EIR
ENERGY CRISIS UPDATE

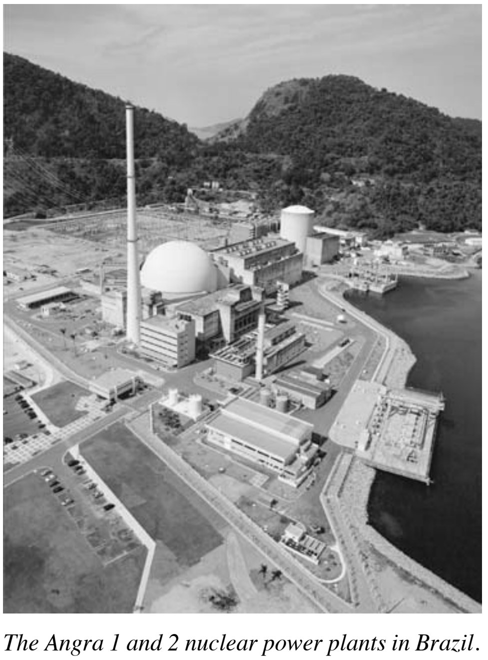
Prepared Aug. 2, 2001

Agenda for National Energy Emergency Action

I. Congress Goes Along with Cartel Grab for Energy Control

The net result of moves in both the Senate and House of Representatives at the close of July proceedings, was to further the process of control over national fuels, power systems, resources, and pricing by the notorious energy cartel companies Enron, Reliant, AES, Duke, El Paso, BP-Amoco, Mobil-Exxon, and a few dozen others. Despite denunciations of the "petroleum pirates," there was no effective action. Throughout the July hearings, in the draft legislation, and in side commentary, such as the July 20 Energy White Paper by Sen. Jeff Bingaman (D-N.M.), lawmakers shrank from confronting the basic issue posed by the energy crisis: Will the principles of the traditional U.S. *regulated energy system* be restored? Or, will economic destruction, in the name of "markets-based policy," be allowed to continue?

House action. On Aug. 2, a 511-page energy bill, "Securing America's Future Energy Act" (H.R. 4), was passed by a vote of 240-189. In favor were 203 Republicans, 36 Democrats, and one Independent.



The Angra 1 and 2 nuclear power plants in Brazil. The United States must go nuclear, but the energy crisis won't be solved until the power of the energy cartels is broken.

■ **Senate action.** Though under Democratic chairmanship, the Senate is advancing energy legislation based on the same underlying premises as the cartel-serving measures passed by the House.

The crucial point is that, despite particulars about physical constraints on supplies, *there is no "supply-and-demand" problem as such* in the current crisis. What is operative, is a grab for control by a band of financial/political interests—part of which is so infamous, it's called the "Houston cartel."

The mish-mash of recent Congressional actions fell right into the supply-and-demand delusion, point by point.

To "increase supplies," billions in tax breaks and other inducements were offered the energy pirates, totalling an estimated $33.5 billion.

To "reduce demand," dozens of conservation actions were promoted. Hours were spent on debating how much to lower sports utility vehicle (SUV) emissions levels. (Restoring the rail system would save more gas than even zero-level SUV emissions.)

On natural resources, no overview approach was taken, which would have mandated nuclear development, or an end to the current switch-over to utilizing more and more natural gas for baseline generation. (Revving up nuclear power, in a regulated, national-interest-serving pricing system, would eliminate any possibility of drilling in the Arctic Wildlife Refuge—a question dominating Congressional debate, and the airwaves.)

On pricing, no measures were taken to stop the gouging. New, unprecedented measures were passed to allow cartel interests to take over electricity-transmission systems, formerly run as public-interest logistics.

Most of these actions were taken under the banner of the "Big Lie" of national energy security. As praised by House Majority Leader Tom DeLay (R-Tex.), the newly passed bill has "initiatives that will allow us to produce more energy at home," "help to reduce U.S. dependence on foreign oil," and so forth.

In reality, the energy cartel firms are operating "at home" just as they are internationally: demanding total rights to take over, loot, gouge, speculate, and operate above any national-interest consideration. To document this point, this week's *Feature* reports on the international energy grab, showing the companies, the politics, and the patterns.

However, the problem is not one of information, but of political will to face what is happening. Before Congress resumes, a heavy dose of reality will hit in the form of financial and economic breakdown crisis.

