EIR
ENERGY CRISIS UPDATE

Prepared Feb. 15, 2001

Agenda for National Energy Emergency Action

I. Scope of Energy Crisis: Physical Economy

Electricity

■ **California:** Feb. 15 was the 31st day of "Stage Three Electricity Alert," meaning possible rolling blackouts. By this Summer, the shortfall at peak-power times is expected to be 5,000 megawatts. Gov. Gray Davis said on Feb. 8 that he will cut red tape for new power sources, but no mobilization of physical resources is under way. Two legal decisions have delayed the worst repercussions.

On Feb. 7, a Federal judge refused to permit the leading energy wholesalers, such as Dynegy or Reliant, to cut off power to California utilities, on the basis that the shutdown of power would do "obvious irreparable harm to the public." As many as 4 million people might have been without electricity, if the judge had let lapse the Federal order compelling wholesalers to sell to the bankrupt utilities, as the Bush Administration had decided it should. There will be a further hearing on Feb. 16.

Then, on Feb. 13, Judge Ronald Lew denied the utility, Southern California Edison, an immediate rate increase, a ruling which will hold until a court-ordered March 5 status conference.

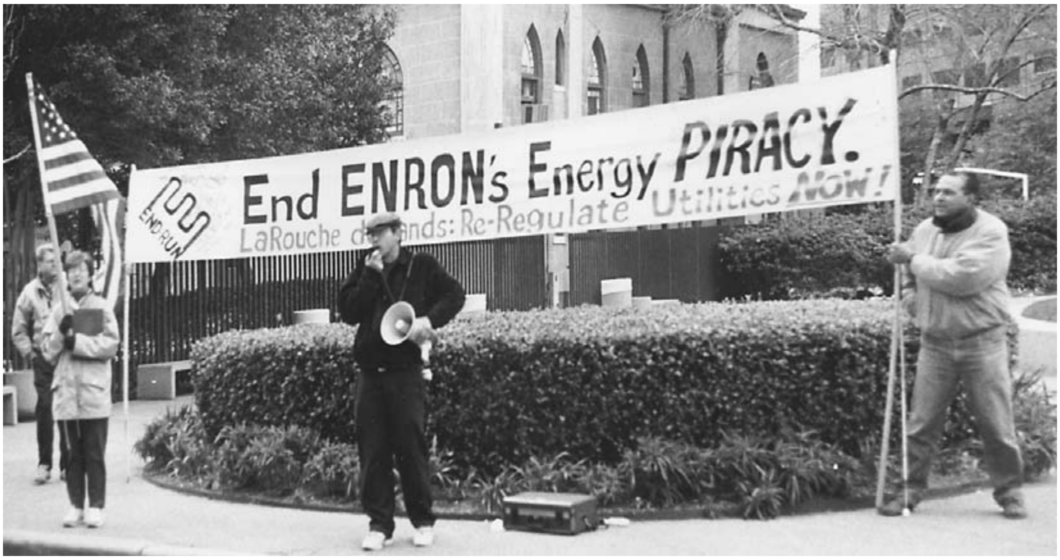
■ **New York:** Electricity shortages are expected for the Summer. On Feb. 13, the Long Island Power Authority (near New York City) laid out contingency plans. It may take over facilities from KeySpan, which acquired them when Long Island Lighting Co. (LILCO) underwent debt reorganization. The Authority plans to add 120 MW of new capacity by placing either a barge-mounted or land-based generator into temporary service. It is also working with the statewide New York Power Authority to site a 44 MW gas turbine generator on the grounds of Pilgrim State Hospital.

Michigan: Summer power shortages are expected. The Public Service Commission has asked for contingency plans from Detroit Edison and Consumers Energy.

Natural Gas, Propane

Gas cut-off crises are now hitting cross-country, as four months of unpayable Winter bills have hit. The issue is hyperinflation, not physical product. Natural gas has been deregulated nationally over the last 25 years.

■ **Nebraska:** In the Omaha area, gas cut-offs are proceeding at the rate of 250 a day, from the Metropolitan Utilities Dis-



A rally against Enron, across the street from its headquarters in Houston. President Bush refuses to act in the energy crisis, while his friends, like Enron, continue to loot the population.

trict, which has 170,000 customers. TV broadcasts report that your gas will stay on, if you can put some amount of money together, and qualify for financing. The Feb. 13 *Omaha World Herald* reports, "The average customer who paid $70.24 in January 2000, paid $240 this January for only about 20% more gas."

