EIR
ENERGY CRISIS
UPDATE

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Agenda for National Energy Emergency Action

I. New Political Showdown

■ **California blackouts and soaring gasoline prices** around the nation define a new, intense political showdown, and worsening economic breakdown. As of mid-May, there are more calls on the state level, and in Congress, for action to stop energy price hyperinflation. But only the FDR-PAC, a multicandidate political action committee, and Democratic Presidential pre-candidate Lyndon LaRouche's drive for re-regulation, are organizing the public to force the issue. More than 600,000 copies are in circulation of the January "California Energy Crisis" policy document put out by LaRouche. In Los Angeles on May 5, and in other locations around the country, emergency town meetings are taking place on the theme: "The Energy Crisis: Emergency Rule, or the General Welfare!"

Fuelling public outrage are the daily announcements of mega-profits by the oil, gas, and electric marketer firms—firms interconnected with the Bush Administration and key Congressmen. Yet the hallmark of Washington policy remains: Hands off prices, let the "markets" rule. Their position is: We will only focus on "long-term supply."

Vice President Dick Cheney, chairman of the Energy Task Force that is to release its report on May 17, reportedly told House Republicans at a private briefing on May 1, that the Administration will aggressively oppose anything resembling price caps. Cheney is putting out that policy line in many interviews, including on April 30 in Toronto with Associated Press, and on May 9 with Cable Network News.

In an interview with the May 5 *Los Angeles Times,* Cheney told writer Doyle McManus that he opposes any action to bring price relief to California. "I'm a skeptic," he said. "I've never seen price regulations that I've felt very good about. . . . The way you address these issues, is you either have to reduce demand or increase supply. And anything that doesn't do that is counterproductive. Ultimately, I think we're going to be better off if we have a deregulated energy market in this country."

When asked if he would "soften his opposition to price controls if the energy crisis began to produce significant damage to the national economy," Cheney shook his head ruefully. "I start with a strong view, based on prior experience, that government should intervene in the marketplace with great reluctance."

'Carter Factor' Hits Bush

Less ideological Republican Congressmen are having visions of getting slammed at the polls in 2002, because of today's energy crisis. The President himself has been slammed by the "Carter factor."

In order to appear to be doing something on the energy crisis, on May 3 President Bush staged a bad imitation of Jimmy Carter's 1970s "moral equivalent of war" conservation speech. At a White House press conference, Bush ordered managers of Federal buildings, including military bases in California, to turn up their thermostats to 78°F, to "do their share." He was flanked by Assistant Defense Secretary Paul Wolfowitz and Energy Secretary Spencer Abraham. Bush committed to cutting Federal energy use in California by 10% this Summer; Wolfowitz commented that "mil-

A gas station in Chicago in May. The energy-price crisis is a major point of vulnerability in the United States, as hyperinflation sets in.

itary readiness" would not be compromised. Bush said he has called on the Federal Emergency Management Agency (FEMA) to be ready for California.

Within hours, came a wave of comparisons of Bush to loser Jimmy Carter, who, as President, told people to wear sweaters in the Winter to cut energy use. "Between Carter and Bush, I don't know who should be more insulted by the comparison," LaRouche commented. LaRouche is leading the policy drive in the country to reverse the energy de-regulation policy begun under Carter and continued to the present, and to restore the FDR-launched, regulated energy system that worked for more than 40 years.

■ **Capitol Hill: Energy prices are the issue.** The dividing-line issue on Capitol Hill as of May, is *prices:* Will there, or won't there be, Congressional action to curb out-of-control energy prices?

On May 10, a Federal electricity price-control amendment was defeated by a vote of 20-12, in the House Energy Subcommittee, at the mark-up for the Republican bill, H.R. 1647, the Electricity Emergency Relief Act. This bill, the so-called "Barton Bill" introduced on May 1 by principal sponsor Rep. Joe Barton (R-Tex.), chairman of the Energy Subcommittee, conspicuously avoids the issue of prices, as well as other obvious emergencies—e.g., 7 million households facing energy cutoffs as of May, because of arrearages from six months of Winter bills.

H.R. 1647 is expected to go to full committee in mid-May, and perhaps to the House floor within weeks. It is best called the "Emergency Rule Act," because its major thrust is to authorize FEMA to make stand-by arrangements for disasters when states have power crises. Although committee members complained that the Bush Administration refused to send Cabinet members or others to testify, the bill is in line with Bush policy in every detail.

