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Deregulation Stalls, And Enron Falls

by John Hoefle

Just a couple of years ago, electricity deregulation seemed to many to be an unstoppable force, and Enron Corp. appeared to be on a trajectory that would make it one of the most powerful companies in the world. At the time, Lyndon LaRouche, now a Democratic Presidential pre-candidate for 2004, warned that, contrary to widespread perception, deregulation would be a disaster and that Enron's piracy policies would destroy the energy sector, and itself. For many people who chose to join the cult of the quick buck, LaRouche's warnings seemed out of touch; after all, they believed, the market was proving that deregulation worked, and Enron and its fellow pirates were raking in the money hand over fist.

Today, the picture is significantly different. Enron's drive for world domination has ended in failure, deregulation is in retreat in most U.S. states, and many among the quick-buck cult have been bankrupted. LaRouche and the legislators and policy-makers who had the wisdom and courage to work with him battling deregulation, have been once again proven correct. The fight is far from won—energy is just an aspect of a raging fight for the future of mankind—but the rise and fall of electricity deregulation and its champions is an example of how the economic cannibals can, and must, be defeated.

Each month, the U.S. Department of Energy's Energy Information Administration releases a report on the status of state electric industry restructuring activity, complete with a map and a state-by-state update. In the past, the thematic map showed four categories: "Restructuring Legislation Enacted," "Comprehensive Regulatory Order Issued," "Legislation/Orders Pending," and "Commission or Legislative Investigation Ongoing." In September 1999, for example, there were 21 states in the first category, three in the second, none in the third, and 26 plus the District of Columbia in the fourth.

Figure 1 shows the situation as of November 2001, which is significantly different, reflecting the widespread distrust of deregulation which swept the states in the wake of the California debacle this past Winter. To begin with, the categories have changed, to: "Restructuring Active," "Restructuring Delayed," "Restructuring Suspended," and "Restructuring Not Active." There are only 16 states, plus the District of Columbia, in the "active" camp, with seven in the "delayed" category, one (California) in the "suspended" category, and 26 in the "not active" group. Active deregulation is now concentrated mainly in the Northeast quadrant of the nation, plus the new model state of Texas, and in Arizona.

Several states which had passed deregulation legislation are not now considered active, having either postponed or shelved the action; those states are Arkansas, California, Montana, Nevada, New Mexico, Oklahoma, and Oregon. Meanwhile, Michigan, New York, and the District of Columbia have moved into the active camp.

Overall, the process of the adoption of deregulation has stalled, as has the success of deregulation in states which have already enacted such legislation. Despite this demonstrable failure, the financial powers behind deregulation are determined to create the conditions in which deregulation can be made to appear to work, even if only temporarily.

Failed Models

When the failure of deregulation blew up so spectacularly in California, deregulation addicts pointed feverishly to Pennsylvania as the model of how deregulation worked when implemented properly. Then-Pennsylvania Gov. Tom Ridge, now head of U.S. Homeland Security, was trotted out at every opportunity to tout the state's success and portray California as an aberration. Unfortunately for them, reality did not match the spin, and Pennsylvania residents did not embrace the en-