■ **Washington, D.C.:** Washington Gas Co. is receiving 15,000 phone calls a day—triple previous levels—regarding unpayable bills. The District of Columbia energy office is swamped with phone calls from people facing cut-offs. The Feb. 15 *Washington Post* quoted Richard Kirby, director of the D.C. Low Income Aid office, saying, "In 11 years here, I've never seen anything like this."

■ **Pennsylvania:** In early February, a crowd of angry customers shut down the payment office of the municipally owned Philadelphia Gas Works, protesting rate hikes.

■ **Georgia:** On Feb. 4, a crowd of 75 people gathered at the offices of Atlanta Gas Light Co., protesting prices, and asking state Attorney General Thurbert Baker for an investigation into price-gouging.

Mining and Manufacturing

Besides manufacturing and light industry, mining, lumbering, and similar extractive industries have also been hit.

■ **Arizona, New Mexico:** On Jan. 25, Phelps Dodge Corp., the world's number-two copper producer, put 2,350 miners on notice that company mine operations might shut down at three sites, because of high and rising energy prices. On notice are the Serrita mine in Arizona, and the Chino and Tyrone mines in New Mexico.

Agriculture and Food Supplies

■ **California:** The state's energy crisis threatens links up and down the world's food chain. California accounts for 50-100% of U.S. production of many crops, from olives to pistachios, and hence a high percentage of world production.

- Tomatoes. Over 90% of the U.S. supply of processed tomatoes come from California, and nearly half of the world's total tonnage of processed tomatoes comes from the state. The California Tomato Growers Association stresses that its members cannot operate much longer under the crisis.
- Mushrooms. Close to 50% of all U.S. production is located in three counties of Northern California—Santa Clara, Santa Cruz, and Monterey. Mushroom cultivation requires artificial climate and sterilized soil. Over the last two months, energy costs rose by more than 500%. At Monterey Mushrooms, the largest U.S. producer, natural gas prices went from $3.18 to $14.86 per million BTU. In January, blackouts hit.

Social Hardship

Unpayable energy bills are causing stress, and threatening churches, charities, child welfare, and so forth, throughout the country.

■ **Washington State:** Algona Community Church operates a food bank serving 100-200 persons a week, and has been paying a utility bill (electric and gas) of $600 every two months, up until this year; now that bill has hit $1,200, which the church can't pay. Pastor Marlin Bowman is appealing to Puget Sound Energy not to cut off power.

■ **Iowa:** In Louisa County, members of one local community, facing impossible church utility bills, have had to shut down the church for the Winter, and to resort to meeting in homes. In Kossuth County, a social worker reports that domestic abuse incidents have gone up this Winter, directly resulting from households facing impossible heating bills, and suppliers refusing to re-fuel.

II. Scope of Energy Crisis: Financial

State Funds Drain into Energy Cartel

■ **California:** On Feb. 13, Governor Davis informed the legislature that the state would need an additional cash infusion soon, of $500 million, which it will spend at the rate of $45 million a day, to buy electricity on the spot market for the state's two nearly bankrupt utilities (the current state contingency plan). This will bring to close to $2 billion what the state has spent on electricity purchases since the policy was implemented at the beginning of January. To replace this hemorrhaging of state funds, the Governor's plan is to replace spot-market purchases with supplies from long-term contracts with the "merchant" electric and gas companies, at half the cost (still far above 1999 levels). Davis reports that he has four committed contracts, and hopes for more. The state would borrow $10 billion in bonds for the purpose, which Gray anticipates doing by May, at the earliest. Given the overall hyperinflationary process, the package is foredoomed.

■ **Iowa:** To help poor households pay Winter heat bills, some Des Moines lawmakers proposed dipping into monies in the state Clean Water program. Other states are similarly resorting to funds that can be used as "relief." State monies and the Federal Low Income Home Energy Assistance Program (LIHEAP)—whose expenditures are at an all-time high of $2.5 billion so far this year—thus flow into the energy cartel profiteering.

Insolvency and Chain Reaction

■ **California:** Pacific Gas & Electric, the largest of the big three utilities, said in mid-February that its creditor banks have agreed to desist from taking action against it for payment arrears, until at least March 6. PG&E states that it will make interest payments on securities. PG&E and Southern California Edison racked up some $12 billion in bills and debts (from June to December 2000) from buying electricity on the deregulated wholesale markets—bills and debts they cannot pay. Their parent companies have attempted to sever themselves from obligation. Overall, the two utility companies have some $20 billion in debts and claims, with cross-default clauses. Major banks are exposed to the debt, including Bank of America, Wells

Fargo, and others, with derivatives pyramids piled on top.

