ENERGY CRISIS UPDATE

Prepared March 8, 2001

Agenda for National Energy Emergency Action

Demands for Federal Action for Electricity Price Caps, Ending Speculation

As of the first week of March, demands intensified, in Congress and in state legislatures, for Federal intervention to stop the out-of-control energy hyperinflation and economic breakdown.

■ **Letter to Bush:** On March 6, a group of 26 Congressmen from the Western states sent a letter to President Bush, stating, "As this crisis deepens, and its economic impacts become more pronounced, it becomes increasingly apparent that Federal action is necessary to prevent this problem from injuring our economy on a longer term basis. . . . We believe a wholesale price cap should be employed to address this situation, and that such a cap can be structured to ensure that it is short term and does not act as a disincentive for the creation of new generating capacity."

Signers of the letter to Bush included 25 Democrats and one Republican, all from the Western states. Washington: Inslee, Dicks, Smith, Larsen, Baird, McDermott. Oregon: DeFazio, Hooley, Wu, and Blumenauer. California: Hunter (R), Farr, Baca, Bacerra, Sherman, Capps, Lee, Honda, Taucher, S. Davis, Napolitano, Millender-McDonald, Schiff, Condit, Berman, and Thompson.

■ **Congressional Hearing March 6:** Twenty-five Congressmen testified to the House Commerce Committee's Subcommittee on Energy, with the most vocal demands for Federal intervention coming from the California and Northwestern Representatives. Jay Inslee denounced the stonewalling by the Energy Task Force, headed by Vice President Dick Cheney, which for three weeks has refused to answer Inslee's repeated messages. The letter requested "an opportunity to meet with you and the Administration's energy task force."

Inslee told the committee that at the Democratic Party retreat in Western Pennsylvania earlier this year, Inslee raised his proposal for cost-based electricity pricing to Bush, who had made a pointed gesture to attend. Inslee said, "The President expressed disinclination—to put it mildly," and Bush told Inslee, "Talk to the Vice President." Whereupon, Inslee tried for three weeks, but Cheney and the task force refused to reply.

Inslee, Rep. Bob Filner (D-Calif.), and others reported details at the March 6 hearing, of the severe economic dislocation in their districts. They denounced the hyper-speculation by the energy cartel. Filner filed criminal charges on March 5 against certain of the energy cartel companies.

Among the activist grouping of Congressmen, is Republican Duncan Hunter, from San Diego. Hunter and Filner are calling for a municipal utility, to ensure reliable, reasonably priced electricity.

Strong Remarks at Hearing

The following excerpts are from remarks at the March 6 House Commerce Committee Subcommittee on Energy hearing (third in a series) on the "Energy Crisis in California and the West" (Panel I), and on a "National Energy Policy" (Panel II):

■ **Rep. Bob Filner:** "We were first to deregulate, with total deregulation in San Diego; and look what happened when it kicked in. The first month last Summer, the electricity price doubled; the second month, it tripled. Scores of small businesses closed. . . . This is not a crisis of supply and demand. There is no cost relationship to these prices. Natural gas had not yet entered the equation. . . . Even though FERC [Federal Energy Regulatory Commission] found prices to be unjust and illegal, they took no action."

The cartel "robbed the city, robbed the state, robbed the region, and robbed the country. . . . The state is paying $2 million an hour, now, for electricity; $45 million a day. The energy cartel has taken $20 billion out of the state in the last eight months. It's regional, and it's national. . . .

"The President announced: 'hands-off, let the markets decide,' [but] there ain't no market. There's a small energy cartel" making huge profits. "Our bill, HR 268, is for cost-based rates for the region, instead of these excessive costs. There should be a refund of money to the utilities and consumers of California." He described Duke Energy gaming the markets.

He said, "FERC must take action on price stability and sanctions" against the companies. Filner announced that he had filed criminal charges against the cartel companies. "It's grand larceny. Attempted theft. Murder. Killing off of businesses."

■ **Rep. Jay Inslee:** Inslee said that there is destruction in his state from two disasters: the earthquake, and the energy catastrophe. He told of people with two jobs, having to go to food banks because of energy bills. Inslee said that there must be "short-term, cost-based wholesale price caps." The bill is the Eshoo-Hunter bill

(HR 238), for interim caps. He continued, that FERC has the authority; the tool is in the tool box. FERC can establish short-term, cost-plus rates. "There are criticisms, but they can be answered. The Administration says they are concerned about action being long-term. Well, set a time limit. Or set a trigger for expiration, such as reaching a certain reserve level of capacity." As for the criticism that a wholesale price cap would be a "disincentive to new generation capacity," he proposed to exempt new capacity from the price cap.

