilities, but the greater problem comes from the theft of billions of dollars of cash from households and businesses which are already overloaded with debt, at a point that the economy is visibly contracting.

Those who see their Enron and Dynegy stocks going up might view this as a profitable business arrangement, but it is actually a completely different process. It is an end-game maneuver.

The purpose of this new energy hoax, is to set up the mechanism by which the income stream from energy consumption can be grabbed *after a financial crash*. The essence of deregulation is not competition—the industry is actually consolidating—but the process of inserting financial middlemen between the producers and the consumers, such that the “market” sets the prices and the financial sharks grab a piece of every transaction.

While many Americans have been fixating on their “investments” in the stock market, the financial oligarchy which runs both the financial markets and the energy cartel has been busy increasing their control over the raw materials, strategic minerals, precious metals, and other physical assets, in preparation for a crash. When the bubble pops, the oligarchy thinks that they will be ready.

The good news, is that the very logic of the deregulation scam (drive-up-the-price-and-take-their-money) is blowing up in California; and the blatancy of the “California Effect” is causing citizens and lawmakers across the country, to take a second look. More than half of the 26 states with some form of energy deregulation, now have initiatives to stall, or reverse it. The following is provided as need-to-know background for this process.

Oil Cartel Strengthens Its Grip

Compare the number of major, vertically integrated oil companies active in the United States in 1979, with those active in 1999 (**Table 1**). The mergers of Exxon with Mobil, British Petroleum's acquisition of Amoco and Atlantic Rich-

TABLE 1

Consolidation and Restructuring in U.S. Oil and Gas Industry

| 1979 | 1999 |
|---------------------------------|---------------------------------|
| Vertically Integrated | Vertically Integrated |
| Exxon | Exxon Mobil |
| Mobil | BP Amoco |
| Texaco | Chevron |
| Chevron | Texaco |
| Amoco | Shell Oil |
| Gulf Oil | Atlantic Richfield |
| Shell Oil | USX (Marathon) |
| Atlantic Richfield | Conoco |
| Tenneco | Phillips Petroleum |
| BP America | Amerada Hess |
| Conoco | Coastal |
| Sunoco | Fina |
| Phillips Petroleum | Non-Integrated Producers |
| Getty Oil | Occidental Petroleum |
| Unocal | Union Pacific Resources |
| Occidental Petroleum | Unocal |
| Union Pacific Resources | Burlington Resources |
| Amerada Hess | Kerr-McGee |
| Cities Service | Anadarko Petroleum |
| Marathon | Non-Integrated Refiners |
| Coastal | Equilon Enterprises |
| Ashland Oil | Motiva Enterprises |
| Kerr-McGee | Tosco |
| Fina | Ultramar Diamond Shamrock |
| Non-Integrated Producers | CITGO Petroleum |
| Burlington Resources | Sunoco |
| Superior Oil | Valero Energy |
| | Lyondell-CITGO Refining |
| | Clark Refining and Marketing |
| | Tesoro Petroleum |
| | Energy Services |
| | Enron |
| | Williams Companies |
| | El Paso Energy |

Source: Energy Information Administration, U.S. Department of Energy.

field, and the pending merger of Chevron and Texaco, have concentrated the power of the giant oil companies to a greater degree than ever. Along the way, these giants have gobbled up a number of smaller majors. Chevron acquired Gulf Oil in 1984, the same year that Texaco bought Getty Oil and Mobil grabbed Superior.

The result is that four companies, ExxonMobil, BP Amoco, Royal Dutch/Shell, and the pending ChevronTexaco, dominate the production and marketing of petroleum products in the United States. They also dominate the production of natural gas, the fuel of choice for all of the new “independent” non-utility electricity generators.

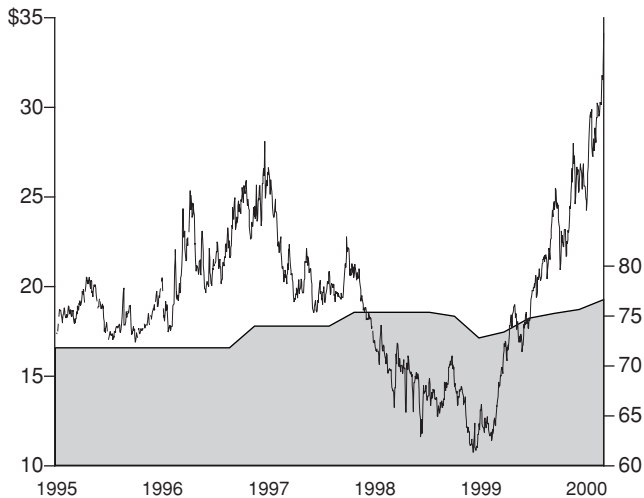
While the number of vertically integrated majors (vertically integrated means they operate in the full spectrum from the wellhead to the end-user) has shrunk, the number of major