Energy Cartel: Mega-Profits, Mega-Mergers

Besides the electricity hyperinflation, the world's top five natural gas producers are now making mega-profits: BP/Amoco, Exxon-Mobil, Shell, and Chevron and Texaco (the last two are in merger talks). In 2000, the Amex Natural Gas Equity Index rose nearly 80%. In 1999, the average natural gas wholesale spot price was under $2.75 per 1,000 cubic feet; by Fall 2000, that figure had hit over $10, before dropping back to the $6 range.

On Jan. 29, Houston-based El Paso and Coastal merged to form the fourth-largest energy company in the United States. El Paso Pipeline will control more than 58,000 miles of interstate pipelines, and move more natural gas than any other energy company in the world. El Paso owns five interstate pipeline companies, including those threatening not to sell natural gas to PG&E in California. El Paso reports that its "merchant energy group" (North America and Europe) experienced a 250% growth over the last three years.

Meanwhile, Pennsylvania, South Dakota, and many other states have called for investigations into gas profiteering.

In California, the Public Utilities Commission (PUC) has filed a lawsuit against El Paso Natural Gas Co. for manipulating prices, including collusion with Dynegy. Harvey Morris, the lead PUC attorney in the suit, told the *San Francisco Chronicle* on Feb. 11, "California now knows what was going on in the '20s and '30s," when the first Federal laws were enacted to protect the public from this sort of rapacity.

Mega-mergers and electricity buyouts are proceeding worldwide, with British money and control in the forefront. London-based International Power PLC has a team now in California to look for facility sites. The British firm PowerGen bought Louisville Gas & Electric in December. The Virginia-based AES, one of the top three "merchant" electric wholesalers in California, has facilities in 22 countries, and just announced purchase (through a subsidiary) of the energy assets of the Massachusetts-based Thermo Electron (which is, in turn, owner of power operations elsewhere in the United States, and in Europe). Phillips Petroleum Co. has announced the acquisition of Tosco refinery company.

III. Energy Infrastructure: Crises and Reactions

A Jan. 17 gas explosion in Hutchinson, Kansas, dramatizes the national problem of run-down infrastructure, lack of maintenance, and lack of workers. An Oklahoma-based gas company uses a Kansas salt cavern for gas storage. A leak developed in the casing of the pipe feeding gas to the cavern. A massive build-up of gas occurred on the south side of Hutchinson, until one night, a store and a trailer blew up, two buildings burned, a trailer park had to be evacuated, and crews had to light "geyser" fires to burn off the gas. The company had known there was a leak somewhere.

IV. Policy Response, Federal Level

■ **Bush Administration:** The Administration remains committed to radical deregulation. *The Hill* newspaper in Washington on Feb. 7 reported that oil and gas companies gave $29 million to campaigns in 2000, with $23 million to Republicans, and big bucks to the coffers of George W. Bush and key figures in his government, including Energy Secretary Spencer Abraham, who received $500,000 (the largest energy largesse to one person since 1993).

Ties of the Enron energy conglomerate to the Bush Administration are in the spotlight. The Feb. 12 *Business Week* cover story was, "Power Play; Enron, the Nation's Largest Energy Merchant, Won't Let California Stand in Its Way." The Feb. 11 *Los Angeles Times* ran details, including that Bush's economics adviser Lawrence Lindsey, and his Trade Representative Robert Zoellick, were both on Enron's Advisory Board. Texas Sen. Phil Gramm's wife Wendy is also on Enron's Board. Bush's National Security Adviser, Condoleezza Rice, was on the board of Chevron, which is the co-owner of Dynegy, making huge profits on electricity sales in California.

Enron's top executive, Kenneth Lay, gave $5,000 (the maximum possible) for Bush's Florida vote recount fight; Enron overall has given some $550,000 to the Bush campaigns. As Texas Governor, George W. Bush intervened with Pennsylvania Gov. Tom Ridge, to enable Enron to get a piece of the energy action in deregulated Pennsylvania. In late 2000, the Enron-affiliated, eight-month-old "New Power Co." was handed more than 300,000 customers, during the divvying up under deregulation. (Incidentally, and erroneously, Pennsylvania is often cited as the "successful model" of deregulation.)

■ **Congress:** On the side of radical deregulation, is proposed legislation by Alaska Sen. Frank Murkowski (R) which would give big tax and financial breaks to the oil and gas sector, including: 1) reducing royalty payments for Gulf of Mexico extractions; 2) tax credits; and 3) subsidies for failed exploration.