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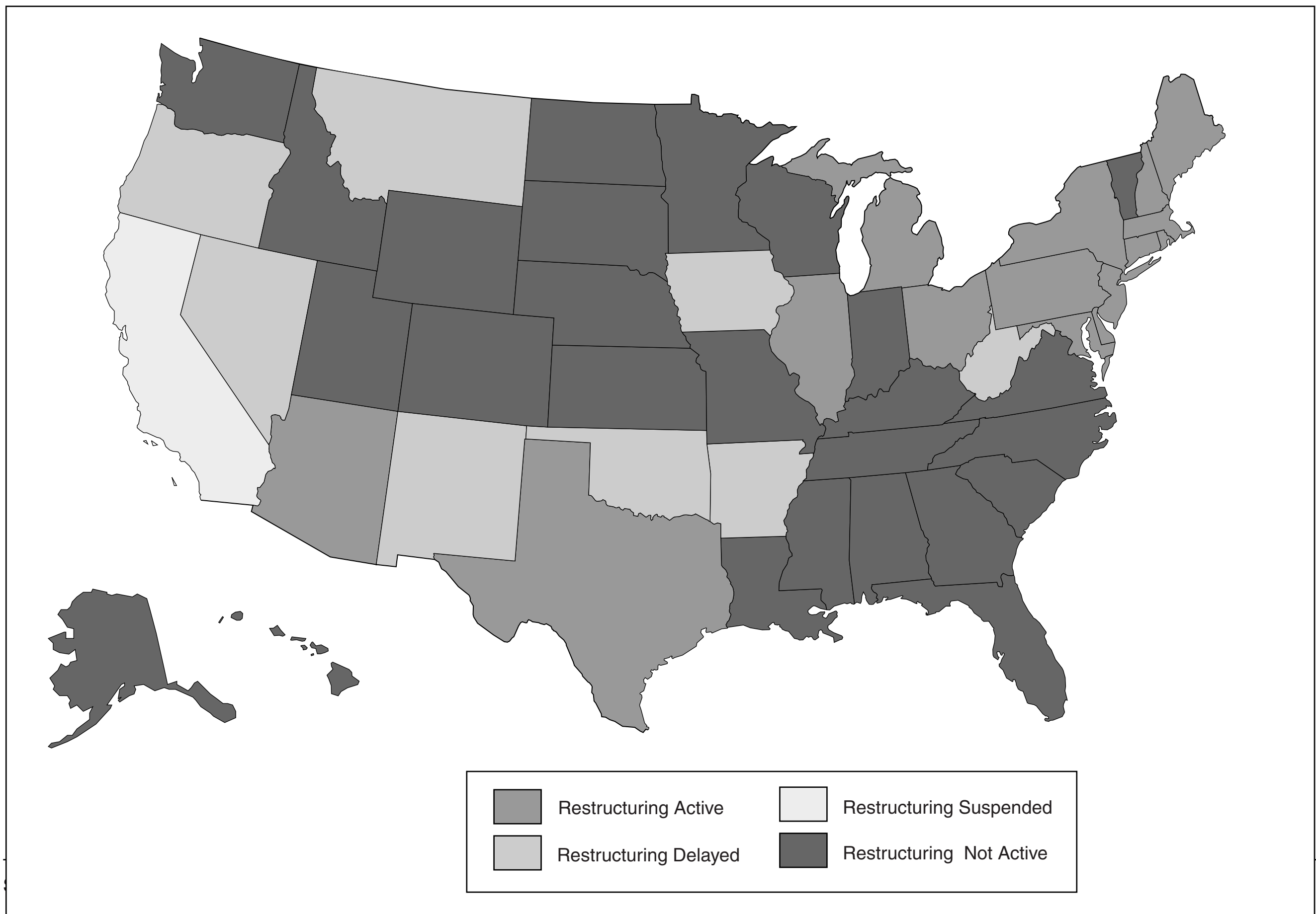
FIGURE 1
Electricity Deregulation Slows To A Halt In The United States



ergy pirates with anywhere near the level of affection displayed by their elected officials. Likewise, the affinity of the Boston Brahmins for deregulation has not been matched by the people of Massachusetts, who have overwhelmingly rejected the overtures of the pirates. Considering that deregulation was sold on the basis of the "public's right to choose," the resounding failure of the population to abandon their electric utilities in favor of the energy pirates should be enough to end the policy altogether; at least, it would were the public's benefit the motive behind the policy.