FIGURE 1

Oil Price Soars, Regardless of Production Level

Oil price, West Texas crude (\$ per barrel)

World Oil Production Millions of Barrels Per Day*



*Yearly average, 1995-98; quarterly average, 1999-2000 Q3.

Source: U.S. Department of Energy; International Energy Agency.

non-integrated niche companies has increased; they operate in an environment controlled by the new “Five Sisters” (the big four named above, plus France’s TotalFinaElf).

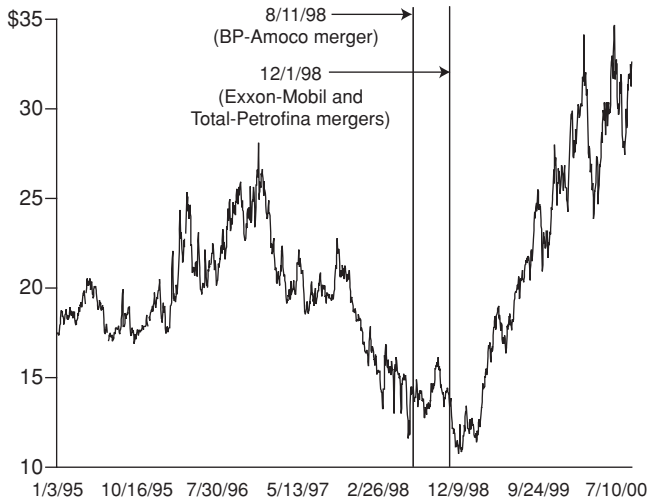
It is illustrative to recall the arguments made during the gasoline shortage last Summer, when the problem was blamed on members of the Organization of Petroleum Exporting Countries (OPEC). Oil in the ground, by itself, has little value. To be useful, that oil must be pumped out of the ground, refined, and distributed. Someone must take the crude oil from, say, the Middle East, ship it to the United States, refine it into the various petroleum and petrochemical products, then distribute those products to the wholesale and retail outlets, from which they are sold to the end-user. This refining and distribution process is dominated by the oil cartel, which gives it great influence over OPEC. The gasoline shortage was blamed both on a shortage of crude oil—of which there was no shortage at all—and a lack of refining capacity, which, to the extent that there was any shortage, was something entirely within the power of the cartel to manipulate.

Look at the relationship between oil prices and world production (Figure 1). One can see that the price of oil rose sharply during a period in which the production of oil was actually increasing, giving the lie to the argument that production shortages were the cause of the price hikes. Now look at the relationship between oil prices and the major mergers (Figure 2). During 1997 and 1998, the price of oil was driven down sharply, triggering a shakeout of some of the weaker players and allowing the better-financed players to move in

FIGURE 2

Oil Price Skyrocketed in Wake of Big Mergers

Oil price, West Texas crude
(\$ per Barrel)



Source: *Wall Street Journal*.

and buy them out. This process culminated in late 1998, with the acquisition by British Petroleum—which already owned Sohio—of Amoco; Exxon’s merger with Mobil; and Total’s combining with Petrofina. After these mergers, the price of oil began to skyrocket, tripling during 1999 and 2000. During the Summer of 2000, the gasoline price hikes began, as did the California electricity crisis.

Energy Sabotage

Of the total energy consumed in the United States today, 39% comes from petroleum, 23% from natural gas, and 22% from coal, with nuclear power accounting for 8% and the so-called renewable sources the remaining 8% (Figure 3). Of the renewable, the burning of wood and waste accounts for 48%, conventional hydropower 46%, geothermal 4%, and solar and wind a mere 1% each.

Of the energy used by electric utilities to generate electricity, 55% comes from coal, 23% from nuclear power, 9.6% from natural gas, 9.1% from hydroelectric power, 3% from petroleum, and 0.2% from geothermal and other (Figure 4).

