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EIR
ENERGY CRISIS UPDATE

Prepared March 1, 2001

Agenda for National Energy Emergency Action

I. Scope of Energy Crisis:

Physical Economy

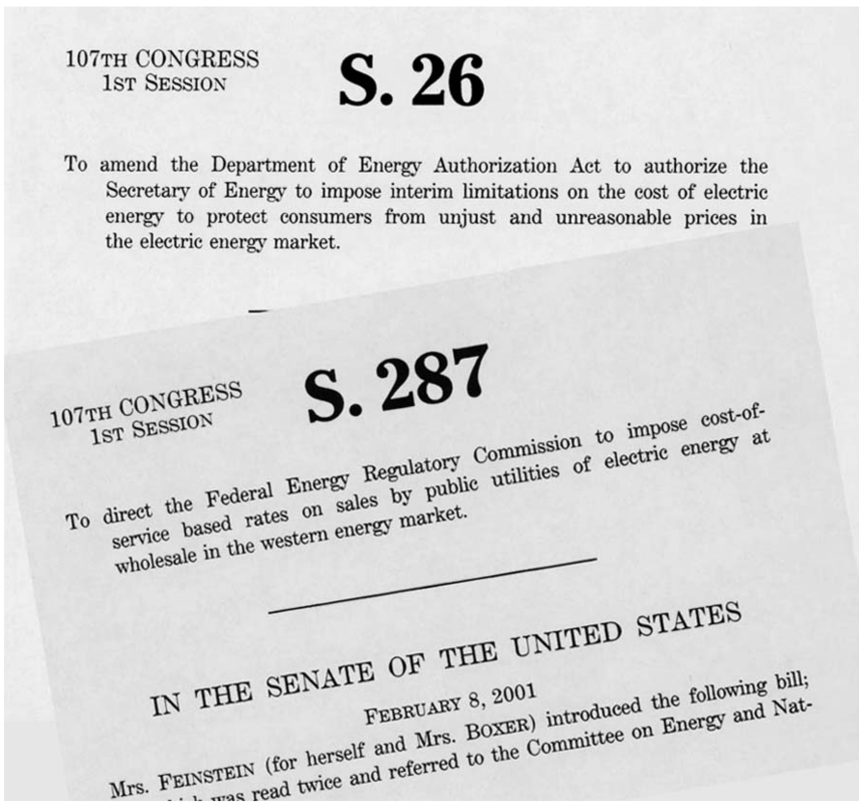
Chain-reactions of U.S. layoffs, factory closings, residential hardship, threats to farming, etc. provide dramatic evidence of the consequences of allowing the out-of-control energy crisis to continue, and tolerating the Federal Reserve/Administration hyperinflation policy. While the 300,000 industrial layoffs over the past six months cannot be directly attributed to the dramatic jumps in energy costs, these are certainly a causal element.

■ **California update:** After a several-day reprieve from more than a month of "Stage Three Alert," on March 1 the state had to move to a Stage Two Alert, meaning that the power supply had dipped to less than 5% in reserve. This was due to a number of power plants being taken out of service for maintenance.

Southern California Edison has agreed to sell its share of the transmission system to the state of California for $2.76 billion, to avert bankruptcy liquidation of the utility. But Bush's Federal Energy Regulatory Commission (FERC) chairman, free-market zealot Curt Hebert, made clear the agency will oppose California's action, calling it "nationalization." Edison International, the parent company, will transfer $420 million to the ailing utility. Southern California Edison's bankers said on Feb. 23 that they would extend their forbearance agreements on overdue loan repays to March 14. There is still no agreement between Pacific Gas & Electric and the state on selling that company's lines.

The L.A. Dye and Print Works announced that it will close down at the beginning of April, due to the skyrocketting cost of natural gas. This will lead to 700 more layoffs. Twenty percent of California's small businesses are now trying to arrange to move to other states, because of the energy crisis, according to the National Federation of Independent Businesses.

According to the *San Francisco Chronicle* of Feb. 23, wholesale suppliers are holding California utilities hostage, by refusing to sign long-term contracts until Gov. Gray Davis somehow assures that they will collect their debts from the state utilities. Four contracts have been signed, and ten are pending.



107TH CONGRESS
1ST SESSION

S. 26

To amend the Department of Energy Authorization Act to authorize the Secretary of Energy to impose interim limitations on the cost of electric energy to protect consumers from unjust and unreasonable prices in the electric energy market.

