

Bush to California: Drop Dead!

by Marsha Freeman

In 1975, New York City, then the most populous city in the United States, faced the prospect of going into bankruptcy. Decades of looting by real estate speculators and Wall Street banks, and the resulting underinvestment in basic infrastructure, created an existential crisis for the Big Apple.

President Gerald Ford refused to have the Federal government intervene to keep New York out of bankruptcy. In response, the *New York Post* printed a full-page bold headline: "Ford to City: Drop Dead!" Political pundits believe that this mistaken policy helped President Ford lose his bid for reelection in 1980.

Even before officially assuming the office of the Presidency, George W. Bush was facing a similar existential crisis, this time on the West Coast, in California. Only emergency Executive Orders at the end of the Clinton Administration had kept the lights on and the natural gas flowing. While the new President decided to extend the previous electricity and natural gas emergency orders for two weeks, he and his appointed representatives made it clear there will be no further Federal intervention to prevent a total catastrophe in California, while the crisis quickly spreads to surrounding states in the Northwest.

As California faces more rolling blackouts on a daily basis, President Bush has only repeated that the solution is his "free market" policy, of encouraging the production of more oil and gas. That he would promote this approach is hardly surprising, since the money that put him in the Texas Governor's Mansion and the White House, and paid for most of the transition, and even the inauguration, came from oil and gas companies, such as Houston-based Enron.

Without Federal intervention to reverse the deregulation of the electric utility industry, there is no solution for the crisis in California or any of the Western states. The reality of the scope of the coming disaster is bumping up against the "free market" looting that has been the hallmark of the President's political and financial support.

California Must 'Fix Its Own Problems'

Before Bush's inauguration on Jan. 20, media and elected officials from California were pressing the President-elect to answer questions regarding what he would do about the crisis. Transition team members told the press that President Bush's number-one priority would be to increase production of oil and natural gas. Not even everyone in the industry agreed

with that approach.

In December, Lawrence Goldstein, president of the Petroleum Industry Research Foundation, warned, "We're increasingly dependent on a single source of fuel, natural gas, for power plants, and what's happening in California could be happening in the Northeast."

On Jan. 18, during a series of interviews, Bush dismissed the institution of Federal price caps on the cost of wholesale electricity as an action his Administration would not take. Wholesale caps, to limit the price that out-of-state wholesalers can charge the utilities for power, had been requested by California Gov. Gray Davis, California's U.S. Sen. Barbara Boxer and Dianne Feinstein, and governors of surrounding Western states, which have seen their prices skyrocket, along with California's. Bush made clear he would not act to curb the obscene profits being made by his friends and financial supporters, even though the prices they were charging had pushed two California utilities to the edge of bankruptcy.

The timing for Bush's remarks was unfortunate. On Jan. 17 and 18, millions of people in northern California suffered rolling blackouts. In response to Bush's statement, that California had passed a "flawed" deregulation plan, and now had to fix its own problems by fully deregulating, an angry Senator Feinstein responded: "It's one thing to blame California. At the same time, you're going to have people who are going to die. You're going to have businesses that go out of business." The Senator said she would try to meet with Mr. Bush to make the case for regional price caps.

On Jan. 21, his first full day as President, while taking reporters on a tour of the White House, Bush was asked what the Federal role would be in solving the California crisis. His reply was that we need "more power, we need pipelines bringing energy to the plants."

Two days later, faced with expiring deadlines, Bush authorized the extension, for two weeks, of the emergency orders requiring companies to sell electricity and natural gas to the near-bankrupt California utilities. He also emphasized that this would be the final extension.

Unable to ignore the simmering political as well as energy crisis in all the Western states, Administration officials announced on the Sunday television talk shows on Jan. 28, that the President had formed a task force to address energy problems. Vice President Dick Cheney, who had been chosen to lead the task force, said, regarding the emergency orders, "the

President made it very clear that that is an absolute deadline.” Asked if the state government should take control of its electrical industry, Cheney responded, “That wouldn’t be my choice. I’m a believer in markets. . . . I think the notion of deregulation is basically sound. What happened in California was it was poorly executed.”