We have a crisis. We must "do something as a circuit-breaker" to what's going on right now.

During questioning, Inslee hit on these points again saying, "There were many times when price caps were imposed, and then removed. For example, under Nixon."

When pressed about price caps causing "disincentives" to the energy industry to invest, Inslee shot back, "*If the economy goes to heck in a handbasket,* it will be more than a disincentive to industry."

■ **Rep. Peter DeFazio:** Not present because of travel problems, DeFazio released a statement on his testimony. Excerpts from the release: There are "two key causes of the volatile energy market in the West—the 1992 Energy Policy Act and market manipulation by energy companies. He has introduced legislation, HR 264, to repeal FERC orders 888 and 889, which deregulated the wholesale energy market, and allowed states to deregulate retail energy markets. His legislation would return the United States to the pre-1992 system of regulated utility monopolies and cost-based-plus pricing."

His statement continued: "Let me be clear at the outset. The energy debacle in the West is not just a regional problem, requiring regional or state-specific solutions. Rather, the midguided energy deregulation wave, set in motion by the U.S. Congress in 1992, is a threat to the well-being of the entire nation and will require leadership from the highest position of power in our national government to solve.

"Unfortunately, the White House, the DOE [Department of Energy], and the FERC seem content to let the bloodletting and obscene profiteering continue unimpeded. I guess we shouldn't be surprised since the chief beneficiaries of this massive transfer of wealth from taxpayers to energy companies just happened to contribute huge financial sums toward the election of the current Administration. . . .

"Support is building for re-regulation, which is the best long-term solution. To those who say we're already too far down the road, I would offer the analogy provided by Jude Noland in a recent column in the newsletter *Clearing Up,* 'That's like saying you can't turn around when you come to a "road-closed—bridge out" sign on the highway.' "

State Action

■ **Texas:** Two legislators from Houston have filed House Bill 2107, to require Reliant Energy to return $2-3.5 billion in "unintended windfall excess earings." California Congressmen have filed a similar bill. (Particulars on the Federal and state bills are identified below.)

■ **Nevada:** On March 2, national re-regulation leader, state Sen. Joe Neal (D-Las Vegas) introduced SB 269, a full-fledged energy re-regulation bill for his state. The 24-page document specifies repealing all deregulation statutes since 1997, and returning the state to its pre-deregulation condition, under authority of the state's Public Utility Commission. Many other states are postponing deregulation, or modifying it, but Neal's initiative points the way to substantive action for Federal re-regulation. An interview with Senator Neal follows this Update.

■ **California:** Gov. Gray Davis (D) continues to pursue his plan for a state power authority, new state bonded indebtedness of some $12 billion, and hopes to sign long-term contracts with the electric and gas merchant companies. Characteristically, Enron, the biggest Bush Administration backer, is refusing to even sign with the state.

LaRouche Re-Regulation Lobbying Blitz

Fuelling the national re-regulation drive is Lyndon LaRouche's Presidential campaign and the LaRouche political movement's policy fight for energy re-regulation, based on the Constitutional "general welfare" concept. On March 7, delegations of Californians lobbied in Sacramento; on March 8, similar delegations visited legislative and other offices in Austin, Texas. Many other states, from Michigan to Iowa and Nebraska, are under similar pressure, along with labor, farm, and other constituencies. (Details below.)

I. Scope of Energy Crisis: Physical Economy

■ **Electricity:** In February, electricity use in California was down 8%, according to Rep. Mike Honda (D-Calif.). He reported to the House Energy Subcommittee hearing that during the blackouts, 100,000 workers in the Silicon Valley were unable to work; millions of dollars were lost.

"The situation in California could reach catastrophic proportions" this Summer, warns the new report out from the Western Independent System Operator. The ISO states, "It is a virtual certainty that peak demand will go unmet during many hot Summer days," that is, there will be blackouts. The report warns that the state will not have enough electricity under contract to avoid buying on the spot market (which last Summer peaked at more than $1,500 a megawatt-hour), when the demand is the greatest, and the price is the highest. In the worst case, which is the most realistic, the state will be short 21,000 MW, or more than 40% of demand, which it will have to pay top price for.

