Energy Hyperinflation Leaves White House Scrambling 'To Keep Lights On'

by Marcia Merry Baker

As of mid-December, hyperinflation of U.S. energy prices (electricity, natural gas, petroleum products) and shortages were so wild that Federal emergency intervention was announced for California, and officials in other states called out for help. In effect, these are moves in the direction of *re-regulation,* after years of push for deregulation of the power base of the nation. At present, 26 states have some form of energy deregulation—mapping closely where the power crisis is most extreme. The lead state to deregulate, California, had its second Stage-Three power emergency this month on Dec. 14, forcing involuntary electric outages because reserve power was less than 1.5% of use (5% is the danger level).

Prices are going off the charts. In California, Washington, and other Western states, spot wholesale market electricity prices have gone up to $1,200 per megawatt hour, from $30 a year ago, even hitting $3,000.

Double-digit rate hikes for electricity are being implemented in various states. For example, in Everett (Snohomish County), Washington, the Public Utility District on Dec. 13 approved the second-highest increase in its residential and commerical rates in the utility's 51-year history. On Jan. 1, the average residential customer there will see his monthly bill increase by 33%; commerical users by 39%. As of Jan. 1 in Massachusetts (where deregulation started in 1998), households will "merely" pay 12-14% more for electricity; this comes on top of unpayable heating oil prices.

On Dec. 13, the Clinton Administration took the rare action of invoking emergency powers for California. Energy Secretary Bill Richardson announced that the government would require power generators (out of state) to make electricity supplies available. "Our objective is to keep the lights on in California," he told reporters after meeting with California Gov. Gray Davis and Sen. Dianne Feinstein (D). Richardson used the authority available under the Federal Power Act. Recently, 13 out-of-state generators and power "marketer companies" have refused to sell to California, either getting higher prices elsewhere, or fearing that California utility firm purchasers couldn't pay. The generators are now under Federal orders to sell.

On Dec. 11, Seattle Mayor Paul Schell and City Councilwoman Heidi Wills denounced deregulation at a press conference, reporting how costs of power on the open market are sky high. Prices have spiked to $5,000 a megawatt hour in recent days, when they usually were around $30-50! Mayor Schell said he was asking President Clinton to direct the Federal Energy Regulatory Commission to put a lid on the power costs.

Basic functions are threatened. On Dec. 11, to keep the critical waste-water treatment plant operating in Renton, Washington, King County (Seattle) Executive Ron Sims asked the County Council for an emergency $10 million budget supplement. Just two weeks before, the County was paying 4.5¢ per kilowatt hour for power, but that price has recently shot up to as much as $5 per kilowatt hour—*more than 100 times higher*. Operating the sewage treatment plant is now costing about $549,000 a day. How long can this go on?

On Dec. 14, the Boeing Corp. and other industrial users asked the Washington Utilities and Transportation Commission for emergency relief from the high electric prices charged by Puget Sound Energy. The companies' attorney, Melinda Davison, said, "We have to have immediate relief," and gave the example that one of her clients paid $60,000 for one day's power on Dec. 11, 1999, and a year later, that customer faced a projected cost of *$6 million* for the same amount of power the same day!

Weimar-Style Hyperinflation

This is the kind of "Weimar-style" hyperinflation of which Lyndon LaRouche forewarned, and specified must be combatted, in his Emergency Energy Memorandum of Sept. 19. That memorandum, particularly addressed to the ongoing oil and natural gas price and supply crisis, is the basis for an emergency resolution recently passed by the Camden City Council, and debated before the Boston Council.

Many state and local government bodies are meeting in special sessions on the power crisis—even though in calendar terms, it is "only December," with four more months of Winter ahead. On Dec. 12, in Washington, D.C., the U.S. Senate held a see-no-evil, do-nothing show hearing on the power crisis. During Dec. 13-16, the National Conference of State Legislatures' Standing Committee on Energy met in Washington on a "National Energy Policy." In California, the Legislature has reconvened, with energy the top issue.

Nationally, natural gas prices went up 45% in November alone. As of Dec. 11, gas (Louisiana Henry Hub) on the New York Mercantile Exchange hit $8.50 per 1,000 cubic feet, up from $4.50 in August. Last year the price did not exceed $2.75. In California, at one point recently, natural gas was

Energy Secretary Bill Richardson (at podium) is not *smiling, because he has just had to declare electricity prices in the U.S. to be a national emergency, and he has bungled the energy-price crisis at every step by leaving it to "the markets."*

selling for $40 per 1,000 cubic feet!

Moreover, the various fuel and power price rises create mutual upward pressure. Overall, 16% of electricity generation comes from natural gas, 3% from petroleum, 51% from coal, and the rest nuclear and hydro (with a small amount from "alternate").

On the political side, those making super-profits off these energy price spikes and scarcities are the cartel energy conglomerates that came to dominate during the 1990s deregulation shift. Most conspicuously they interconnect with the Bush candidacy, but they have the same kind of continuity back through the Clinton/Gore Administration, and earlier, as energy deregulation was put into place since the 1970s.

The leader of pack is Texas-based Enron, the foremost energy futures speculator and global power conglomerate. Enron gave $100,000 to the George W. Bush campaign, and cumulatively has given $550,000 to Bush family campaigns. After it was widely mooted in November that a Bush Cabinet could well have Enron CEO Kenneth Lay as Energy or Treasury Secretary, Lay chose to announce on Dec. 13—right after Bush's "victory" speech—that he will remain at Enron as Chairman of the Board, and not go to Washington. Too conspicuous?