■ **Reasonable pricing?** The one notable exception to the Congressional process of serving cartel interests, was the initiative by Rep. Henry Waxman (D-Calif.). He put forward an amendment to the House energy legislation that would mandate the Federal Energy Regulatory Commission (FERC), which regulates wholesale electricity prices, to enforce electricity price levels based on the *cost of producing the power, plus a just and reasonable profit*. This initiative was voted down 274-154.

II. Senator Bingaman's Energy White Paper

On July 20, Senate Energy and Natural Resources Committee Chairman Jeff Bingaman (D-N.M.) released an eight-page "White Paper on Electricity Legislation," and convened hearings in July on his proposed "Comprehensive and Balanced Energy Policy Act of 2001." Bingaman's paper gives a short history of electricity policy in the United States, beginning in the 1890s, with an implicit premise of government action for the public good. The paper reviewed President Franklin Roosevelt's actions to deal with the "electricity debacle" of the 1920s and early 1930s. But then, reaching the period of the past 30 years, Bingaman changed his perspective entirely, stating that the "business of supplying electricity has changed."

Bingaman stated that today, the "market" must determine policy. His proposed law would repeal FDR's 1935 Public Utility Holding Company Act (PUHCA) under the proviso that the situation will improve "only if FERC is given enhanced authority to address market power problems, and both FERC and the states are given greater access to the books and records of holding companies to prevent affiliate abuses."

Given FERC's glaring record of not even acknowledging that the energy pirates or price-gouging are a problem until politically pressed to the wall, this PUHCA-repeal proviso is worse than pretense.

Bingaman also left to a catch-all clause the issue of serving certain objectives for the "public good," that in 1996 he himself championed under economic development proposals called the Kennedy-Daschle-Bingaman bill. His new White Paper calls for a "Public Benefits Fund" for the poor, R&D, and "other public good programs that are being left behind by the transition to a competitive industry."

At the July 25 Senate Energy hearing, testimony was provided by representatives of key institutions, including the Rural Electric Cooperative Association and the North American Electric Reliability Council, all of whom went along with the general demoralized view that "markets" must prevail, so how can we "make the best of it?"

III. Energy Price and Supply Crises Worsen

As of Aug. 2, there have been no Western states electricity blackouts since July 2 (Nevada and Arizona), gasoline prices have sagged a bit, and new Winter fuel bills are five months away. But this does not mean the news headlines are telling the truth when they proclaim, "The energy crisis is over."

California is teetering on the edge of blackouts and financial insolvency; unpayable costs are hammering farming, manufacturing, and vital services; an unprecedented 4.5 million households face a backlog of old energy bills, with worse on the way.

On July 25, the New England Independent System Operator (ISO), which oversees electric supplies, declared a "power watch" for the second day in a row, because of high temperatures. Reserves fell below 1,300 megawatts (about 5%). The ISO lowered demand by 170 MW by cutting off large users which contract for interruptible power. A power advisory was also issued for the Mid-Atlantic states. The Pennsylvania-New Jersey-Maryland grid interconnection operator sought additional power for the afternoon. Customers were urged to conserve. Brown-outs hit New Jersey.

In California, Lady Luck and self-denial are "helping," but not solving anything. First, it has been relatively cool this year, with no record-setting hot days. Second, self-imposed cuts in electricity use have been major. As of May, electricity use in the state was voluntarily curtailed by 11% from the year earlier. Residential users were socked with bills up to 45% higher, under rate increases in January and June. More than one customer in three has cut use in recent months *by 20%!* The inducement was to qualify for lower rates on utility bills.

Obviously, praying for continued cool weather, and continuing to cut usage (forgoing refrigerators, stoves, lighting), do not add up to a viable "policy solution."

Pricing uncertainty continues in the Western states. As of mid-July, demand in California was about 8,000 MW less than had been projected, due to "savings" from cuts in usage. Because the state has made long-term contracts to buy supplies, it has been faced with the need to sell the "surplus" it can't use, for far less than the (long-term) purchase agreement. California has been selling for $15-30 per MW/hr, power for which it paid $130 on contract.

One of the beneficiaries is the Oregon-based Bonneville Power Administration, which is "owed" some electricity from barter transfers during the Winter shortage. Because of this unexpected turn of events, Bonneville anticipates it can ask for a custumer rate hike of "merely" 50% this October, not 250%, as it had feared.