White House economic adviser Larry Lindsey was a bit more blunt. “They should expect no more help from the White House,” he told “Face the Nation.” Lindsey tried to make the case that the emergency orders were, in any case, not that important, and had not brought a significant amount of power into California. They could accomplish the same effect of getting this little bit more power, he said, by increasing efforts at conservation. Lindsey described the effect the California crisis was having on the economies of the surrounding states, and Vice President Cheney announced there would be a meeting on Feb. 1 with the Western states’ governors.

The next day, the task force on energy — which included Secretaries Spencer Abraham at Energy, Paul O’Neill at Treasury, Donald Evans at Commerce, Norm Mineta at Transportation, Ann Veneman of Agriculture, and Christine Whitman at the Environmental Protection Agency — met at the White House. President Bush explained that this was the first in a series of meetings to be chaired by Cheney.

Bush focussed his remarks on the line that demand for energy has outstripped supply, and that the solution was to reduce America’s reliance on foreign oil, and “encourage the development of pipelines and power-generating capacity in the country, so that we can help our fellow citizens.” Not a word about dealing with the snowballing crisis in California.

At the White House press briefing a few hours later, Bush spokesman Ari Fleischer reported that “there was no new ground broken” at the energy task force meeting, regarding California.

Since Fleischer was continually stressing that the Bush energy policy, which the task force has been asked to develop, focusses entirely on more gas and oil, William Jones, Washington Bureau chief of *EIR*, asked him if there were a “Texas bias” in the program, since “it seems as if nuclear [energy] has completely disappeared,” from consideration. Fleischer admitted that there is only “a little” in the President’s policy paper of last September on streamlining nuclear power plant approval.

So, the essence of the Bush energy policy, for California and in general, is to try to elbow through the Congress provisions in order to open up new deposits of oil and natural gas, and new business for Enron and its other campaign contributors. The Administration will most likely be developing a Federal electricity deregulation bill, to spread the misery, and hasten the collapse of the energy industry and the financial system which is tied to it. Consumers are to pay whatever these pirates charge them, and if they don’t like it, they can conserve and use less energy.

In the meantime, if there is no re-regulation, and the California utilities default on \$12 billion in debt, plus \$20 billion in related cross-defaults, the entire financial house of cards could come down.

No Solution in California, Either

While the Bush Administration has made clear it will not give any Federal help to California, the state has been desperately trying to patch together a set of proposals to keep the utilities out of bankruptcy, provide a reliable source of electricity, and avoid raising rates that would drive masses of people into poverty, and businesses out of the state. But within the given rules of the game, there is no way this will work.

On Jan. 31 and Feb. 1, the Senate and Assembly of California, respectively, passed legislation Gov. Gray Davis hopes will scotch tape the state together.

To keep power flowing, the law authorizes the state to float \$10 billion worth of bonds. The state will use those funds to buy electricity from wholesale suppliers, on long-term contracts. Pacific Gas & Electric and Southern California Edison will distribute the power, and collect the money from customers, at a rate that is lower than what the state will have to pay for it. The \$10 billion is to cover the gap between those two amounts.

To keep the utilities out of bankruptcy court, the state will allow the utilities to raise their rates a modest amount, and use that “extra” money, from consumers, to start to pay off the nearly \$12 billion they have accumulated in debt, during the eight months they were paying “free market” prices for power.

In addition, \$800 million will be allocated to promote a “conservation” program, to convince people to reduce their energy use, and keep the state from having to impose more rolling blackouts, especially this Summer, when it is unlikely supply will meet demand.

Without Federal intervention to re-regulate and force power suppliers to reduce their rates, and charge only what is reasonable, the state, and all states, continue to be held hostage to the out-of-state conglomerates, and power marketers, such as Enron, which have enjoyed three-digit profits increases over the past half year. Without retroactive refunds from these privateers, the citizens will be paying off the accumulated \$12 billion in debt for decades, as will their children and grandchildren.

“Conservation,” which simply means forced austerity, where consumption above a certain level triggers higher rates, or fines, will only lower the standard of living of the citizens of the state, and drive more businesses into shutdowns and relocation.

Under deregulation, there is no way to prevent the meltdown of California’s energy supply system, nor the financial system that will go down with it.