■ **Natural Gas, Propane:** Nationwide, hyperinflated gas prices are causing economic havoc. Propane is also in short supply. Rep. Bud Cramer (D-Ala.) reported to the March 6 House Energy Subcommittee hearing, on his personal and district situation. "My last gas bill was $400, twice the $200 a year ago." Poultry growers are threatened with disaster: A year ago, propane was 17% of an Alabama poultry grower's gross receipts; now propane is 61% of gross receipts.

■ **Petroleum and Gasoline:** Gasoline might hit $2.50 per gallon this Summer, according to forecasts reported in the March 7 *USA Today*.

■ **Mining, Manufacturing:** Mining and industrial activity of all kinds, as well as small businesses, are reeling from the effects of months of hyperinflation and supply crises.

On March 5, Greg Strickler, the president of Montana Resources, a mining firm, gave a statement to Montana legislators saying that there must be "an immediate return to a full regulation of Montana's electricity market." The *Montana Standard* published details on March 6. In January, when prices were over $200 per megawatt-hour, the company pulled the plug on a pump that removes water from one mine, shutting the mine down. Until last June, when its long-term contract expired, Montana Resources had been paying $28 per MWh for power. Recently it has been paying an average of $158. Mine workers have a rally set for Helena on March 6, and company men plan to attend.

■ **Agriculture, Food Supplies:** From row crops, to vineyards, the prospect of shortages of nitrogen fertilizer, and sky-high prices means disaster. Growers in the big farm belt states (Nebraska, Iowa, Illinois), who normally alternate soybeans and corn, are dropping plans for a corn crop, because it requires nitrogen fertilizer. The follow-on effect in the food chain will be catastrophic.

■ **Social Hardship:** A recent survey by the National Energy Assistance Directors' Association shows that 26% more households are asking for help on energy bills this year. This is an increase of 1.1 million households requesting funds from the Low Income Home Energy Assistance Program (LIHEAP) over last year. With 48 states and the District of Columbia reporting, 20 states showed an increase greater than the 26% national average. Four states had an 80-100% increase: Georgia (97.7%), Louisiana (91.9%), New Mexico (100%), and Oregon (82.4%). Oklahoma and Washington state had over 50%, and five others (Colorado, Illinois, Nebraska, Tennessee, and West Virginia) had increases of 40% or more. Only Texas and Mississippi failed to respond.

U.S. Sen. Jeff Bingaman (D-N.M.) introduced, on Feb. 14, Senate bill 352, seeking an increase for LIHEAP funds because high energy costs and cold weather have resulted in "natural gas bills 70-100% higher than last year. . . . Farmers, especially, are seeing huge increases . . . and are looking at dramatically higher fertilizer prices this Spring." He noted that most states had already depleted their LIHEAP funds, thus an emergency exists. The bill has been referred to the Senate Energy Committee, but Bingaman intends to attach it as an "amendment to any fast-moving legislation"—maybe even the bankruptcy bill. In effect, more Federal money to LIHEAP, without re-regulation of energy prices and supplies, means more money into the "jaws" of the energy cartel. In fact, House Majority Whip Tom DeLay (R-Tex.) and the Bush Administration are backing more LIHEAP funding.

II. Scope of Energy Crisis: Financial

Unpayable energy prices are creating shock waves toward all-out financial chaos, unless re-regulation is employed.

California: On March 1, Pacific Gas & Electric defaulted on another $1.21 billion worth of payments to electricity suppliers, and made a partial payment to the Independent System Operator, which has been buying power for the utility since late January.

Also on March 1, the ISO sent a report to FERC showing that merchant wholesalers overcharged ISO $562 million during just December and January. Recent figures show that the total cost of electricity to California during the two cited months—more than $11 billion—well outstripped the $7 billion California paid for the entire year of 1999!

The ISO calculated the cost of production, and added a 10% profit to come up with its numbers. The report states that two-thirds of the charges to California during those two months were found to be "excessive."

In December, under pressure from the state, FERC had found that some suppliers were not charging "fair and reasonable" rates, which FERC has the authority to enforce. The agency has done nothing about it.

■ **New York City:** Con Edison, forced by deregulation to sell off most of its generating capacity, has appealed to FERC, to protect it from anticipated hyperinflation this Summer, on the electricity spot market. Last Summer, which was not hot, Con Ed found itself paying more than $1,000 per megawatt-hour for power, when the price spiked.

