

Forces Square Off on Energy Regulation

by Marcia Merry Baker

“This is an emergency that threatens to bring down the California and national economy,” was the characterization by Rep. Bob Filner (D-Calif.) of the crisis now battering the United States because of out-of-control energy prices. Filner was speaking on June 13 on the Armed Forces Network, broadcasting in Central Europe at the very same time as President George W. Bush was on his tour there.

Expressing the opposing, Bush Administration stance, Rep. Joe Barton (R-Tex.), chairman of the House Energy Subcommittee, opened a June 13 hearing on how to legislate the Bush-Cheney “National Energy Plan,” by demurring, “I don’t think we’re in a crisis. I do think we have a serious problem. I think to solve this problem, we need to use every element of an energy policy, put it on the table, study it, vote on it, and move forward.”

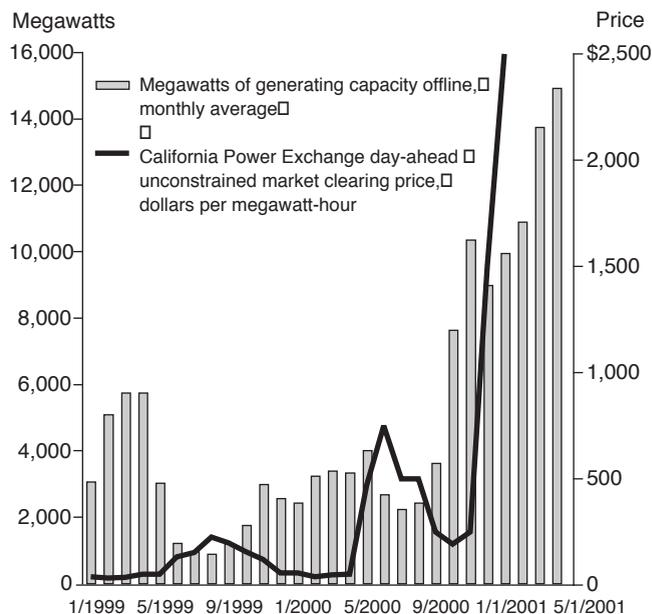
These two statements come from opposite sides of the dividing line now splitting Congress, the United States, and nations internationally. The dividing issue is whether you are committed to curb the runaway energy hyperinflation, and hyper-profiteering, or not. The May 17 Bush-Cheney Energy Plan, dubbed by critics an “Annual Report for Big Energy,” is political sure-death. Supporting it means that you are siding with the energy cartel interests, now notorious for double- and triple-digit profits. Several activist Democrats in the Western states did not even bother to attend Barton’s hearing. On the Republican side, those who are toeing the Bush line, fear they will be finished off in the 2002 mid-term Congressional elections.

Grand Jury in California

Investigations and lawsuits are flying all over the place. On June 12, California Attorney General Bill Lockyer, who says that he would like to see Enron President Ken Lay in jail, announced that he will convene a grand jury in Sacramento, and start deliberations soon after July 1, to investigate whether power generators illegally manipulated energy prices in the state. A statement from Gov. Gray Davis’s (D) office said, “There is a growing body of evidence that may give the Attorney General the opportunity to proceed with criminal as well as civil actions.” **Figure 1** shows how the pattern of electricity wholesale prices soared in California, as extreme outages of generation occurred.

The metric for what ought to be done for reliable energy

FIGURE 1 □
Energy Pirates Withhold Electricity to Jack Up Prices in California □



Sources: California Energy Commission; California Power Exchange; University of California Energy Institute.

supplies, at reasonable prices, is coming from the mass organizing drive led by Lyndon LaRouche for restoring policies for the general welfare. Each week, there are “Days of Lobbying” for energy re-regulation in many state capitals. Thus, on May 24, a mass rally under the Harrisburg State Capitol Rotunda heard speeches from state legislators and LaRouche’s campaign representatives and colleagues. A week later, the state AFL-CIO caucus on utilities released criticisms of how power services had worsened since Pennsylvania’s 1996 deregulation, and called for action. On June 5, State Rep. James Casorio (D-Irwin) announced an investigation. Veteran state legislator Harold James (D-Philadelphia) is readying a resolution for introduction in mid-June, calling for an overall anti-depression economic policy by the Federal government, following the approach of Lyndon LaRouche for a New Bretton Woods monetary system to rebuild nations.

War-Whoops in Congress

In Congress, there are war-whoops, demanding action for (wholesale) electricity price control, or cost-based pricing, either by the Federal Energy Regulatory Commission (FERC) or legislative action. On June 5, just when Congress reconvened after the Memorial Day recess, Sen. Jeff Bingaman (D-N.M.), the new Energy Committee chairman, announced at a press conference that the Bush Administration

has two weeks to command FERC to act on controlling prices, or the Senate would intervene. With the new Democratic majority in the Senate, hearings are already under way to further this.

