EIR Economics

California Re-Regulation: Sign Of Sanity Amid the Collapse

by Harley Schlanger

A long-overdue California electricity *re-regulation* bill, SB 888, was announced on April 8 by State Sen. Joe Dunn (D-Santa Ana) and a number of Democratic Party leaders in the State Assembly. It would end the state's disastrous deregulation "experiment" which has been the target of a renewed nationwide mobilization by Lyndon LaRouche's campaign against the insanity of deregulation since August 2000, when that experiment began. The Dunn bill was the first sign of sanity in what has been otherwise a dismal process of finger-pointing and ducking reality since the California legislature convened in January.

It is also the most recent indication that key leaders in the

Feds Still Nuts Over Dereg

"We aren't mending it; we're ending it," California State Sen. Joe Dunn said on April 8 regarding the state's notoriously failed electricity deregulation law (Assembly Bill 1890). Although, so far, no Republicans have signed on to Dunn's re-regulation bill, there is a Democratic majority in both houses of the State Legislature, and Gov. Gray Davis has indicated his support for the measure. Senate Bill 888, the Repeal of Electricity Deregulation Act of 2003, returns oversight and regulation of California's electricity and natural gas industries to the Public Utilities Commission, for the benefit, and to protect the interests, of the citizens of the State.

"Customer choice" would be ended. Utilities would be guaranteed a fair 10% return on investment, charging a "cost-of-service" price, in return for making investments to meet the needs of their customers. Incentives would encourage utilities to invest in transmission lines; and the moratorium on companies selling their power-generating assets would be extended from 2005 to 2010.

While the state of California has taken steps to follow Lyndon LaRouche's advice, and "put the toothpaste back in the tube," elected officials in Washington, D.C. are still trying to *expand* electricity deregulation, to remove even the last vestiges of protection for consumers. For the past two years, the Bush Administration has tried to push through the Congress a broad-ranging energy bill, which went down in flames after the Cheney Task Force/Enron/Halliburton scandals in the previous Congressional session. If the proposals had been passed to forge ahead with yet more deregulation of the electricity sector, that would have done worse damage to the ecology than any drilling in Alaska, and would have devastated the economy of this nation.

In the current Congressional session, another try is being made to patch together an energy bill. The Senate version has been stripped of the controversial Alaska oil proposal, which is, however, included in the House version. The economic-conservative hawks on Capitol Hill have not given up on wrecking the national electricity system. They have proposed to mandate more deregulation, by taking oversight of the transmission grid from the states and handing it over to the Federal Energy Regulatory Commission (FERC)—the same FERC that could see no signs

California Democratic Party are acknowledging, at least in private, what they are afraid to admit publicly: that Democratic Presidential pre-candidate Lyndon LaRouche has been right all along, on the economy and related issues.

California, recognized as the "richest state in the richest nation," has been in economic free fall ever since electricity deregulation was phased in, beginning in the Summer of 2000. According to its neo-liberal exponents, deregulation would lead to increased competition, which would force electricity providers to be more efficient, thereby offering lower prices for consumers. It was sold to legislators as part of the same "New Economy" ideological hype which claimed that "free trade" would increase California's exports, and that the so-called high-tech information technology revolution, centered in the Silicon Valley, represented a new economic paradigm, in which owning stocks would guarantee that virtually everyone could become rich.

The LaRouche campaign's three-year mobilization for electricity reregulation—"putting the toothpaste back in the tube"—has battled ideological obstacles and free-trade lunacy; LaRouche Youth Movement delegations have repeatedly invested the legislature in Sacramento.

LaRouche Takes On the Delusions

It was in a state of euphoria, induced by this irrational belief in the "New Economy," that electricity deregulation was passed in 1996 by the California Assembly, without a single dissenting vote! Not a single elected official in the state had a clue of what was to come, as they were blinded by the delusions created by free-trade deregulation ideology, and the big-buck lobbyists of Enron, Dynegy, and the other energy pirates.

The only significant voice against this was that of Lyndon

of manipulation or illegalities in the California energy debacle, until that state had been fleeced of nearly $9 billion. The original draft of the Senate energy bill also proposed to eliminate what little protection remains for electricity consumers, through repeal of the Public Utility Holding Company Act. PUHCA was enacted in 1935, in the Roosevelt era, in order to eliminate use of market power and fraudulent abuses of the type that took place recently in California.

In response to overwhelming opposition to more electricity deregulation, expressed at a hearing on the bill on March 27, Senate Energy Committee Chairman Pete Domenici (R-N.M.) announced that the electricity portion of the bill will be re-drafted. The repeal of PUHCA *is* included in the House version of the energy bill, which passed on April 11.

One of the strongest statements in opposition to repealing the Public Utility Holding Company Act at the hearing came from Glenn English, representing the National Rural Electric Cooperative Association. Its 1,000 members are consumer-owned and not-for-profit electric cooperatives, serving more than 35 million consumers. "Now is the wrong time to repeal PUHCA," English stated. "While it has not been adequately enforced, PUHCA is more critical today than ever to protect consumers from abuses in the utility industry. It was PUHCA that prevented Enron from owning, and abusing, more than one electric utility [Portland General Electric, in Oregon]. It was PUHCA that should have prevented Enron and many other companies . . . from shifting the risks of their unregulated and offshore activities to retail consumers in the United States." Rather than repealing PUHCA, English urged, FERC should be given *more* authority to review mergers between electric utility holding companies.

