Support Boxer/Feinstein Bills as First Step Toward Re-Regulation

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This testimony of EIR News Service was prepared for the Senate Energy and Natural Resources Committee Hearing, March 1, 2001, "To Receive Testimony on Senate Bills: S. 26, S. 80 and S. 287." The full title of EIR*'s testimony is "Support the Feinstein/Boxer Energy Bills as First Step To 'Go the Whole Way' To Re-Regulate Energy, To Use Chapter 11 Bankruptcy, and Stave Off Economic and Financial Collapse."*

Dear Chairman Murkowski, Members of the Committee, and Senator Boxer:

The draft Federal energy bills now before you—S. 26, S. 80 (both introduced Jan. 22), and S. 287 (Feb. 8), by the California Senators—deserve full support for the policy direction they propose. Namely, they are a move toward Federal government regulation of the vital service of electric power, for the interest of the general public. The limitations are not as important as the fact that these two bills, and very few others (one is that of Rep. Peter DeFazio, D-Oregon), favor serving the general welfare, and go against the Administration's crazed continuance of deregulation, which is equivalent to throwing gasoline on a burning house.

Moreover, the additional danger at present, is the political fact that, without such measures, the process of worsening energy emergencies—for the Northwestern states, and New York, as well as California—can be taken by the Administration as the pretext for "rule-by-decree," on exactly same principle as in Hitler's 1933 takeover. We do not exaggerate. This prospect was the inherent danger in the confirmation of John Ashcroft for Attorney General, who ideologically opposes Federal government measures to protect and advance the General Welfare. Without re-regulation, however, the crisis will worsen to the point of creating a national emergency.

In opposition to the mantra of "free markets," there are moves now in all states to delay, roll back, or reconsider energy deregulation, to prevent economic destruction, and the threat of chaos or dictatorship. In particular, the emergency policy proposals made by economist Lyndon LaRouche—contributing editor to EIR News Service, are under review at town meetings, lobbying days, and policy sessions in dozens of states.

In brief, LaRouche's proposals call for re-regulation of energy, and Chapter 11 bankruptcy for the California utilities, and others in the same position. These are traditional precedents from the FDR era.

LaRouche, who forewarned decades ago of the consequences of deregulation, and allowing a "casino" economy of speculation and concentrated ownership, released on Feb. 6 a policy document on the "California Energy Crisis, As Seen and Heard by the Salton Sea," 400,000 copies of which are circulating in the form of a mass pamphlet, through the "LaRouche in 2004" Democratic Presidential campaign. Excerpts of this document were provided to the Committee in *EIR* testimony to the Jan. 31 hearing on the California crisis.

We remind you of what it means to continue to back deregulation. In tables below, we provide the statistics of the 30% to 200% profit rates for Y2000, made by Bush Administration-aligned Enron and the new energy "merchant" and speculation companies, off California and other power crises; these companies also made mega-donations to elected officials. However, beyond simple corruption, the point shown is that any expectation that the *financial and economic system which is based on this level of hyperinflation, and cartel control, can continue, is insane.*

Either you start to think, as implied in the Feinstein/Boxer bills, that something can and must be done to set controls on the markets, or you are on the side of chaos and destruction. First, we provide the Committee the economic assessment given by Lyndon LaRouche at an international policy conference Presidents' Day weekend in Reston, Virginia; and then some documentation of the nature of the crisis, and why there is no other policy direction than what LaRouche proposes, like it or not.

LaRouche's Assessment: Hyperinflation

On Feb. 17, in an address titled "A Branch in the Road of History," LaRouche said, "What you're seeing in the energy prices, what you're seeing in the costs of supplies—manufacturers' supplies—combined with what you're seeing in the collapse of retail sales, what you're seeing in terms of the mass layoffs, in one industry after another, which is now building up into an international chain-reaction, is a process of a depression, caused, like that of Weimar Germany in 1923—worldwide—by the collapse of a financial bubble, which has gone into a hyperinflationary phase.