107TH CONGRESS
1ST SESSION

S. 287

To direct the Federal Energy Regulatory Commission to impose cost-of-service based rates on sales by public utilities of electric energy at wholesale in the western energy market.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 8, 2001

Mrs. FEINSTEIN (for herself and Mrs. BOXER) introduced the following bill; was read twice and referred to the Committee on Energy and Nat-

Hearing cancelled: California's Congressional delegation's first sane step toward solution of the energy crisis, according to the general welfare principle, was brushed aside by Republican Congressional leaders. S 26 and S 287, by Senators Boxer and Feinstein, were denied a scheduled March 1 hearing, by Senate Energy Committee Chairman Frank Murkowski (R-Alaska).

II. Scope of Energy Crisis: Financial

On Feb. 28, California Governor Davis went to Wall Street to personally talk up his new state energy rescue plans, while nationally and internationally, the whole financial system is proceeding to unravel.

According to the Feb. 28 *Wall Street Journal,* two money market funds managed by Zurich Financial Group's Zurich Scudder Investments, and one offered by Mellon Financial Corp.'s Founder Asset Management, were forced to sell off their holdings of commercial paper in the California utilities to their parent companies, in order to make sure the funds do not take a loss, and go below the $1 a share net asset value that most funds maintain. An official of iMoneynet expects at least a dozen other funds with exposure to the California utilities, to do the same in the next few weeks.

Surcharges on services and products are now being slapped on, not just airfares, freight hauling, FedEx, aluminum, but even down to laundry fees and dozens of daily costs.

III. Energy Infrastructure: Crises and Reactions

"What's going on in California has put the whole Western U.S. at risk," is the comment from Jerry Smith, the Chief Engineer for Arizona's Corporation Commission (utilities' oversight commission), reported Feb. 17, in the *Arizona Republic*. There is intense pressure for makeshift solutions to providing energy, in the absence of re-regulation intervention. In Phoenix, Arizona Public Service Co. has arrangements under way to put back into operation two mothballed, 50-year-old steam generators. It will rent two portable generators, and set up an operation to marginally increase supplies this Summer for west Phoenix.

On Feb. 27, Governor Davis, in a speech before the California State Society, claimed the electricity crisis was on the road to being fixed. He was quoted by Reuters on Feb. 26, saying, "hopefully . . . we are on the backside of the problem." But the Independent System Operator, whose job it is to find the power the state needs, predicts shortages of over 3,000 megawatts in May, 6,815 megawatts in June, and 4-5,000 megawatts in July and August.

IV. Policy Response: Federal Level

■ **Bush, Congressional Republicans in "Imperial Front" Against Regulation:** An "imperial front" was presented in Washington, D.C., the last week of February, by the Bush Administration and allied Congressional figures, backing energy deregulation, no matter what.

The persistent "line" is that the energy cartel must be given free rein, assurances of future free rein, and financial inducements to build more natural gas electricity plants, to gain more control over transmission grids, and other similar demands.

Feb. 26: During a Western States' Governors meeting with Bush, Washington Gov. Gary Locke asked Bush for Federal intervention, in the form of regional caps on wholesale electricity prices. The Washington press reported Locke's statement that Bush "said he was very reluctant to go down that path," and Locke's dissatisfaction with the White House response.

Feb. 26: FERC head Curt Hebert reiterated to state utility commissioners, his personal allegiance to President Bush, and to deregulated energy "markets" pricing.

Feb. 26: The National Energy Policy Development Group (formed earlier in the year by President Bush, and including Vice President Richard Cheney, Treasury Secretary Paul O'Neill, Energy Secretary Spencer Abraham, and others) presented its pro-energy cartel policy, at the National Association of State Energy Officials conference in Washington, D.C. Deputy Director for the group, Karen Knutson, said that they are working on a study, to be released in April, which would include how to make it attractive for energy companies to increase future supplies.

Feb. 26: Sen. Frank Murkowski (R-Ak.), Chairman of the Senate Energy and Natural Resources Committee, held a press conference to release his new "National Energy Security Act of 2001." The bill includes billions of dollars in tax breaks, incentives, and subsidies for oil and gas companies. It proposes to streamline permits for oil and gas pipelines (on routes where the "industry"/cartel desire). Other proposals facilitate the energy cartel gaining control over the continental electrical transmission grid.

About the same time, Murkowski's Energy Committee *cancelled* a March 1 hearing, which was to have taken testimony on bills opposite to Murkowski's. Hearings were initially scheduled for March 1, on Senate bills 26, 80, and 287, which were submitted by Democratic Senators Barbara Boxer and Dianne Feinstein of California. See *EIR*'s testimony evaluating these bills on p. 9. This testimony was circulated widely on Capitol Hill, in anticipation of the hearings.