On June 13, the Senate Governmental Affairs Committee convened a hearing, under its new chair Joe Lieberman (D-Conn.), on “Economic Issues Associated with Restructuring of Energy.” Translated: The economy is being slammed by energy deregulation, and by the hyperinflation and Bush cartel hyper-profits. The first witnesses were California Democratic Sens. Dianne Feinstein and Barbara Boxer, who demanded action on pricing. Feinstein spoke in favor of “cost-based pricing, plus a fair profit,” but said that calling it “anti-gouging” is her current preference of terminology.

Among the panel of economists who testified, the first was Alfred Kahn, the so-called father of deregulation, who as Civil Aeronautics Board chairman in the 1970s, approved of air transportation deregulation. But this time, Kahn called for temporary energy re-regulation, in the form of caps on wholesale electricity prices in California. He attacked the Bush energy cartel argument, saying that caps will deter development of energy supplies, and insisted there was never a problem with shortages, when energy was regulated.

Scheduled to speak at the second Senate hearing, on June 20, is Governor Davis, who has been outspoken in demanding Federal electricity price controls. He names the names of the Bush energy cartel which is making mega-profits off the state, such as Reliant, El Paso, and Enron. The new chairman of the Senate Subcommittee on Special Investigations, Sen. Carl Levin (D-Mich.), has announced that he will investigate how energy company mergers relate to soaring prices, in oil, gas, and electricity. He plans to command documents, using full subpoena powers, and threats of slapping scofflaws with contempt of Congress.

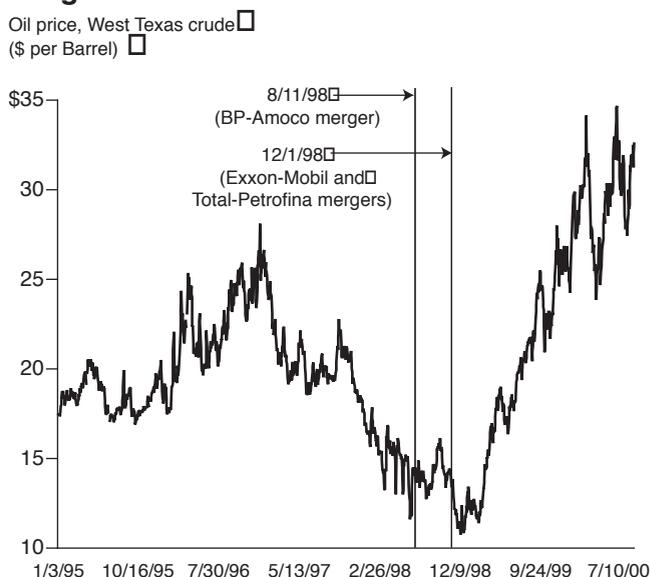
Oregon Sen. Ron Wyden’s June 14 revelations, coming from oil industry whistleblowers, of refinery capacity-fixing by the oil majors, further turned up the national spotlight on what *EIR* detailed last year. **Figure 2** shows the timeline of how prices soared right after mega-mergers in oil and gas took place.

Bush Gang Back-Peddling

Sweating under such national heat, top Republican circles are back-peddling furiously. The week of June 11, a private meeting took place among White House Chief of Staff Karl Rove, House Majority Whip Rep. Tom DeLay (R-Tex.), and Rep. Roy Blunt (R-Mo.), a White House ally on the Hill. Rove himself has been in the headlines for not selling some \$250,000 worth of Enron stock, upon taking office at the White House. The June 14 *Wall Street Journal* quotes Blunt saying, “You could easily see votes [in Congress] for some sort of price-controls solution.”

On the public side, there has been a flurry of administration “let’s-talk-it-over” gestures. When Governor Davis

FIGURE 2
Oil Price Skyrocketed in Wake of Big Mergers



Source: *Wall Street Journal*.

comes to Washington, the new FERC member Pat Wood, will meet with him on June 20, and then Wood and the other new member, Nora Mead Brownell, will go to California.

On June 12, Vice President Richard Cheney, who put out the Bush National Energy (Cartel) Program in May, came to Capitol Hill for a personal meeting with 40 California Congressmen — meeting Democrats for the very first time (16 of them), as well as with Republicans (24). He got roasted when he tried to repeat his usual line, “We will not tolerate price controls.” When Anna Eshoo (D) objected, Cheney could only resort to his accustomed arrogance, replying, “You are rude.”

The next day, a gaggle of Cabinet members trooped to the Hill in another unprecedented show of “availability” to Congress. Energy Secretary Spencer Abraham testified to the June 13 House Energy Subcommittee. Afterwards, Abraham met privately with more than a dozen House members, along with Interior Secretary Gail Norton, and Environmental Protection Agency Administrator Christine Todd Whitman. Majority Whip DeLay presided, calling the group the first meeting of the GOP Energy Action Team. They discussed how to push for legislating the Bush-Cheney energy plan amidst the sea of opposition. DeLay spoke of being “proactive,” and of putting out a consistent message. They are to speak out at every chance, that Democrats’ price caps would discourage conservation, dry up supply, and cause shortages. According to the *National Journal/Congress Daily* on June 14, “Legislators were instructed to say that the country’s energy crisis

cannot be fixed overnight, and that the GOP plan emphasizes conservation and energy efficiency, promotes a clean and healthy environment, and would spur development of new technologies and next-generation nuclear facilities.”