On the side of re-regulation, among the several new bills sponsored by Western states' Congressmen (reported last week in the *Agenda*), most attention is being focussed on the Jan. 30 electricity price re-regulation proposal (H.R. 264) put forward by Rep. Peter DeFazio (D-Ore.) (for excerpts from the bill, see below). DeFazio's bill would, in effect, roll back parts of the 1992 Federal Power Act, which allowed states to set up electricity markets, and speculation in prices. DeFazio, speaking on Jan. 29 in Springfield, Oregon, called on the state legislature to repeal the deregulation scheduled to take effect there on Oct. 1, 2001: "Nothing good can come from deregulation. Northwest consumers need to be protected from rising energy prices and profiteering by private power buccaneers." Ten days earlier, on Jan. 19, in Albany, New York, DeFazio had said, "Under the California scheme, the new owners of power generation have no duty to serve anyone except their stockholders, which they can do by driving up the cost of power. The best way to do that is to make it scarce. That is the major fault of deregulation."

V. Policy Response, State and Local Initiatives

In most of the 26 states which have some form of energy deregulation, there are now moves to delay, or even cancel, deregulation. In the Georgia Assembly, a bill offered by Sen. Regina Thomas (Savannah) would restore full energy regulation. The biggest block is the uninformed attitude that "deregulation is too far gone. . . . It would be like putting toothpaste back in the tube."

■ **California:** On Feb. 14, a group of constituency leaders associated with the LaRouche re-regulation mobilization hit Sacramento for a day of lobbying, timed with the Assembly's "Special Session Committee on Energy Pricing," which has the power to expedite (by a two-thirds vote) state laws. The 30 activists represented groups from the American Association of Retired People, to farmers, students, Hispanic leaders, labor, and local communities from throughout the state. Among the responses encountered:

From a top Senate energy aide: "We support re-regulation. We just don't think we have the votes." From a blue-collar, Republican district: "We know this situation is dangerous, but we're surprised: No one's been calling us. No one's been bugging us . . . till you."

VI. Considerations for Re-Regulation: National Energy Management and Reconstruction

■ **The LaRouche Campaign:** The Feb. 4 policy document by Lyndon LaRouche, "On the California Energy Crisis: As Seen and Said by the Salton Sea" (*EIR,* Feb. 16), was released on Feb. 13 in a first run of 200,000, as a mass-circulation pamphlet put out by the LaRouche in 2004 Presidential campaign committee. LaRouche's "What To Do" points, were submitted on Feb. 14 to the U.S. Senate Energy and Natural Resources Committee, in testimony by *EIR* Economics Editor Marcia Baker, for the record of the Jan. 31 hearing on the California crisis.

International Debate on Deregulation:

• Thailand: In January, M.L. Chanaphun Kridakorn, Deputy Governor of the Electricity Generating Authority of Thailand (EGAT), said, "Deregulation apparently has not worked well in California, and the plan should be reconsidered here." Currently, EGAT plans to start up a power-pool market (deregulation), in 2003. In February, British Ambassador to Thailand Lloyd Barnaby Smith, chastised such second thoughts, saying California's deregulation was "botched."

• Europe: The Finnish nuclear association "Finergy" has just applied to build a fifth nuclear power plant. On Feb. 13, at meeting of the Brussels Energy Round Table titled "A Vision for Nuclear Energy in Europe for the Next Two Decades," Dr. Nils Andersson (of Vattenfall AB, Sweden) said, "If the economic need becomes strong enough, the next two decades may well see the construction of new nuclear power plants in Europe."

Documentation

The following bill was introduced in the U.S. Congress by Rep. Peter DeFazio (D-Ore.) on Jan. 30, 2001, and referred to the House Committee on Energy and Commerce.

107th Congress, 1st Session, H.R. 264 A Bill

To require the Federal Energy Regulatory Commission to return to the cost-based regulation of wholesale interstate sales of electricity, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. Restoration of Cost-Based Rate Regulation of Electric Energy at the Federal Level.

(a) Termination of Orders 888 and 889—The Federal Energy Regulatory Commission shall regulate the rates and charges for all sales of electric energy subject to the jurisdiction of the Commission under Part 2 of the Federal Power Act on the same basis as such rates and charges were regulated prior to the issuance of Commission orders 888 and 889 on April 24, 1996.

(b) **Effective Date**—Subsection (a) shall take effect with respect to all contracts for the sale of electric energy entered into or renewed after the enactment of this Act.