III. Energy Infrastructure: Crises and Reactions

■ **Drought:** It may be the driest year ever on record in the Pacific Northwest, in the estimate of the *Seattle Times* of March 7. The generating plants of Puget Sound Energy were turned off at the end of February, when the reservoirs behind the dam went dry. Reservoir levels in one dam lake are 125 feet below full. The regional Bonneville Power Administration is already telling California not to expect the 5,000 MW it would normally have available for export during the Summer. The four Northwestern states rely on Bonneville for over half of their power. The Canadian Rockies are also in drought.

IV. Policy Response: Federal Level

Administration

FERC's Hebert to go? The heat is so intense for Federal response now, that rumors are circulating that the White House will make a designated fall-guy out of Curt Hebert, head of FERC. Hebert is toeing the Bush/energy cartel line of non-intervention into "the markets." But, Hebert was a laughing-stock at the Feb. 28 House Energy Subcommittee hearing, for blathering incoherently when confronted by Rep. Charles Norwood (R-Ga.), on how energy price spikes are up far higher than any claimed increase in demand.

Congress

The following is a partial list of bills toward re-regulation.

■ **Senate:**

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

S. 80: "To require FERC 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 above are sponsored by Dianne Feinstein and Barbara Boxer (both D-Calif.). A House companion to S. 26 is sponsored by Anna Eshoo (D-Calif.) and Duncan Hunter, and others. A House companion to S. 287, is HR 268, sponsored by Bob Filner.

On March 15, the Senate Energy Committee is scheduled to take testimony on the three bills proposed by Feinstein and Boxer. The hearing was to have been on March 1, but was postponed by the Committee, whose Chairman is Frank Murkowski (R-Ak.). He backs bills for big tax breaks and other giveaways to the energy cartel; and a bill to eliminate the 1935 Public Utilities Holding Company Act.

■ **House of Representatives:**

HR 264. To repeal FERC orders 888 and 889, which deregulated the wholesale energy markets, and allowed states to deregulate retail markets. Would return the United States to the pre-1992 system of regulated utility monopolies and cost-based-plus pricing. Introduced by Rep. Peter DeFazio (D-Ore.) et al.

March 20 is the next Commerce Committee Energy Subcommittee hearing (the fourth one), which is to take more testimony on California's crisis from power experts.

V. Policy Response: State and Local Initiatives

■ **LaRouche lobby days:** Constituency leaders around the country, using Lyndon LaRouche's "On the California Energy Crisis" policy document (www.larouchein2004.com)—calling for re-regulation of energy (using Chapter 11 bankruptcy protections and similar measures)—met with hundreds of state legislators and their staff, during the first week of March. These organizing blitzes included state capitals in California (March 7), Texas (March 8), Iowa (March 8), Michigan (Feb. 28), Illinois (March 6), and Minnesota (March 8).

The groundswell for return to re-regulated energy, and also for re-regulating health care, agriculture, trade, and other areas, is growing rapidly, but only the LaRouche organizing drive is providing leadership. In California, many citizens are holding back from supporting and demanding that Governor Davis act against the deregulation machine. Therefore the situation persists, where the Governor and other officeholders can say, "Don't attack us; we have no choice but to go along."

State Initiatives

■ **Nevada:** Senate Bill No. 269, introduced March 2, by Senators Neal and Schneider, with joint sponsors Assemblymen Arberry and Williams, in summary, "Repeals provisions pertaining to competitive provision of retail electric and natural gas service."

The bill repeals all deregulation measures made, beginning in 1997, and returns the state to its former regulated condition, giving authority to the Public Utilities Commission for oversight of power and fuels. SB 269 is in the Commerce and Labor Committee, and hearings will be scheduled. (See www.leg.state.nv.us/71st/bills/sb/sb269.html.)

At a hearing to be scheduled in March, in the Nevada Legislature, Sen. Joe Neal (D) will give a presentation making clear that there no grounds for tolerating the "Big Lie" that energy supply is out of line with demand, and therefore, that imbalance is the cause of energy hyperinflation.

■ **Iowa:** House Resolution No. 6 was introduced in January by Democratic Legislators Steve Richardson and David Schrader. The two-page measure begins: "A House Resolution requesting the United States Congress to enact legislation requiring the Federal Energy Regulatory Commission to regulate the price of the production and transmission of natural gas."

The Resolution reviews the history of Federal deregulation of natural gas, beginning in 1978, and describes the economic devastation now taking place in agriculture, industry, and peoples' lives. It "urges the United States Congress to enact legislation to restore regulation" of natural gas. (See www.legis.state.ia.us.)