California Energy System Breakdown

California is the paradigm for how the deregulation rip-off was put in place, and is blowing out the power base, all in the name of "competition," "privatization," "options and choices," etc. The background for deregulation was the lack of construction of new power capacity in the 1990s (increases of 1% per year, or less, nationally), resulting in an inadequate power supply, and then the power system was chopped up by deregulation. Beginning in 1996, the California deregulation law mandated that the largest investor-owned (regulated) utilities had to sell off some power plants, and do other divesting. Energy was henceforth to be bought and sold "on the markets," and distributed by the divested utility companies. In moved Enron, along with just three other companies, Reliant Energy (formerly Houston Lighting and Power), Dynegy, and El Paso Energy Corp. The four now own about 25% of all the unregulated power generated in California. Wholesale electricity prices are setting new records daily. On Dec. 11, the average price paid for electricity was $612 per megawatt. On Dec. 12, the average price hit $904 per megawatt. But spikes have hit the $3,000 per-megawatt range.

Utilities in the state have racked up, only since June, over $7 billion in debt. This comes about, because despite the fact that some companies still generate a part of the power they sell, they have to go to the state wholesale "auction" for more, and pay spectacular prices. In early December, the credit rating agency Moody's downgraded both Southern California Edison Co. and Pacific Gas and Electric (PG&E), because of their multi-billions of debts.

Out-of-state generators and electric "marketeers" (also part of the cartels), formerly supplying 25% of California's electricity, have held back supplies. They have claimed fear of non-payment from California utilities. Also, they wanted to sell elsewhere for much higher prices, because a wholesale price cap of $250 per megawatt hour had been in place in California, on orders of the Federal Energy Regulatory Commission, in an attempt to hold down wholesale prices. When that crimped supplies in December to the crisis point, on Dec. 8 FERC lifted the cap, to induce electricity to come into the state, and record prices and continued shortages immediately ensued. Hence, the state appeal for the Federal emergency intervention, granted on Dec. 13.

Power Cut-Back, Cut-Off at Factories

The scope of the national emergency is shown in the wave of factory shut-downs, based on energy shortages, high prices, and attempts to "cash in" on selling scarce electricity. The following are examples by region and industry.

The West: In Washington, Kaiser Aluminum, because energy prices soared so high on the spot market over the Dec. 9-10 weekend, decided it was more profitable to shut down its Spokane-area plant and sell its power, than use it to make aluminum. As of midnight on Dec. 10, some 400 workers had been idled for ten months at the Kaiser plant in Mead, near Spokane. The Dec. 11 Seattle *Post-Intelligencer,* in an article entitled "Kaiser Makes a Bundle by Reselling Power," reports, "Earlier, Kaiser had paid the Bonneville Power Administration $22.50 per megawatt for power it was to receive this month. Yesterday, Kaiser announced it had sold those 190 megawatts back to BPA for more than $500 a megawatt." In June this year, because of high energy prices, Kaiser shut down its Tacoma smelter. Smelters in Idaho and Montana have also been shut because of prohibitive energy costs, in the last few months.

In Bellingham, Washington, Georgia-Pacific is temporarily closing a paper mill, and laying off nearly 800 workers. Georgia-Pacific buys power on the spot market. Its monthly energy bill for Bellingham rose from an average of $1.2 million to an anticipated $10 million if the plant stayed open. So, it shut down.

Beginning on Dec. 10, four large Washington industrial concerns will cut back electricity use for six days, in voluntary compliance with Tacoma Power: Abitibi Consolidated, Pioneer Chlor-Alkili, Simpson Tacoma Kraft, and Praxair.

In California, the Shasta Paper Co., based in Anderson, shut down its paper mill indefinitely on Nov. 30, laying off 500 workers. Company officials stated that they are paying 572% more for natural gas than one year ago. Currently, they pay $21 per BTU, compared with $3 last June. Between Nov. 30 and Dec. 4, alone, the price jumped $3 per BTU, from $18 to $21. Shasta Paper buys natural gas directly from TXU in Texas, and the gas is delivered over pipelines owned by PG&E. Other local industries are threatened, including the Pactiv Corp., and Knauf Fiberglass. Also affected are the Redding Medical Center, Mercy Medical Center, the Shasta School District, the Redding School District, and the Simpson Community Credit Union, all of which have been hit with identical, draconian price hikes.

The South: In Beaumont, Texas, Terra Industries, Inc. has halted production of ammonia, because at today's prices, it costs Terra $270 for the natural gas needed to make $200 worth of ammonia, for which natural gas is a feedstock. Terra makes ammonia for fertilizer.

In Arkansas, Terra Industries halted output at its 100-worker plant in Blytheville. Terra, the fourth-largest (publicly traded) fertilizer-producing company in the United States, said it will keep four other plants open for the time being.

The Mid-Atlantic: In Beaver Falls, near Pittsburgh, Pennsylvania on Dec. 6, the steel fabricating plant owned by American Extruded Products (formerly Babcock and Wilcox) received a gas curtailment notice of only hours, to shut down. One hundred workers were laid off. The firm's gas broker, VP Co., caught between the market price of some $8 per thousand cubic feet, and the metal-work mill's contract of under $5 per unit, suddenly went out of business. For a new gas supplier, the firm faces paying up to $30 per thousand cubic feet.

Canada: In Trail, British Columbia, the zinc smelter owned by Cominco Ltd. will reduce its output of zinc by 20,000 tons during the seven-week period from Dec. 11 to Jan. 31, while the company sells electricity saved from the smelting process to a major energy company in California. At today's prices (London Metals Exchange), the 20,000 tons of zinc would generate $22 million in gross revenues, but the electricity is worth $132 million, because of the soaring energy spot prices. Cominco is based in Vancouver, and 50% owned by Teck Corp., whose market share value leapt at the news of the energy sale coup.