The Barton Bill also calls for users of electricity (factories, irrigation districts, farms, schools, etc.) to forgo use, and for a "clearinghouse" to be set up to re-sell this liberated electricity to someone else. A third section of the bill grants sweeping new powers for Federal override of environmental and state laws, and to grant permission for new routes for electricity and natural gas. These are blatant give-aways to the demands of the energy cartel companies.

■ **Congressional demands for price controls.** At Energy Subcommittee hearings on May 1, 3, and 10, Congressmen, and certain witnesses, testified on the economic breakdown caused by energy hyperinflation, and the need for stopping runaway prices. An amendment proposed on May 10 was modelled on bipartisan legislation proposed by Sens. Dianne Feinstein (D-Calif.) and Gordon Smith (R-Ore.).

- On May 1, Rep. Anna Eshoo (D-Calif.) insisted on the need for "Federal relief from excessive wholesale electricity price crisis." She reported that California spent $7 billion on electricity in 1999, $27 billion in 2000, and is expected to spend $70 billion this year. She and others demanded "cost-plus pricing" (cost-of-production-based pricing, plus a reasonable profit).
- On May 1, Federal Energy Regulatory Commission (FERC) member William Massey, a dissenter from the Bush policy of hands-off prices, testified that Congress should enact "generator-specific cost-based pricing, plus a fair profit," for electricity, and do it fast. He said that the FERC has "failed to impose effective price mitigation." He described the "economic dislocation" taking place now, and gave specifics, e.g., in Bellingham, Washington, where Georgia Pacific paper company has shut down, putting 406 people out of work. The Bonneville Power Administration expects to raise electricity rates 250% in October, because it is being forced to buy on the wholesale market at hyperinflated rates now.
- On May 10, Rep. Thomas Sawyer (D-Ohio) said, "Cost-based" energy pricing worked for 84 years; why not restore it now?
- On May 10, Rep. John Dingell (D-Mich.) reiterated that the 1935 Federal Power Act is the law of the land, and specified that "just and reasonable" energy prices should be maintained; that is the role of the FERC. Moreover, under that mandate, the FERC's decision to approve the 1996 California deregulation law, should be re-assessed.
- On May 3, former Ambassador Richard Sklar, the newly appointed Senior Energy Adviser on California Gov. Gray Davis's (D) Energy Generation Task Force, testified on the blatant gaming of the electricity markets in California, and the creation of artificial shortages. (Sklar was Clinton's appointment for Reform and Reconstruction in the Balkans.)

Sklar attacked the idea that California has a "supply-and-demand" problem. He said that a major portion of the supply, up to 12,000 megawatts, disappeared this past year, as opposed to 4,000 MW in normal years, where generation is taken out of operation for various reasons. He attributed the enormous increase in "forced outages" to the hand of those profiteering from supposed shortages, through scalping and gouging. He said that once the prices were brought down, this additional generation would be quickly brought back online, increasing the supplies available.

Sklar demonstrated that demand is also not the problem. He used a chart to show that California peak demand has been flat since 1997, and is 9% below last year. He said that it is necessary for Congress to act to get the FERC to bring down the prices to a just and reasonable level. He scoffed at the idea that it would take decades, as the Republicans say, to determine the cost of production, saying that prices could be set in an hour and a half. The response of several committee Republicans was to adamantly assert, "It's a supply problem."

- California Governor Davis sent letters to the House Energy Subcommittee on May 3 and 10, addressed to Rep. Henry Waxman (D-Calif.), calling for Congressional action to force Federal price controls. The May 3 letter stated, "It is a travesty that on the one issue over which the Federal government has exclusive jurisdiction—wholesale energy prices—it has utterly failed to discharge its responsibility." He said, "You should require the FERC to impose meaningful cost-plus pricing on a 24-hour basis for all states whose demand exceeds supply for the next 24 months. . . . The legislation [without a price-control provision] before you falls short in virtually every way to address issues that should be addressed on the Federal level, like wholesale price controls."