The determination by Wall Street and the oil cartel to ram deregulation through at all costs can be seen in Pennsylvania, where the state arbitrarily gave 300,000 customers of Philadelphia-area utility PECO Energy to the New Power Company, an affiliate of Enron. Even with that gift, the number of customers of the non-utility electricity marketers in the state is declining, and without the gift the number of customers would be at the lowest level since deregulation began in the state in 1999 (**Figure 2**). As of Oct. 1, 2001, only 10.7% of all electricity consumers in the state were customers of the non-utility suppliers, and without the New Power transfer, the figure would fall to 6.6%. Many suppliers have stopped doing business in the state, because of the lack of customers.

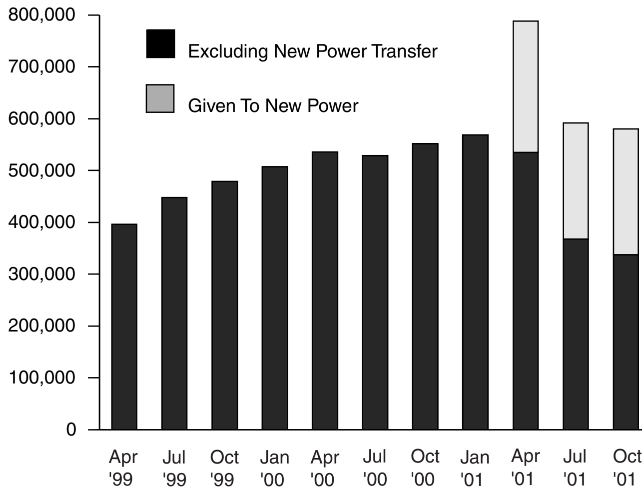
When one looks at the electricity consumed by the customers of the non-utility providers in Pennsylvania, it becomes clear that the non-utility sales of electricity to industrial and commercial customers has declined dramatically over the past six months. From a peak of 3,368 megawatts used on April 1, 2000, commercial usage fell to just 362 MW on Oct. 1, 2000, and industrial usage fell from a peak of 3,968 MW used to 393 MW over the same period, according to the Pennsylvania Office of Consumer Advocate. That's a roughly 90% drop in both categories, a meltdown of Enronian proportions.

The situation in Massachusetts, where deregulation customers are measured in mere thousands, makes Pennsylvania look good (**Figure 3**). In a state with some 2.5 million electricity customers, the pirates have never even managed to break

FIGURE 2

Electricity 'Choice' Failing In Pennsylvania

(Number Of Customers)

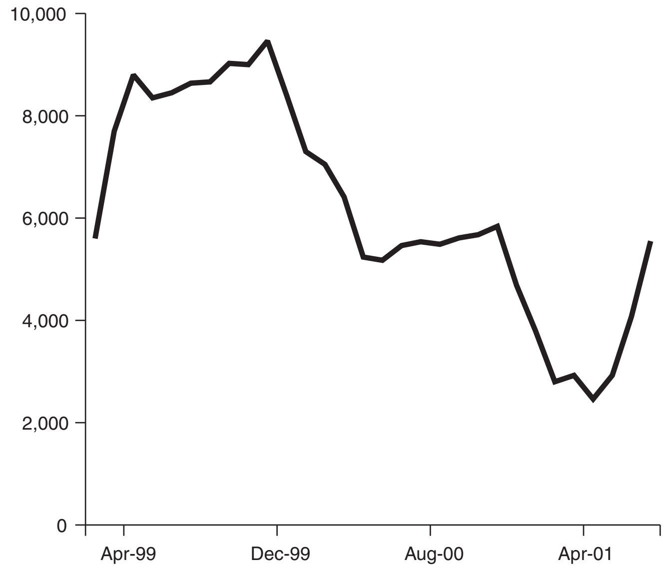


Source: Pennsylvania Office of Consumer Advocate.

FIGURE 3

Deregulation Has Failed In Massachusetts

(Number Of Customers)



Source: Massachusetts Division of Energy Resources.

the 10,000-customer level, dropping to as low as 2,929 customers in July of this year before a slight rebound to 5,549 in September. While that might appear to be a sharp increase, it only raises the pirates' market penetration to 0.22% of all electricity customers, up from 0.12%, an amount fairly characterized as insignificant and, from the deregulation addict's point of view, downright embarrassing.

