'Dereg' Price Spikes Shutting Power And Heat To U.S. Factories and Homes

by Marcia Merry Baker

The first week in December—still early in this U.S. Winter of Discontent—the price of natural gas spiked to two record highs in four days, going from $6.54 per thousand cubic feet on Dec. 1 to $8.50 on Dec. 6, and hitting $9.50 during trading hours on Dec. 7. This reference price level, called the Louisiana "Henry Hub" price, is more than double that of less than two months earlier. This development was directly forecast in *EIR*'s feature on "energy deregulation," in the Aug. 18, 2000 issue. The consequences? Factory shutdowns, and threatened cutoffs of heat and light to millions. This is the direct result of recent years of deregulation, and implementation of "free" (rigged) markets in energy utilities.

Events immediately reported from Pennsylvania and California indicate the "hard times" and chaos now threatening all natural-gas-use regions. Though the particulars of gas differ from oil (most is produced in North America, not imported), and from electricity, the underlying causes of speculation, consolidation, and government deregulation of utilities are the same for all current energy supply crises.

In a chain of events paralleling the heating oil crisis in New England, and the electricity crisis in California and other western states, natural gas supplies were suddenly cut off, the morning of Dec. 6, to one or more factories in the heart of the Pittsburgh area's industrial zone.

An engineer at a Pennsylvania metal fabricating complex called *EIR* to report the shutdowns: "We had little or no notice. They call it a 'curtailment' of natural gas. Our plant is a steel fabricating mill run by American Extruded Products (formerly Babcock and Wilcox) in Beaver Falls, Beaver County, part of the industrial area near Pittsburgh. The 100 or so millworkers were given one hour to leave work. The furnaces for heating steel for fabricating, and all other essentials, are being turned off. As of mid-morning, mill workers and supervisers were running around, trying to determine how to winterize the operations on short notice.

"The gas broker company, VP, is no longer reachable; its phones are cut off. We hear that VP has 'walked away,' because it did not have deep pockets enough to cover the difference between the wholesale gas prices—close to $8 per thousand cubic feet—and our end-user contract price of under $5. We don't know about prospects for gas in the near future."

Other factories in Beaver Falls include J&L Structural; Maverick Tube, a rolled-steel products firms (formerly Babcock and Wilcox); and Koppel Steel (also formerly Babcock and Wilcox). The same day as the mill closure, residents in other parts of Pennsylvania were receiving notice of whopping natural gas bill price increases. One Philadelphia state legislator said that on Dec. 6, he received his latest gas bill, with a letter enclosed saying that prices, as of Nov. 22, are *going up by three and a half times for residential customers*.

Gas and Power Shutoff in California

California, while treated more mildly by the Gulfstream, was hit with even harsher storms of speculation from the energy markets. Soaring gas prices caused Shasta Paper Co. in Redding to shut down and lay off 500 workers, and also affected Redding's medical centers and schools. Shasta Paper was paying seven times the natural gas price which it paid last June; both the company and the union appealed to the State Legislature to "fix California's gas and electrical regulation issues," according to the Redding *Record Searchlight*.

Meanwhile, the entire state declared a Stage 2 emergency shutoff of electricity Dec. 5 and 6, and then a first-ever Stage 3 emergency for two hours on Dec. 7, covering 85% of the state. In Stage 2, the state's electricity Independent System Operator shut off power to certain industrial users; the public was told to keep their Christmas lights off to conserve power! When the Stage 3 was declared, hundreds of companies were ordered to cut electricity use, and the big state and Federal water pumps which power California's famous water distribution system, were temporarily shut down.

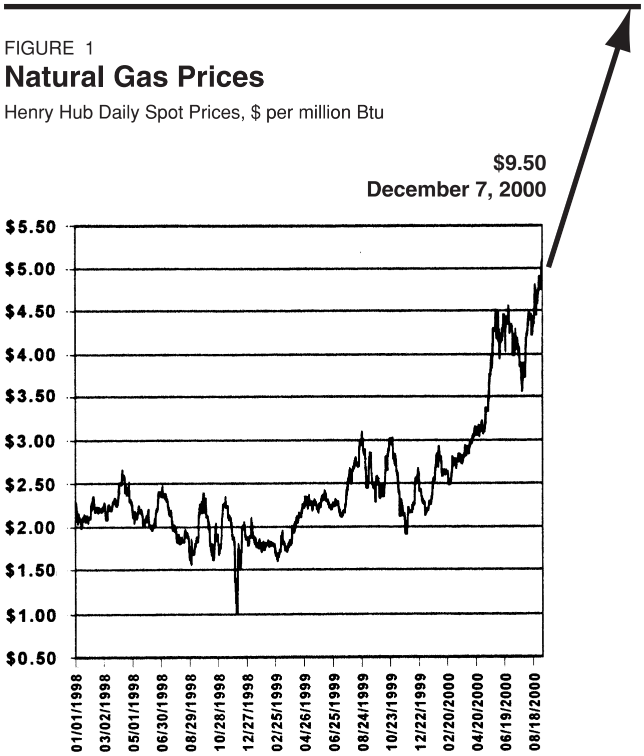
These shutoffs are guaranteed to be the order of the day, if the deregulated-markets policy is allowed to continue.