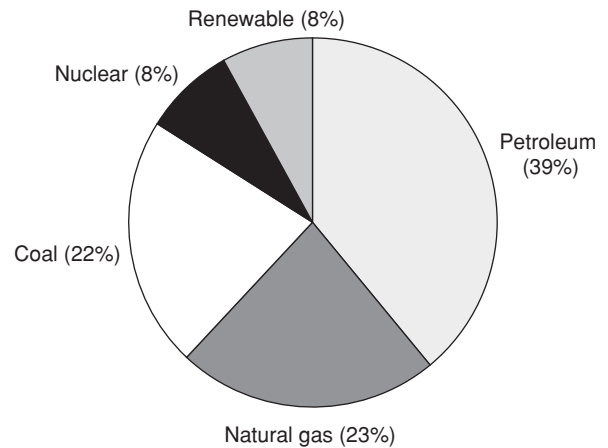
During the 1960s and early 1970s, the United States embarked on a drive to build nuclear plants to generate electricity (Figure 5), with nuclear fission considered to be a stepping-stone to nuclear fusion, with its promise of clean, virtually unlimited power.

Nuclear power has two enormous advantages over fossil fuels. The first is that it had a much higher energy-flux density, opening up a whole new range of processes and technologies capable of significantly increasing the ability of man to trans-

FIGURE 3

U.S. Energy Supply, 1999

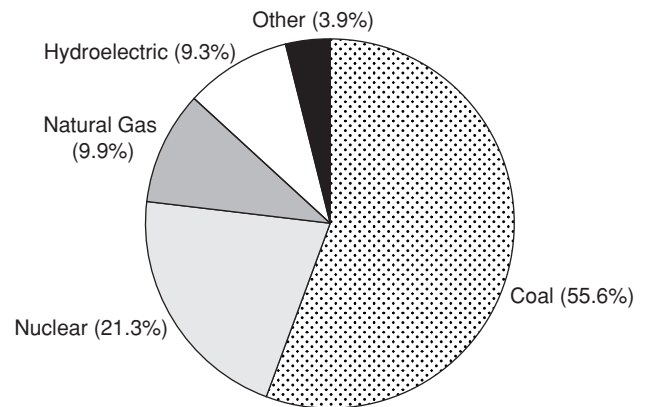
(Percent of Total)



Source: Energy Information Administration, U.S. Department of Energy.

FIGURE 4

Energy Used to Generate Electricity By Electric Utility Companies



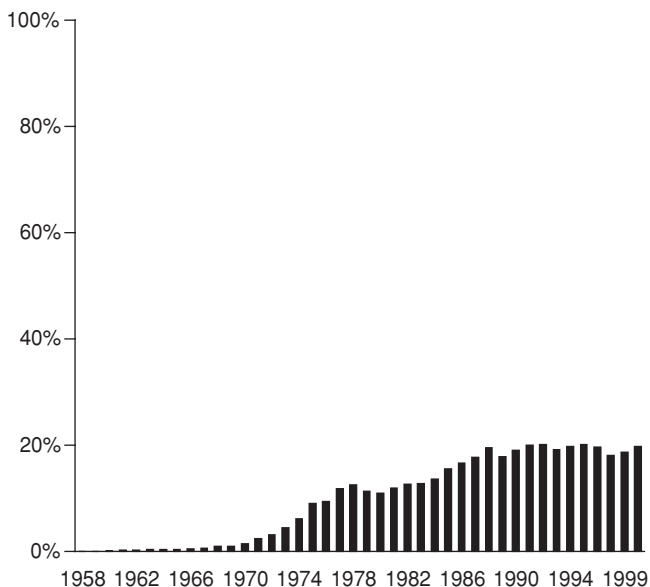
Source: Energy Information Administration, U.S. Department of Energy.

form the universe around him. The second, is that it offers the potential to break the grip of the energy cartel, and with it, much of the power of the oligarchy. Those two advantages, in turn, create the potential for a cultural and scientific renaissance, in which the power of reason would replace the oligarchic law of the jungle.