A new bill to repeal the 1935 Public Utility Holding Company Act, FDR's flagship bill, was introduced on Jan. 30. S. 206 is sponsored by Senate Energy Committee Chairman Murkowski, Richard

Shelby (R-Ala.), Paul Sarbanes (D-Md.), Phil Gramm (R-Tex.), Chris Dodd (D-Conn.), Senate Majority Leader Trent Lott (R-Miss.), Larry Craig (R-Id.), and Michael Crapo (R-Id.). It will go to Gramm's Banking Committee for hearings.

■ **AFL-CIO for Re-Regulation:** The Executive Board of the AFL-CIO took a significant step at its Feb. 14-17 meeting in the direction of re-regulation. The Board said that the energy "crisis is primarily due to inadequate generating capacity, and this shortage is the result of the removal of the regulatory regime that would have been responsible for assuring adequate supplies of power. . . . California's experience exemplifies the pitfalls of electricity restructuring, and underlines the foolhardiness of trusting this most essential industry to flawed market mechanisms." It calls for a "new regulatory regime that can ensure affordable and adequate supplies of power." They call for a national conference to fight deregulation.

V. Policy Response: State and Local Initiatives

In over two dozen states, hearings in the legislature, or before state regulatory boards, are taking testimony on the scope of the crisis, and need for re-regulation.

■ **Michigan:** On Feb. 28, two representatives of FDR-PAC, the political action committee founded by LaRouche Democrats, addressed a packed hearing of the energy committee of the Michigan State Legislature. Max Dean, a well-known Flint attorney, and constituency leader James Puertas both testified, outlining the reality of the U.S. depression and the need for total re-regulation, Chapter 11 bankruptcy protections, where required, and an approach based on the General Welfare clause of the U.S. Constitution. The hearing occurs as Michigan, which has undergone deregulation, anticipates a 100% rise in natural gas prices in April, when deregulation permits price caps to be lifted.

■ **Nevada:** Senate Bill 253, which would halt the sales of power plants owned by Nevada's utilities, has been introduced and referred to the Committee on Commerce and Labor. The bill would halt all sales now in progress, and prohibit any through at least July 1, 2003, thus blocking other measures for deregulation on the books.

■ **Texas:** Rep. Sylvester Turner (D-Houston) has filed a bill to allow regulators to cap prices, or delay deregulation, if it appears that retail competition will fail when the market opens in June 2001.

■ **Kansas:** The legislature defeated a bill on Feb. 22 that would have given unregulated "merchant" power suppliers tax breaks for building power plants.

■ **California:** In a proposed order to the state Public Utilities Commission, administrative law Judge John Wong recommended on Feb. 23 that past utility layoffs be rescinded, planned layoffs be cancelled, and none be allowed in the future, as they could hurt electric reliability and reduce customer service. The PUC will review the matter on March 7.

VI. Considerations for Re-Regulation: National Energy-Management and Reconstruction

Seven states have taken their case against the FERC to the U.S. Supreme Court, to stop it from being able to supersede the states' rights to regulate electricity rates for their retail customers. In a ruling in 1998, FERC had told states they could not regulate intrastate distribution, if the power is resold. The Justice Department is supporting FERC. The Supreme Court decided on Feb. 26 it will take the case.

It's The Ideology, Stupid

LaRouche Democratic leader Harley Schlanger reports from California:

Major financial institutions, such as Bank of America and Wells Fargo, already staggering, are now forced to write off bad debts (more than $1 billion for the Bank of America in the fourth quarter of 2000, and $1.2 billion for the first quarter of 2001) They are pressuring the state of California for a bailout of the California utility companies so they can pay their debts, so the banks can survive. Policymakers in California, starting with Governor Davis, are hoping they can crisis-manage their way out of the crisis, afraid to challenge the axioms of the New Economy, perhaps in fear that to do so might precipitate a panic.

I, and other leaders and activists among LaRouche Democrats, have met with state and national elected officials, who are supposed to act for the general welfare of the citizens. In private, they admit that deregulation has been an unmitigated disaster. Most will acknowledge that there was nothing wrong with the regulated system, which worked quite well since having been implemented by President Franklin Roosevelt. Yet, these officials whimper, "We can't go back to regulation. We have to accept the reality of the New Economy."

In other words, while they know that deregulation does not and will not work, they say that there is no choice but to accept it! And so, while the Governor of California is offering assurances that the energy crisis will soon be under control, he has committed the state to a bailout fund which is now approaching $15 billion, with the money going into the pockets of the shareholders of the power companies and the bankrupt banks. The taxpayers and consumers of California are being looted, in the name of "shareholder values," which is being imposed by Enron chief Ken Lay and his bought-and-paid-for henchmen in the Bush Administration.

There is an alternative. It's time to say, "It's the ideology, stupid," and join the fight led by Lyndon LaRouche to re-regulate, in defense of the general welfare.