Markets Are Killing Off 'Marketers'

The particular element in play in the immediate natural gas crisis, exactly the same as with electricity in California and elsewhere, is that "marketer" companies are being killed by the markets—and the customer be damned. Marketers are the "middle level" entities sanctioned when, under deregulation, the links in the traditional energy supply chain have been cut up, sold off, and supposedly set up to function according to "market principles" and "competition." In electricity, power generation is divorced from transmission, which is divorced from distribution, which is divorced from final retail sales. On top of it all, are the electricity "futures" markets. It is similar for natural gas, petroleum, and related products.

Right now, the natural gas "marketers" are caught be-

FIGURE 1
Natural Gas Prices
Henry Hub Daily Spot Prices, $ per million Btu



Source: Energy Information Administration, from *Gas Daily.*

tween ultra-high wholesale gas prices, and their customer contract rates. So, the companies quit, and gas supply is cut off. Tomorrow, it could be that the California electricity-marketing companies, caught in the middle between the ultra-high wholesale electric rates, and what they can charge, will also say, "We quit. Sorry, Virginia, no lights this Christmas." At present, the California marketer companies have debts in the range of $6 billion. Such is life in deregulated energy "markets."

In the Greater Washington, D.C. region, the Washington Gas Light Co. informed its residential customers on Dec. 5, that they can expect to pay 47% more for gas use this Winter; this was a revision upward from Dec. 4, when they said the rise would be "only" 37%! With present trends, this is an understatement. On the average bill, this means that you pay at least $48 more per month.

In Maryland, gas-marketing companies are filing for bankruptcy, announcing financial restructuring, putting a hold on new customers, or terminating customer accounts. In November, without warning, AGF Sales & Servicing filed for bankruptcy, and said that it would drop its 2,000 Maryland customer accounts. Under AGF's terms of customer contracts, the company is to give 30 days notice prior to termination. But that did not happen.

Two other Maryland gas marketers, Perry Energy Services and Metromedia Energy, have given notice that they will not take on any new customer accounts in the state; they announced intention—not confirmation—to continue with current customers. Yet another company, Connectiv Energy, gave due notice that it was unable to continue providing gas to any of its customers.

The Maryland Public Service Commission has moved in, and acted under a state provision, to reconnect suddenly abandoned gas customers, with the current major utilities—Washington Gas, Baltimore Gas & Electric, and Columbia Gas. In effect, this is re-regulation. Commission spokesman Robert Harris said that this is the first time anything like this has happened in Maryland's residential gas system.

California: Christmas Lights Out

Speculation-driven price rises for natural gas exactly parallel the speculation in "paper oil" on the New York and London oil futures markets. In California, the lead state in energy deregulation, electricity is also bought on speculative futures markets. The state has typically imported 25% of its electricity from out of state, but now, scarce supplies are seeking maximum return elsewhere, and shortages are hitting hard.

On Dec. 5, with state power reserves falling below the critical 5% level, the California Independent System Operator (Cal-ISO) declared a "Stage 2 Emergency" and called upon Southern California Edison and other investor-owned utilities to begin "load curtailment" programs, to selectively cut off power to customers in their service areas.

"Everyone needs to cut their use of power now to avoid outages," was the appeal on Dec. 5 by the vice president for customer service of Southern California Edison. The state government has asked that Californians wait until after 7 p.m. or later, to turn on their Christmas lights. The state tree will remain dark until further notice. Media have been instructed to broadcast to citizens that Christmas lights are the statewide equivalent of power for 1 million homes, and other warnings.

The worry as of the Dec. 9 weekend was that, if the state's power reserves were to drop below the emergency 1.5% level, then a "Stage 3 Emergency" would have had to have been declared, which has never happened statewide. During this stage, utilities will be directed to "drop load," by rotating power for involuntary outages for whole blocks of customers.

Other states are in various stages of power price and supply crises. In Massachusetts on Dec. 4, the state Department of Telecommunications and Energy agreed to allow utility companies to raise customer rates up to 12%, as of Jan. 1, 2001. Electric deregulation in the state went into effect in March 1998, and now the companies are complaining that they must pay more for the "market" price of buying electricity, than they are charging customers, so state energy officials approved the rate increase. Massachusetts Attorney General Thomas Reilly said, "I feel very badly for consumers, particularly low- and middle-income consumers, who are going to have a very difficult time absorbing these increases."