

Pirates' Energy Ripoffs Fund the Bush League

by John Hoefle

The consequences of the orchestrated jump in energy prices in the last half of 2000 are revealing themselves with a vengeance in the U.S. economy. California's electricity bill quadrupled during the year, and average Winter heating costs jumped 40% for heating oil-heated households in the Northeast and 72% for natural gas-heated households in the Midwest, on top of the bill already being paid for higher gasoline and diesel fuel prices, pulling many tens of billions of dollars out of the pockets of American citizens and corporations, many of whom were already up to their eyeballs in debt. The result of such looting can be seen in the poor holiday retail sales figures, the sharp drop in sales of motor vehicles and other big-ticket consumer goods, and in the waves of layoffs hitting the industrial workforce.

Soaring energy prices are by no means the only factor driving the dramatic contraction of the economy; they represent, in fact, the attempt by the financial sharks to divert new streams of money into their failing bubble. The restructuring of the method by which energy is sold to consumers is designed to allow the financial oligarchy to survive the financial crash by giving it control of the energy stream once protected by the system of regulated electric and natural gas utilities.

The nature of this beast can be seen clearly in the sudden "shortages" which accompany deregulation, shortages which in turn generate sharp increases in prices. Each is accompanied by a seemingly plausible explanation. Gasoline prices, we were told, rose sharply last year because of shortages of crude oil and refining capacity (with a shortage of crude, one would think, refining capacity should not be a problem). The gasoline shortage, we were told, caused the refineries to delay production of Winter heating oil, leading to shortages and higher prices in that commodity. The natural gas shortages, which "caused" prices to soar, were blamed on increased demand, including the demand for natural gas to power all the electricity generating plants being built by the new breed of independent power pirates. The higher cost of natural gas, in turn, triggered an increase in the cost of electricity. The effect of this series of events was to divert large sums of cash from the pockets of businesses and households, into the pockets of the energy companies and speculators, and from there into the financial system.

Cartel Price Manipulation

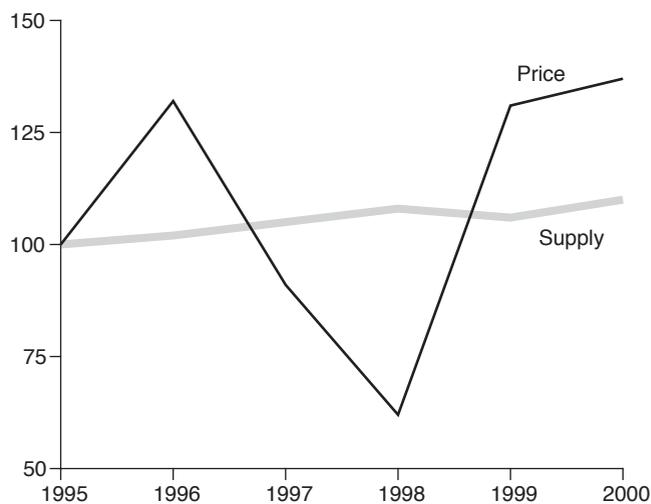
The alleged shortage of crude oil, the experts blame on the OPEC "oil cartel," while the shortage of electricity in California is blamed on the people and government of that state. Both claims are lies.

Blaming OPEC for the sharp rise in the price of crude oil since the end of 1998, is a fallacy on several levels. First, it is the giant oil multinationals like BP Amoco, Royal Dutch/Shell, and Exxon Mobil, together with their smaller sisters, which make up the international oil cartel; OPEC is a factor, but not the controlling one, and the OPEC nations themselves are significantly controlled by the oil and financial cartels, and imperial cultural warfare. Second, as **Figure 1** shows, the wild gyrations in oil prices in recent years are not in any way related to global oil production. The sharp price drop during 1997 and 1998 was not due to supply and demand, but to a manipulation by the majors to shake out the smaller players and consolidate the industry. The prices began to rise at the end of 1998, only after the giant mergers, in which British Petroleum bought Amoco, Exxon bought Mobil, and Total-Fina bought Elf Aquitaine.