Recognizing nuclear power as a serious threat, the oligarchy deployed the oil cartel to stop it at any cost. Nuclear power was demonized in both popular culture and scientific circles. Despite the rapid increase in the number of operable nuclear

FIGURE 5

Percent of U.S. Electricity Generated by Nuclear Plants



Source: Energy Information Administration, U.S. Department of Energy.

plants during the late 1960s and early 1970s, more nuclear plants were cancelled than were built during the 1970s. By the time of the staged “disaster” at Three Mile Island in 1979, the number of new plants being ordered had slowed to a trickle, and after Three Mile Island, the orders stopped entirely (**Figure 6**). Under the cover of public opinion, i.e., the oil cartel-financed environmentalist movement, the oligarchy succeeded in throttling one of the greatest technological breakthroughs of the century.

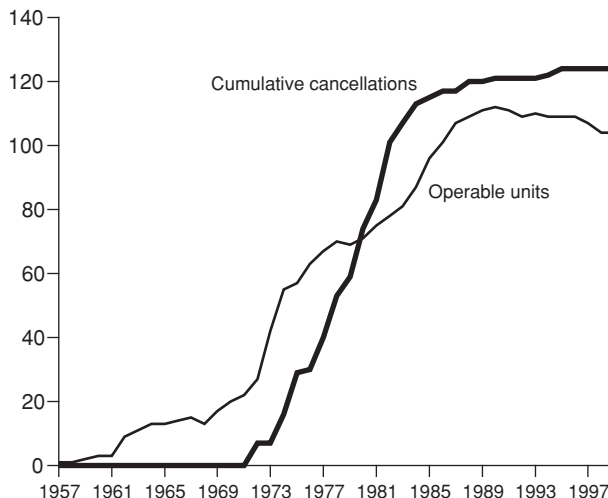
Siphoning Income Streams

The combination of the high-interest-rate policies of Federal Reserve Chairman Paul Volcker, the collapse of the junk bond empire of Drexel Burnham Lambert’s Michael Milken, and the puncturing of the real estate bubble in the late 1980s, left the U.S. financial system bankrupt at the end of the decade. Holding trillions of dollars of unpayable debt but unwilling to write it off, the financiers jumped whole-hog into derivatives and other forms of speculation, rolling over the existing unpayable debt into even bigger mountains of debt. To finance just the interest payments on the debt required huge quantities of money; some of that money was created out of thin air, some came from the Fed’s money pump, and the rest came from diverting income streams into the bubble.

Some of these income streams came from money earmarked for infrastructure projects, wages, research and development, and essential public services, such as health, educa-

FIGURE 6

Nuclear Operable Units vs. Cancellations



Source: Energy Information Administration, U.S. Department of Energy.

tion, energy, and other necessities of life. Corporate structures were reorganized to facilitate this looting: health maintenance organizations were created to grab chunks of health-care expenditures, and the utility system was deregulated to allow the grabbing of the electricity income stream.

The effect was to loot the physical plant and population of the nation, to feed the bubble. Not only did this process make the bubble bigger, but it cannibalized the productive sector of the economy, the very sector which would ultimately be called upon to pay for the financial claims. With the financial claims growing, and the ability to pay those claims shrinking, it was obvious to anyone not caught up in the financial feeding frenzy that the system must ultimately collapse.

Electric Shock

During the mid- and late-1990s, the oligarchy began covertly increasing its control over physical assets, in preparation for the inevitable financial collapse. Some of this was quite bloody, such as the wars in places like Rwanda and Burundi, which had the misfortune to be sitting atop the Great Rift Valley in Africa, one of the world’s richest veins of minerals and metals. Other mineral belts were taken over by narco-terrorists or other insurgent movements, and yet others were taken over through less-bloody corporate mergers and acquisitions.

In the United States, the asset grab was largely done through mergers, price manipulation, and deregulation. It is from this standpoint, that the current “California” crisis can be understood.

Since the passage of the Energy Policy Act of 1992, the electricity industry in the United States has been radically re-

structured.

Prior to this restructuring, electric utilities were given the right to generate and distribute electricity to homes and businesses within a specified service area. Some of these utilities were public companies which issued shares in the stock market, some were owned by state and local governments, some were owned by cooperatives, and some were Federally owned. With the right to provide power to a specified area came certain responsibilities, such as providing sufficient and stable power, timely repairs after weather-induced and other outages, and controlled rates, with prices based upon the costs of production and distribution plus a reasonable profit. The system was not perfect, but it functioned quite well.

The problem with such regulated utilities, according to the financiers, is that they generated their own power (at least the bigger ones did; some of the smaller utilities were just distributors, buying power from their larger neighbors) and sold it to their own customers, without a dollar of that cash flowing through Wall Street in the process. If the utility was a public company, the Wall Street financiers could own a piece of the company, could pressure it to pay higher dividends and take other steps to boost its stock price, but they couldn't touch the rate payments.