"That's why Alan Greenspan has lost his marbles. He probably didn't have too many to begin with, but whatever he had, he's lost.

"So, we are now at the point, where it is impossible, by the present methods, to keep this system going. It is in the process of going into a deep depression. And nothing that these guys are proposing, or will accept, will work. The idea of more deregulation, the idea of tax reductions, all these kinds of things—cutting down the role of government, opposing re-regulation—all of these things ensure nothing but the greatest depression in world history. *Globally*.

"Because, what happens is, the U.S. is the importer of last resort; nations all over the world have been depending on dumping cheap-labor products on the U.S. market, for the products we no longer produce. As our market declines, as you saw in the last-quarter retail sales, which is the big Christmas retail business, from the last quarter of the year: That collapse set into motion a chain-reaction collapse around the world, which, together with the financial collapse, caused by the hyperinflation, has sunk the world economy. We can no longer finance that kind of subsidy for imports, as we were doing before; therefore, we can't do that. Therefore, our suppliers, who have used us as a market, are now being shut down.

"For example, Mexico can expect, 20, 30, 40% of its exports into the United States to be wiped out, very soon. One of the biggest. Canada is already suffering, as you've seen from some reports recently from there. This is a global process."

Required: Re-Regulation and Chapter 11 Bankruptcy

LaRouche continued, by describing what is required: "Take the California energy crisis. We have a worldwide energy crisis, and especially a West Coast energy crisis. There's only one way you can deal with that energy crisis: You've got to go back to regulation. Use what we prepared in the 1930s—Chapter 11 bankruptcy protection for the entire industry. You see, in this kind of Chapter 11 bankruptcy, you protect, not only the creditors and debtors; *you protect the general public*. You see, because the people of California, for example, have to be defended. The interests of the firms of California, the farms, have to be defended. Whether or not they're involved in the relationship between the creditors and debtors, is irrelevant.

"The fundamental interest of the United States, is that our people have electricity! That our firms have the power to operate on. That our hospitals function. That our farms function. When we go into court with a Chapter 11 bankruptcy, these interests come on the table, and actually have the greatest say, in how the bankruptcy will be renegotiated. The creditors and the debtors go into a second tier. What comes up front, is the interest of the nation; the interest of the people; the interest of the economy.

"So, we need Chapter 11 protection, for all the imperilled sections of vital infrastructure for our national economy.

"Secondly, we can not do this, without both a combination of Federal and state *re-regulation*.

"If we do that, we have enough energy available to manage this crisis, and can manage this at prices, at charges to people who are using electricity, to ensure the electricity they require, and to ensure that it's delivered to them, regularly, at a decent price. We can guarantee that.

"If we do that, the energy crisis is brought under control."

Who Opposes Controlling Energy Prices?

LaRouche then turned to who would oppose solving the energy crisis, asking, "*But, what does that mean?* That's in the interest of the nation. How can any patriot oppose that? George Bush has to be opposed to it. If you look at the combination of financial interests, which is represented by the people that gave the money to make Bush President: *These guys would be wiped out, by an honest deal*. Because they make their money by looting; they bid up the price. The reason that the prices go up, is purely that these fellows are looting the United States, as well as other countries. Therefore, the interest, the reaction, the response of these people, is *against* the interest of the people of the United States; *against the national security interests*."

TABLE 1

California Power Suppliers Post Mega-Profits for 2000

(millions of dollars)

Company	1999	2000	% Change
Williams Cos.	$ 221	$ 832	276%
Calpine Corp.	95	323	240%
Dynegy	146	452	210%
AES	228	657	188%
Arizona Public Svc.	127	307	141%
Reliant	528	819	55%
Enron	893	1,266	42%
Duke Energy	1,507	1,776	18%
Southern	1,276	1,313	3%
Total	**$5,022**	**$7,745**	**54%**

Source: Company reports, analyzed by *Public Citizen,* February 2001.