Measured in megawatts used, the pirates' position in Massachusetts is noticeably better, at 10% of all electricity consumed, nearly double the amount used two months ago. Presumably this is due to the recent decline in energy prices, which allows the pirates to offer more competitive prices to larger customers.

'Pickett's Charge'

While deregulation is failing in the Northeast, an attempt is being made to open up new flanks in the friendlier territories of Virginia and Texas.

Virginia, amidst a barrage of "We're not California" propaganda, inaugurates its deregulation fiasco on Jan. 1, 2002, when the customers of American Electric Power can choose an alternate supplier; Ohio-based AEP is the dominant utility in Southwest Virginia, and one of the lowest-price electricity generators in the nation. Few observers expect competitors to sell their electricity cheaply enough to take much business from AEP, and many apparently are not even going to try. Customers in Central Virginia, a region served by Dominion Virginia Power, will get their shot at "electricity choice" beginning Sept. 1, 2002.

Some Virginia residents have compared the Old Dominion's headlong rush into deregulation to Pickett's Charge, Gen. Robert E. Lee's suicidal charge into Union lines during the Battle of Gettysburg in the Civil War. Pickett's Charge was an unmitigated disaster, a stunning defeat which contributed heavily to the Confederacy's ultimate defeat. Virginians should take heed.

In Texas, a major base of the global oil cartel and a bastion of the Southern Strategy deregulation crowd, deregulation is scheduled to begin in January 2002, but the problems have already begun. A pilot program, begun earlier this year, proved a disaster, with those customers who wanted to switch unable to because of procedural problems, and the Texas Public Utility Commission has already decided to delay the implementation of deregulation in areas of Southeast Texas and the Panhandle, because of a profound lack of customer interest.

However, because Texas has been designated the new model state for deregulation—a place where, at long last, deregulation can hopefully be made to seem to work—more drastic measures are being considered.

One of the major flaws of deregulation is that the non-utility producers cannot generate electricity as cheaply as the utilities and thus cannot compete with them on price, especially in states where the deregulation laws mandate that the utilities provide their customers with a guaranteed discount. The discounts, which were included in the deregulation laws as short-term consumer protections, have proved to be a significant obstacle to the pirates.

That point has not been missed in Texas. With less than two months to go before deregulation begins in his state, Texas Public Utility Commissioner Bret Perlman has proposed that a surcharge be imposed on the electric bills of those customers who elect to stay with their existing utilities! In Pennsylvania, when insufficient numbers of customers chose the way the deregulation addicts wanted them to choose, customers were arbitrarily assigned to New Power, but even that heavy-handed tactic was not enough. Now Texas is proposing to penalize customers who don't switch, in a regulatory version of the proverbial "offer you can't refuse." So much for freedom of choice.

Ongoing Reorganization

The failure of electricity users to sign up with the non-utility pirates does not mean that deregulation is dead, however. While the retail side of deregulation languishes, major shifts are occurring on the generation side, with utilities selling off their generating capacity to non-utilities or to their own unregulated affiliates or unregulated affiliates of other utilities.

The case of Pennsylvania is exemplary.

The state's utilities are increasingly being controlled by out-of-state interests, a process which significantly complicates any potential return to a regulated system. On Nov. 7, Ohio's FirstEnergy completed its takeover of New Jersey-based GPU, a utility holding company which owned two Pennsylvania utilities, Pennsylvania Electric and Metropolitan Edison. FirstEnergy already owned Pennsylvania Power, giving it control of three of the state's major electric utilities. PECO Energy, the big Philadelphia-area utility, merged with Chicago utility Unicom (the parent of Commonwealth Edison) in October 2000, forming the giant Chicago-based Exelon Corp. West Penn Power, another major utility, is owned by Maryland-based Allegheny Energy, while Pike Country Light & Power is owned by New York's Consolidated Edison.