The Energy Policy Act of 1992

Enter the Energy Policy Act of 1992, which began the process of opening up the electric utility industry to various forms of speculation and looting. The basic idea of deregulation is to abolish the cost-plus-profits pricing structure and replace it with a form of spot market, where the price is set through financier-run, "whatever the market will bear" trading exchanges. In this way, the financiers and the energy cartel can divert a percentage of the billions of dollars Americans spend on electricity each year, into their own pockets. Deregulation also paves the way for a rapid consolidation among the utilities, where the cartel's favorites can gobble up the rest.

Both of these processes are occurring at an escalating pace.

In 1992, according to a U.S. Department of Energy study, the ten largest investor-owned utilities (that is, a traditional, publicly owned regulated utility) owned 36% of all investor-owned utility-held generation capacity, and the 20 largest IOUs owned 56%; by 2000, the ten largest IOUs owned 51% of all IOU generation capacity, and the top 20 owned 73%. But this is just part of the picture, since many IOUs are divesting themselves of their regulated generation capacity, and transforming themselves into unregulated merchant generators, also called Independent Power Producers, or IPPs.

The December 1999 Department of Energy study included data (see **Table 2**) showing the ten largest IOUs, ranked by generating capacity, in 1998. This table is already obsolete, because of mergers and divestitures of generation capacity. FPL Group, the holding company for Florida Power & Light, is merging with Entergy Corp. Chicago's Unicom, the former Commonwealth Edison, has merged

TABLE 2

Ranking of the Ten Largest IOU Companies, By Ownership of Generation Capacity, 1998

| Company | 1998 Ranking |
|---|--------------|
| Southern Company, Atlanta, GA | 1 |
| Entergy Corp., New Orleans, LA | 2 |
| American Electric Power Company, Columbus, OH | 3 |
| TXU (formerly Texas Utilities Company), Dallas, TX | 4 |
| Unicom (formerly Commonwealth Edison), Chicago, IL | 5 |
| FPL Group (Florida Power & Light), Juno Beach, FL | 6 |
| Duke Energy Corp., Charlotte, NC | 7 |
| First Energy, Akron, OH | 8 |
| Reliant Energy (formerly Houston Industries), Houston, TX | 9 |
| Dominion Resources, Richmond, VA | 10 |

Source: Energy Information Administration, U.S. Department of Energy.

with Pennsylvania's PECO Energy to form Exelon. First Energy is merging with General Public Utilities of New Jersey, and Carolina Power & Light is merging with Florida Progress. These mergers represent mergers between holding companies which own regulated utilities, rather than between the regulated utilities themselves. This is an important distinction, since local regulations still apply regardless of changes in the holding companies, but under current policy trends that protection is fading.

Despite the pace of the mergers, IOUs are divesting themselves of regulated generation capacity at unprecedented rates. Between 1997 and September 1999, according to the Department of Energy, 51 IOUs (32% of the 161 IOUs owning generation capacity) have sold off, or are in the processing of selling, 133 gigawatts of electric generation capacity, representing some 17% of total U.S. generation capacity. Of that 133 gigawatts, as of September 1999, 34% had been sold to outside buyers, 24% represented sales in progress, 23% was up for sale with no buyer found, and 19% had been transferred from the regulated subsidiary of a holding company to an unregulated subsidiary of the same company. That is, the holding company moved its regulated generation capacity into a merchant, or IPP, subsidiary, where it would be free to sell its electricity at the higher spot-market prices.

Topping the list of divesting companies is Dominion Resources, based in Richmond, Virginia (**Table 3**). Dominion Resources is the parent of Virginia Power, a regulated utility. Dominion Resources is transferring all of the generation plants of Virginia Power into an unregulated subsidiary, Dominion Generation. That this shift occurs as Virginia prepares to implement its deregulation plan, is doubtless no coincidence.