The FERC in particular, is giving new signals for a show of responsiveness. It announced the scheduling of an unusual special meeting for June 18, under a powerful national spotlight, to take up expanding its recent “price mitigation” orders.

Mind Control vs. Truth

An advertising initiative is in the works by the big energy companies and Republican honchos, to attempt to turn around public backing for controlling energy prices. The June 14 *Wall Street Journal* reports that Enron, Southern Co., and Reliant Energy Inc. are to stake at least \$5 million for the kitty.

What will be the message? You can expect to hear that price controls will cause shortages and rationing, as in the 1970s gas lines. The public reaction to this kind of *Brave New World* mind-spin—telling you that “snow is black”—ought to be interesting. Many souls, gullible in the past, are now fed up with the lying assertions of the energy barons—no matter how much ballyhooed.

Take the fate of the energy “choice” hokum. In many states, citizens were fed the line that allowing energy deregulation would create “competition,” and give customers “choices” for their electric and gas provider. This was supposed to mean you could shop for lower prices and better service. Ad campaigns were fierce. But in no time at all, the same citizens experienced service problems, higher prices, and the prospect of chaos. Most passed up, or bailed out of “choice” programs. Such “choice” campaigns flopped in Massachusetts and other states.

EIR submitted testimony to the June 13 Senate hearing on energy, and began with this point, about proceeding from what is true: “If ‘proof’ were needed that restructuring of the U.S. energy sector would lead to crises, then as of today, we have dramatic evidence in California, around the nation, and internationally, that deregulation is a disaster. Therefore, the question posed to Congress is: How fast can we shake off the thinking that allowed this in the first place, and restore the *re-regulation* policies that helped build the U.S. economy in the past?”

The testimony quoted Democratic Presidential pre-candidate for 2004 Lyndon H. LaRouche, Jr., from a recent Mexico radio interview, on the importance of comprehending that the whole financial system is blowing out (see *EIR*, June 8, 2001). Broadcast in León, Guanajuato on May 28, LaRouche stressed:

“The essential thing is that there’s no possible way the present U.S. system, the present world system, can continue to function. It’s doomed. Nothing can save it. You can save the nations, but you can not save the financial system. All the

leading financial institutions of the United States are presently hopelessly bankrupt. You have the same situation in Japan, you have the same situation in continental Europe.

“What you can do, is, you can put the whole world through bankruptcy reorganization. That’s the only solution, which means cancelling most of the debt, especially the financial derivatives and similar debt. Most of the foreign debt of the Ibero-American nations will have to be cancelled. And then, what this New Bretton Woods means, is, going back to 1945, to the legacy of Franklin Roosevelt, to create the kind of system we had between 1945 and 1958, and continuing into the middle of the 1960s.

“In other words, that means fixed exchange rates, that means capital controls, it means exchange controls, it means financial controls within and among governments. It means a protectionist policy on trade and tariffs.”

Damage Toll

While the policy fight heats up, chain reactions of economic shutdown are now running throughout the economy, directly due to the last 15 months of energy hyperinflation of all kinds, and also due to the more general financial disintegration. Since last July, 600,000 manufacturing jobs have been lost. Directly because of the deregulation energy crisis, in the transportation sector, surcharges for higher fuel prices have been widely imposed. The higher natural gas prices have slammed industry. The prices of nitrogen fertilizer, whose feedstock is natural gas, has risen in price more than 100%, and has hit agriculture, otherwise already hard-pressed by the diesel fuel rise.

Residential energy prices are in crisis. The National Energy Assistance Directors Association’s (NEADA) June 11 survey reports that low-income customers in 19 states and D.C. have arrearages totalling almost \$910 million owed by 4.3 million families. These bills are basically unpayable.

As of mid-May, an unprecedented 7-10 million Americans faced energy cutoffs. Out of 14,694 residential customers in Washington, D.C., 5,229 have received shutoff notices; in New Jersey it is 276,715; more than 150,000 in Pennsylvania; almost 37,000 in South Carolina; 20,000 in Virginia; and 55,000 in West Virginia, according to NEADA estimates.

For 2000, the U.S. Department of Energy’s Energy Information Agency estimates that Americans paid a whopping \$263 billion more in hyperinflated energy prices, compared to the year before. This is the source of hyper-profits for the energy cartel companies posting double- and triple-digit profits: In the first-quarter of this year, over last: Enron Oil and Gas, profits were up 448%; Reliant, 104%; Duke Energy, 51%; British Petroleum, 52%; Mobil Exxon, 44%; etc.

No wonder the media associated with this power cartel “suddenly” started reporting in the first week of June, that “the energy crisis is over . . . prices are going down!” The timing occurred just when the Congressional, state, and criminal investigations went into full gear.