Neither can the sharp rise in the price of natural gas be attributed to a corresponding decline in supply **Figure 2**. The sharp spike in price during 2000 occurred during a period when U.S. natural gas production was basically flat. The average national price for natural gas at the wellhead during the fourth quarter of 2000 was \$5.61 per thousand cubic feet, an increase of 148% over the fourth quarter of 1999; prices at the Southern California and New York citygates were consid-

FIGURE 1 □
World Oil Price vs. Supply □

(Indexed to 1995=100)

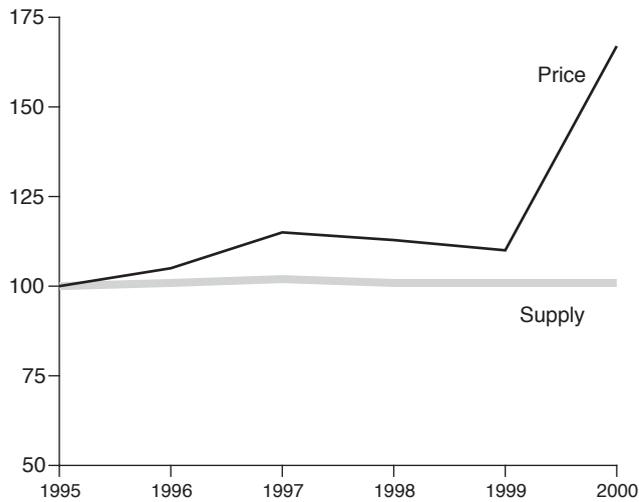


Sources: U.S. Dept. of Energy, International Energy Agency, *EIR*.

FIGURE 2□

U.S. Natural Gas Price vs. Supply□

(Indexed to 1995=100)

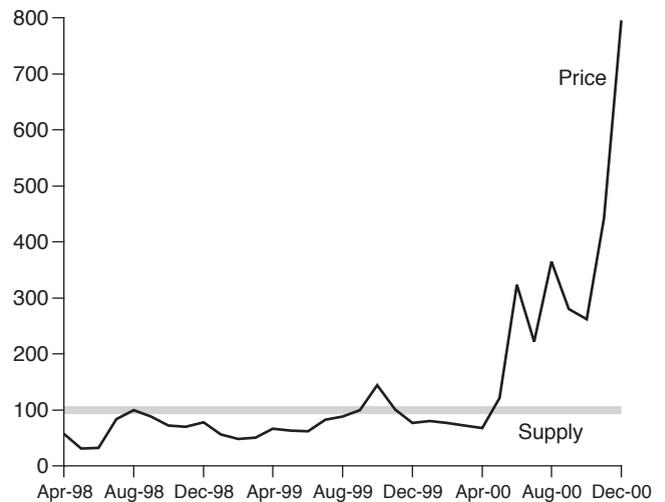


Sources: U.S. Dept. of Energy, *EIR*.

FIGURE 3□

California Electricity Price vs. Supply□

(Indexed to August 1998 =100)



Sources: California Power Exchange, U.S. Dept. of Energy, *EIR*.

erably higher. (Both the petroleum and natural gas supply figures for 2000 are estimates, as final figures are not yet available.)

The case of California electricity prices is even more blatant. **Figure 3** shows the average monthly price on the California Power Exchange's day-ahead auction from its inception in April 1998, through December 2000, compared to the average monthly consumption. (The actual monthly consumption figures were not available, so we calculated monthly consumption by dividing annual consumption by 12. This process unfortunately eliminates the seasonal changes in consumption, but does not invalidate the basic trend. The price increase was clearly not "seasonal.")

In all three cases, it is clear that some factor other than demand is responsible for the sharp swings in price. That factor is deregulation, and the included change in pricing from a "cost of production plus reasonable profit" model to a "whatever the market will bear" spot-market model.

The most blatant example of this process was in the California electricity market. All of the electricity destined for the state's big three electric utilities, including the electricity generated by the companies themselves, was sold through the California Power Exchange's day-ahead auction, with any shortfall bought by the California Independent System Operator (ISO) on a daily as-needed basis. The utilities would estimate their needs for the next day and solicit bids through the Power Exchange, buying blocks of electricity, starting with the lowest-price bids and then the more expensive ones, until their demand was met.

However, the pricing structure was set so that every bidder got the highest price paid for any of the accepted bids, regardless of their own bidding price. The electricity suppliers quickly learned how to play the game and jack up the price on the last bits of electricity needed by the utilities. They also learned that when the day-ahead auction did not provide enough electricity, the ISO could be forced to pay even higher prices to keep the power flowing each day. The result was that the power producers kept generating plants down for "maintenance" for extended periods, causing the use of expensive "peaking" plants, which bumped up the auction prices.

This manipulation of generating capacity caused power alerts and blackouts in December and January at a demand level of 30,000 megawatts, even though no blackouts had occurred in the Summer of 2000, when demand was 45,000 megawatts.