■ **The California Crisis:** On May 7, occurred the fifth day of rolling blackouts this year, cutting electricity for 225,000 people for an hour; the next day, two rounds of blackouts affected more than 300,000. Demand the first week in May, in the range of 34,450 MW, is at a level far below previous Summer peaks of more than 44,000 MW, but an estimated 12,000 MW of power generation, including four nuclear plants, was offline for various reasons (repairs, refueling, gaming the markets).

Financial disaster worsens by the hour. On May 7, the same day as the blackouts, the state assembly authorized issuing a record $13.4 billion in bonds. Spot prices in the wholesale electricity market are running currently at $510 per megawatt hour, tenfold the level a year ago.

More actions have been taken this month in California. Governor Davis flatly refused an offer from Duke Power, for the state to get lower electricity prices in exchange for dropping the right to investigate Duke's having bilked the state through price manipulation. On May 7, certain individual California state legislators, and the Lieutenant Governor, filed a lawsuit against the FERC, to compel it to restore "just and reasonable prices" for energy.

■ **Gasoline Prices Topping $2 per Gallon** were reported as of mid-May in many locations, including New York City, Chicago and downstate Illinois, and San Francisco. The Lundberg Survey of prices at 8,000 service stations reached an all-time unadjusted high over the two weeks ending on May 4: The average price was $1.76 per gallon, up 5% from April 20. The highest in the country was Chicago, where regular was found at $2.02 per gallon. There is a nationwide effort over the Internet to organize a consumer boycott of Exxon Mobil. In Stamford, Connecticut, one gas station owner has shut his business for two days, with a big sign saying, "I Refuse To Sell Gas at These Prices."

II. Energy Cartel Companies

■ **Energy company profits continue to rise: Table 1** shows the percentage increase in net income, excluding extraordinary items such as merger costs, at some of the nation's largest energy firms in the first quarter of 2001, compared to the first quarter of 2000. Leading the pack once again is EOG Resources, the oil and gas spinoff of Enron Corp. EOG's profits increased 431% in the fourth quarter of 2000, and 570% for the year.

■ **Consolidation in natural gas and oil refining:** Williams Companies, the Tulsa-based natural gas pipeline and production company, announced on May 7 that it will acquire Denver-based Barrett Resources for $2.5 billion. Williams beat out Shell Oil, the U.S. arm of Royal Dutch/Shell, which had attempted a $2 billion hostile takeover of Barrett, which has extensive natural gas holdings in the Rocky Mountain area.

Valero Energy announced the same day, that it is buying Ultramar Diamond Shamrock for $4 billion, in a union of two San Antonio-based companies which will make Valero the second-largest oil refiner in the nation, after Exxon Mobil. This is the second big oil-refining merger this year. In February, Bartlesville, Oklahoma-based Phillips Petroleum reached an agreement to buy refiner Tosco, based in Greenwich, Connecticut, for $7 billion.

Table 2 shows the nation's largest oil refiners as of January 2001, ranked by refining capacity, and including announced mergers.

TABLE 1
Profit Increases at Selected Energy Companies
(First Quarter 2001 Compared to First Quarter 2000)

Company	Increase	Company	Increase
EOG Resources*	448%	Chevron	53%
Calpine	424%	BP plc**	52%
Williams	172%	Duke Energy	51%
Apache	158%	El Paso	46%
Unocal	122%	Exxon Mobil	44%
Reliant Energy	104%	Texaco	39%
Occidental	93%	Southern	35%
Phillps	86%	Dominion	28%
Mirant	84%	Enron	26%
Kerr McGee	81%	Shell	23%
Dynegy	73%	AES	19%
Conoco	58%		

Source: Company financial reports
*EOG Resources, formerly Enron Oil & Gas, is a spin-off of Enron Corp.
**BP has dropped the Amoco from its name, reverting to BP plc.

TABLE 2
Top U.S. Refiners, as of Jan. 2001, Including Pending Mergers
(Millions of Barrels a Day of Refining Capacity)

Company	Capacity
Exxon Mobil	1955
Valero Energy/Ultramar Diamond Shamrock*	1865
Phillips/Tosco*	1710
BP	1670
Chevron/Texaco	1520
Marathon Ashland Petroleum	935
Shell Oil	825
Sunoco	730
El Paso	540
Conoco	530
Premoor	480
Tesoro	275

Source: Valero Energy
*Merger pending