TABLE 2

Political Donations by Energy Cartel Firms, 2000

(thousands of dollars)

Company	Republicans	Democrats	Total
Enron	$1,610.0	$ 728.3	$2,338.3
Southern Co.	856.5	275.0	1,131.5
Reliant Corp.	634.6	190.3	824.9
Edison Electric Institute*	347.1	293.6	640.6
Williams Cos.	244.0	30.9	274.8
Duke Energy	210.8	66.3	277.0
Arizona Public Svc.	92.5	14.8	107.2
Dynegy	60.2	59.9	120.5
AES Corp.	4.7	76.2	80.9
Calpine Corp.	34.7	39.5	74.1
Total	**$4,095.0**	**$1,774.5**	**$5,869.4**

* Association of investor-owned power companies.

Source: Public Disclosure Inc. (www.tray.com) data analyzed by *Public Citizen,* February 2001.

Public Citizen *shows that the major California power producers and marketers donated $5.9 million to Federal candidates and political parties during 1999-2000; of this amount, $4.1 million went to Republicans and $1.8 million went to Democrats.*

Tables 1 and **2,** reproduced here from the March 2 issue of *EIR,* "Energy Crisis Update, Feb. 22," give data analyzed on the energy cartel mega-profits, and mega-donations to political campaigns.

Not a 'Supply-and-Demand' Problem

The tables, listing the companies making hyper-profits off hyperinflationary energy prices, also raise the point that the problem in runaway energy prices is emphatically not a "supply-and-demand" issue. While the energy infrastructure and resource base of the United States has been degraded (from aging transmission lines, to the lack of new nuclear plants) over the last 30 years, today's energy price spikes are clearly speculation and gouging.

Figures 1, 2, and 3 (see pp. 12-13) for three power commodities—oil, natural gas, and electricity (California)—all show that while supplies (and correspondingly, use) remain almost level, prices soared during 2000. During this same time, demand did not jump. The price takeoff came directly from deregulated energy "markets" and speculation.

Two more points should be brought out in this respect. Natural gas, because it is Federally deregulated, is soaring in price (from speculation and gouging) *all across the continent,* with terrible economic dislocation and financial chaos. Where natural gas is part of the electricity generation, a double-whammy is hitting the locale. Secondly, price rises for petroleum do not correspond with nonexistent swings in supply or demand for oil. Prices soar from speculation and gouging.

In the best estimates of financial analysts, every barrel of oil entering world exports, is traded up to 15 times over on the London and New York commodities futures exchanges. This is called "paper oil." Natural gas is traded on the New York Stock Exchange eight or ten times more than the volume that exists. Electricity futures are traded many times over the actual unit volume and production costs.

These few facts demonstrate that only a policy that will "go the whole way" with energy price re-regulation, and Chapter 11 bankruptcy protection of the public interest, is appropriate to the nature of the crisis we now face. Half-way measures, or partial "bailouts," are doomed, along with the economy, if we don't take an across-the-board re-regulation approach.

Thus, from this point of view, the principle of public interest embodied in the Feinstein/Boxer bills is in the right direction, but too limited, given the reality of the depression.

S. 26—"To impose interim limitations on the cost of electric energy to protect consumers from unjust and unreasonable prices in the electric market"; and

S. 80—"To require the Federal Energy Regulatory Commission to order refunds of unjust, unreasonable, unduly discriminatory or preferential rates and charges for electricity, to establish cost-based rates for electricity sold at wholesale in the Western Systems Coordinating Council. . . ."

S. 287—"To impose cost-of-service-based rates [meaning, to cover cost of production, and a reasonable return on invested capital] on sales by public utilities of electric energy at wholesale in the western market" [the states covered by the bills are defined as the "Western Energy Market"—Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming].

It is in the best interests of the nation, that these draft bills be expanded to cover all power modes, be nationwide, reinstate regulation, and facilitate Chapter 11 bankruptcy actions where needed.