Profiteering

The sharp increases in gasoline, heating oil, natural gas and electricity prices during 2000 led to huge profits at the major oil companies. According to the U.S. Department of Energy's Energy Information Administration (EIA), the major energy companies in the United States saw an average increase in profits of 143% for the year compared to 1999. In the fourth quarter, the net income from domestic refining and marketing rose 692% over the fourth quarter of 1999, and corresponding profits from non-U.S. refining and marketing rose an astonishing 1,862%, according to the EIA. By com-

TABLE 1

Profits Soar at U.S. Energy Companies: Increase in Net Profits, 2000 over 1999

Company	Percent Increase
EOG Corp.	570%
Unocal	436%
Williams	277%
Apache	259%
Phillips	250%
Calpine	238%
Kerr McGee	218%
Dynegy	210%
Occidental	176%
AES	165%
Conoco	149%
Texaco	139%
Chevron	138%
BP Amoco	129%
Exxon Mobil	102%
Shell	85%
Reliant Energy	65%
Dominion Resources	36%
Enron	32%
Coastal	31%
Duke Energy	18%

Source: company financial reports.

Note: Net income excludes special items.

parison, the average price paid by a refinery for a barrel of imported crude oil rose 22% in the fourth quarter of 2000, compared to the fourth quarter of 1999.

Profits at the big integrated oil companies rose accordingly. For the year, BP Amoco, Exxon Mobil, Chevron, Texaco, Occidental, and Conoco more than doubled their profits, with Shell not far behind **Table 1**. Unocal saw a fivefold increase, and Phillips Petroleum three-and-one-half times. BP Amoco, Exxon Mobil, Shell, and the merging Chevron and Texaco are, not coincidentally, the biggest producers of natural gas in the country.

The smaller oil companies, natural gas companies, and non-regulated electricity generators also had a good year. EOG Corp. (née Enron Oil & Gas) saw its profits jump 570% for the year. Calpine led the electricity pirates with a 238% increase in net income, followed by Dynegy with a 210% increase, AES with 165%, Reliant Energy with 65%, and Duke Energy with a 20% increase over 1999. Calpine, Dynegy, AES, Reliant, and Duke all own significant electricity generation capacity in California, and, with Enron and a few others, drove the electricity prices in the state into the stratosphere.

In addition to these energy companies, the Wall Street

investment banks got into the act through the power marketing and energy derivatives business. Along with Enron, which is more of an investment bank than an energy company, the roster of “power marketers” includes Goldman Sachs (which supplies 10% of the natural gas used by Pacific Gas & Electric), Morgan Stanley, Merrill Lynch, and the other usual suspects, who buy and sell energy derivatives just like they do currency and interest rate derivatives.

The arrogance with which these investment banks assert their right to loot is sobering. Last Summer, when the California ISO lowered the maximum price it would pay per megawatt-hour of electricity, to \$500 from \$750, Morgan Stanley complained to the Federal Energy Regulatory Commission that the ISO’s move was “illegal” and “unfairly amends the market rules midstream, after market participants have invested substantial time and money by responsibly hedging price and market risks under the current \$750/MWh restrictions.”

In other words, this is our market now. Keep your hands off our derivatives profits.

Political Protection

To keep this scam going, the energy and financial companies have spread money liberally around the political system. Enron, historically the largest single contributor to the political campaigns of President George W. Bush, donated \$2.3 million to Federal candidates and political parties during the 1999-2000 campaign, with 69% going to Republicans and 31% to Democrats; Enron gave \$127,525 to Bush and \$11,250 to Gore, and the company and its two top executives donated a total of \$300,000 to the Bush-Cheney 2001 Presidential Inaugural Committee.

Enron is the leader, but by no means the only jackal in this pack. Citing the failure of the Bush Administration to impose temporary price caps as requested by eight Western Governors, Public Citizen notes that ten energy suppliers active in California contributed \$4.1 million to Republican candidates and committees in the 2000 election. The board of Reliant Energy includes Bush family consigliere, former Secretary of State James A. Baker III, who formerly was a consultant to Enron, and both Reliant Chairman Don Jordan and CEO Steve Letbetter are members of Bush’s “Pioneers” fundraising team. Enron Chairman Kenneth Lay and Edison Electric Institute President Thomas Kuhn are also Pioneers.

But while the money is never far from the thoughts of the ranking members of the Bush family, even more important is their ideological blindness. As *EIR* outlined in its Jan. 1 *Feature* on the Southern Strategy, what pass for ideas in the heads of the Presidents Bush, were put there by a largely British intelligence operation functioning in Texas. These brains behind the Bush scrawn are not fazed by arguments that their energy looting will collapse the economy; it is intended to provide them a stream of income *after* the crash.