The two California utilities on the list, Pacific Gas & Electric and Southern California Edison, were required by Califor-

TABLE 3

List of The Ten Largest Investor-Owned Utility Companies Divesting Generation Assets, as of September 1999

| Utility | Generation capacity divested (gigawatts) |
|---------------------------------------|--|
| Dominion Resources (Virginia Power) | 13.3 |
| Unicom (formerly Commonwealth Edison) | 11 |
| Pacific Gas & Electric Corp. | 10.8 |
| Southern California Edison | 10.4 |
| Consolidated Edison | 7 |
| General Public Utilities System | 6.9 |
| Potomac Electric Power Co. | 6 |
| Niagara Mohawk Power | 5.3 |
| Illinois Power | 4.7 |
| Duquesne Light | 4.4 |
| Total Capacity | 79.8 |

Source: Energy Information Administration, U.S. Department of Energy.

nia's deregulation policy to sell 50% of their fossil-fuelled generation capacity, and have actually sold off closer to 70%. But both of these utilities, through their holding companies' IPPs, have been among the top ten acquirers of generation capacities outside their service areas.

In fact, eight of the ten companies which had acquired generation assets from regulated utilities as of September 1999, were holding companies which owned regulated utilities. The two exceptions were AES, an IPP founded by officials of Prince Philip's World Wildlife Fund, and Sithe Energies, a company partly owned by Vivendi, a French company active in the water privatization market in the United States, and which recently acquired the Bronfman gang's Seagrams.

In addition to the mergers and generation sales among IOUs and IPPs, there are the convergence mergers between electric and natural gas companies. From 1997 through September 1999, there were 20 convergence mergers involving companies with assets of a half-billion dollars or higher.

In 1997, Houston Industries, the holding company for Houston Lighting & Power, bought NorAm Energy, a natural gas company, and changed its name to Reliant Energy. Today, Reliant, whose board includes former Bush Administration Secretary of State James A. Baker III, is the second-leading seller of unregulated electricity in California, after AES. Baker's law firm, Baker & Botts, plays an important role in pushing deregulation.

Also in 1997, Charlotte, North Carolina-based Duke Power bought PanEnergy Corp., a Houston-based natural gas company, creating Duke Energy. Duke is also a major seller to California.

Dynegy, yet another Houston-based company, is a natural gas company which bought Illinova, an Illinois electricity and

gas utility. Dynegy, which is 29%-owned by Chevron, also owns unregulated power generation facilities in California.

Too Cheap To Meter

That the intent of the energy pirates is to charge as high a price as they can get away with, has been made clear. In Texas, where the deregulation bill is considered by President George W. Bush as a model for a hoped Federal deregulation bill, the mask of "lower prices" has been dropped. Pat Wood, III, the chairman of the Public Utility Commission of Texas, recently told the *Washington Post* that it is politically reckless to promise that deregulation will lower electricity prices. "The best thing you can promise is that the price you'll pay in a competitive market will be less than you'd pay under regulation," said Wood, the former Baker & Botts attorney appointed to his position by then-Governor Bush.

Dynegy, in a Nov. 22, 2000, filing with the Federal Energy Regulatory Commission, stated that "in order for market-based rates to work, the prevailing prices must be sufficient to attract new investment." Dynegy suggested that, given the "scarcity of generation in California," the concept of a "legitimate scarcity rent" should apply. It added that the generators must set their prices "based on their forward-looking perceptions of their opportunity costs" in ways which "maximize value."

Reliant Energy official Joe Bob Perkins told the Jan. 9 *Washington Post* that if the welcome mat is out, the generators will respond, but if California officials don't ensure profitable investment in future plants, "nothing new will be built."

Contrast this "pay up or else" situation with what might have been, and what could one day be, were the U.S. government to bring the speculators to heel, and launch a crash program to build nuclear power plants.

With nuclear power, electricity could indeed be too cheap to meter, with flat rates based upon building size and use (the need to install and monitor usage meters, and calculate bills based on those meter readings, represents a significant cost to the utilities, a cost which could be eliminated with proper generation technologies).

Not only should electricity be too cheap to meter, there should be no such thing as a shortage. Despite what the "environmentalists" say, we should not be conserving electricity, but using more of it. One of the measures of economic progress, is the increase in energy consumed per household, per capita and per square kilometer. Rather than turn off our air conditioners during a heat wave, or turn off our heaters during a cold snap, as we are advised to do by today's "experts," we should generate enough energy to make such foolishness unnecessary. Not only should we have the generating capacity to cover today's maximum usage, but we should have extra capacity to cover tomorrow's scientific breakthroughs. The challenge should not be in getting through the day without blackouts, but in finding useful new ways to use energy to increase the productive power of human labor and raise the standard of living of our population.