At the same time, some utilities are selling off their generating capacity to others. GPU, for example, sold 25 of its power plants, with a combined 10,736 MW of generating capacity; most of those plants were sold to Sithe Energy of New York, which subsequently sold them to Houston's Reliant Energy.

The situation is similar in Massachusetts, where Britain's National Grid plc owns two of the state's major utilities, Massachusetts Electric and Eastern Edison, neither of which has any generating capacity; National Grid is also buying the New York State utility Niagara Mohawk, another utility which has sold off its generating capacity. Two of the state's other big utilities, Boston Electric and Commonwealth Electric, merged, creating NSTAR, which has also sold its generating capacity. This leaves Massachusetts residents dangerously exposed to price gouging, especially when the state-mandated price controls expire.

At the same time, considerable political muscle is being brought to bear to expand the national electricity transmission grid, to allow the pirates to be able to ship power wherever it will bring the highest price.

The purpose of the consolidation of existing utilities and the divestiture of generating capacity by regulated utilities to unregulated companies, is designed to rip apart the existing stable and regulated system, making it easier for the financial sharks to grab a chunk of the billions of dollars Americans spend on electricity every year.

The Bigger They Are . . .

Walking the point for the deregulation drive was Enron, a company which seemed to have all the bases covered: It had political pull, thanks to its connections with the two Presidents George Bush and their immediate circles; lots of money to spread around to lobby Federal and state governments; and a dominant role in the market of buying and selling electricity and natural gas. The company was routinely touted in the business press as one of the best-managed companies in the nation, and a gaggle of "wannabes" worked hard to emulate Enron's business model. Enron, by all outward appearances, was on top of the world.

Outward appearances are generally deceiving, and the condition of Enron was no exception. While the full story has yet to emerge, it is clear that a good portion of Enron's success was done with classic "smoke and mirrors" accounting tricks. At the very least, the company significantly overstated its profits, as it admitted on Nov. 8, when the company restated and lowered its reported net income dating back to 1997 by $586 million, or 20% of its total income during the period.

The next day, Enron announced that it had agreed to be taken over by Dynegy, a Houston-based energy-trading rival, for about $9 billion in stock and the assumption of $13 billion in debt; however, that debt figure may be understated, with some analysts speculating that Enron's actual debt, once all its accounting machinations are revealed, could be as high as $23 billion.

The Dynegy-Enron deal has a decidedly systemic aspect, in that the takeover shows signs of being put together on an emergency basis to prevent Enron's troubles from blowing out the global energy-trading and derivatives market. Enron was the major market-maker for the global energy speculation market, with a dominant presence in the United States and a strong presence in Europe; as such, it was either the buyer or seller in nearly one-quarter of all U.S. electricity and natural gas trades. In such deals, sellers must have strong confidence that the buyer can pay for his purchases, and the nature of Enron's deflationary death spiral called its ability to pay very much into question.

As Enron's troubles deepened, its trading partners (called counterparties in the derivatives racket) began to scale back their business with the company, and seek collateral or other guarantees that they would be paid. Toward the end, according to some reports, Enron began to default on some counter-

party payments, actions guaranteed to throw the global market into crisis.

Dynegy, a major trader in its own right, was counterparty to Enron on an undisclosed but significant number of deals, and many observers regard Dynegy's action as a form of self-bailout, an action to avert the damage that would occur to the company were Enron to collapse. Dynegy is controlled by ChevronTexaco, which owns 27% of the company's stock and holds three spots on its board. As part of the agreement between Dynegy and Enron, ChevronTexaco agreed to pump $1.5 billion in cash into Enron immediately, even though the merger agreement specifies that either company may cancel the merger under certain circumstances; ChevronTexaco also agreed to invest another $1 billion in the merged company, should the deal be completed.