That call was echoed by Alan Richardson, president of the American Public Power Association (APPA), representing 2,000 publicly owned power and municipal electric utility systems, serving 40 million customers, mainly in small communities. And for the first time, an association representing large industrial users of electricity also opposed the repeal of PUHCA. Industrial users, believing the propaganda from Enron that deregulation would lower their costs, were the biggest promoters of electricity dereg during the 1990s. John Anderson, executive director of the Consumers Resource Council, told the Senators: "I argue that [PUHCA] is needed at least as much today as it was when it was enacted. . . . In fact, in some ways PUHCA should be strengthened." *—Marsha Freeman*

LaRouche, whose campaign against deregulation began in the late 1970s, when the Carter Administration, under control of Wall Street operatives such as Paul Volcker, began the dismantling of the regulatory agencies established during the last Depression, which were created to protect the American public from corporate looters. It was LaRouche who first exposed the illegal operations of Enron, and pointed toward its bankruptcy in a February 2001 Presidential campaign pamphlet. And it was LaRouche, almost alone, who insisted that the 1996 deregulation bill be repealed, and that regulation of power and electricity be restored.

As the electricity rates skyrocketed in the first quarter of 2001, the LaRouche in 2004—the Democratic Presidential pre-candidate's campaign committee—produced a pamphlet, *LaRouche on the California Energy Crisis: As Seen and Said by the Salton Sea.* The text was an address he delivered to one of the first weekend cadre schools of students from colleges on the West Coast, many of whom later formed the core of the LaRouche Youth Movement (LYM). As the LYM grew, its members deployed regularly to the California legislature, demanding that Gov. Gray Davis (D) intervene to stop the looting of the state's finances by the energy pirates, and insisting that deregulation be repealed. It was when Davis and other state officials finally denounced Enron, Reliant, and the other energy pirate companies, and demanded Federal investigation into why the prices had gone up so high, that the corporate scam operation known as Enron, began to unravel.

Unfortunately, this did not occur until after the bankruptcy of the Pacific Gas and Electric utility in California, and after the state of California had borrowed more than $11 billion to buy the exorbitantly priced electricity to keep the lights on in the state.

It is in this context that Senator Dunn and his allies in the Assembly introduced SB 888. This background explains why one prominent Democratic legislator suggested that the bill be called the "LaRouche Re-Regulation Act of 2003."

Budget Crises Worsen

The present budget crisis, which finds the state with a deficit estimated at $35 billion, began with the increase in debt to purchase electricity. It was worsened by the overall economic and financial turbulence created by the energy deregulation debacle, and then heightened further by the effects of the popping of the "New Economy" bubble and the subsequent collapse of Silicon Valley. Revenues continue to plummet, and the state is dangerously close to running out of cash.

There are reports that the office of Comptroller Steve Westly is designing IOUs, which the state will be forced to hand out in lieu of cash, when the funds run out this Summer. Under state law, the order of priority for cash payments places education first, debt service second—meaning that health care, infrastructure, law enforcement, parks and recreation, etc., are all slated for massive cuts. For example, the budget proposed by Governor Davis asks nursing homes, under the Medi-Cal program, to accept a 10% cut in reimbursement from the state.

With the state asking counties to take up a larger share of payments, the situation in urban centers is becoming unbearable. In order to address an $800 million budget shortfall in Los Angeles County, the County Commission passed a budget which includes more hospital cuts, closing libraries and jails, and a minimum of 2,000 layoffs. One County Supervisor told the *Los Angeles Times*, "The $800 million problem presented today is only going to be the beginning. To the extent the state clobbers us [with further cuts], our constituents are going to get clobbered."

Doctors at Los Angeles County-USC Hospital, the largest public hospital in the county, have filed papers to protest further cuts in the emergency room, arguing that long waits—up to four days for a bed in the emergency room—and overcrowding are already resulting in unnecessary deaths. Dr. Ronald Kaufman, the former chief medical officer of the hospital, wrote in a legal document that the planned cuts will "destroy" the hospital and trauma system in Los Angeles.

Time To Change Axioms

In the face of this deadly budget crisis, legislators have retreated into mindless partisanship and ideological games. Republicans refuse to accept tax and fee increases, while Democrats argue they will not accept certain budget cuts. Yet, by limiting themselves to these options, they are trapped in a situation, in which a budget may not be passed by the deadline, leading to increased costs for borrowing in the future, while services will be cut automatically for lack of funds.

The failure of existing axioms is evident in the revealing comments of the state's Finance Director Steve Peace, who made his name as an author and producer of the 1977 Hollywood cult movie "Attack of the Killer Tomatoes," and as a co-sponsor, once elected to the legislature, of the 1996 electricity deregulation bill. Peace told reporters, about the budget impasse, "The choices are limited and they are bad. . . . This is not a time for a political debate. This is a time to have a business-management approach." It is precisely this kind of thinking which will prevent any solution from emerging. Under these crisis conditions, a political debate is essential. There is no solution in a "business-management" approach; an emergency bankruptcy reorganization for the whole U.S. economy is required, as LaRouche has advocated it.

That legislators belatedly adopted LaRouche's call to re-regulation is a sign that there is still hope that California lawmakers can still break from the budget follies of recent months, and back the national economic reorganization and FDR-style infrastructure plan—the "Super-TVA"—drafted by LaRouche. To that end, the growing forces of the LaRouche Youth Movement will continue their deployments to the state's capitol at Sacramento.