Under the terms of the merger agreement, Enron has the right to entertain higher offers, should any be made, though it would have to pay Dynegy a hefty breakup fee in such an event. Dynegy, for its part, has the right to break the deal should Enron's financial condition turn out to be much worse than the company has admitted.

Rescuing The Market As A Whole

Heavy pressure was brought to bear on the major credit-rating companies to prevent them from lowering Enron's credit rating from investment grade to junk-bond levels, since a junk-level rating would trigger default clauses in a wide range on Enron's debt agreements, potentially forcing the company to immediately pay billions of dollars it did not have, to satisfy that debt. Moody's Investors Services, admitting that it had come under significant pressure by influential Wall Street players, finally agreed to cut Enron's rating to the very lowest investment-grade level, thereby allowing the Dynegy deal to go through.

Under such circumstances, ChevronTexaco's immediate $1.5 billion infusion into Enron would appear to be as much a rescue of the energy derivatives market as a whole, as an investment into Enron. To protect itself in the event that the merger is cancelled, ChevronTexaco/Dynegy has the right to buy Enron's Northern Natural Gas pipeline.

Showing what a small world it is, Dynegy was represented in the deal by the law firms Akin Gump (the firm of "Prince of Thieves" Robert Strauss) and Baker Botts, the latter being the firm of James A. Baker III, Secretary of State in the first Bush Administration and a one-time consultant to Enron. Dynegy was founded by Morgan Stanley and Akin Gump in 1984 as Natural Gas Clearinghouse. In March 1999, Dynegy was controlled by three companies, each of which owned 25% of the company; those owners were Chevron, BG plc (née British Gas), and NOVA Chemicals, a Canadian energy company. In February 2000, in a reorganization coincident with its acquisition of Illinois utility Illinova, BG and NOVA reduced their ownership positions in exchange for cash, leaving Chevron as the dominant owner.

Indonesia Has Paid Its Debts!

by Michael O. Billington

The International Monetary Fund (IMF) and the World Bank have just come to an "agreement" with Indonesia. Together with other creditor nations and financial institutions, they pledged to provide $3.14 billion in new loans, which is a full one-third less than the previous year. However, of the $4.8 billion pledged last year, only $2.6 billion was delivered, due to what were described by the World Bank as "reform and project failures"—meaning that Indonesia did not fully carry through on IMF conditionalities regarding the elimination of subsidies on basic necessities, privatizing state-sector industries, selling off government assets, and other free-trade, globalization shibboleths. In fact, nearly one-half of the new loan is conditional on "significant progress on policy performance," as World Bank Vice President for East Asia and the Pacific Jemmal-ud-din Kassum explained to the press.

The IMF's justification for the imposition of such draconian measures, imposed upon an already-impoverished nation, is the existence of huge foreign debts, public and private, totaling about $140 billion, which is strangling the Indonesian economy. To get debt relief or new loans, the country must live up to these colonial-style dictates, or be cut off from the "world community" as defined by the IMF.

But the fact is, *Indonesia, over the past three years, has already paid off its entire foreign debt.* As will be demonstrated here, since the 1997 speculative attack on the currencies of Southeast Asia, the combination of the hedge fund speculators and the IMF have carried out a sleight-of-hand which has extracted $188 billion from the Indonesian economy in debt service, while only crediting them with payment of $54 billion! The difference between these two figures—over $134 billion—is (coincidentally) approximately equal to the current outstanding foreign debt held by the Indonesian government and private sector combined.

This trick, which has come to be known across Ibero-America as "bankers' arithmetic," a term coined by *EIR* investigators who uncovered similar shenanigans in that part of the world, is not difficult to expose. The missing ingredient is the *will to say the truth about what is, in fact, going on in plain sight.*

Loss Of Sovereignty

Those who insist that this crime is just "the way things work," are acting on the premise that we must forever accept the loss of sovereignty imposed on the entire world on Aug.