



U.S. REPRESENTATIVE • 4TH CONGRESSIONAL DISTRICT • OREGON

PETER DeFAZIO

REPORTS



Congress of the United States
House of Representatives
August 2001

Dear Friend:

I have been contacted by thousands of Oregonians concerned about volatile electricity, natural gas, and oil prices.

The underlying cause of skyrocketing prices throughout the energy sector has one common element: market manipulation by multinational corporate conglomerates (or, in the case of oil, foreign nations as well) and federal regulators who are asleep at the wheel.

Higher energy costs have already hit home in Oregon and loom even larger in the near future. Large and small businesses have been forced to lay-off workers. Already tight family budgets are further strained by higher energy bills. Escalating gasoline prices are particularly hard on rural Oregonians who have to travel longer distances and have little access to mass transit. Seniors and others on fixed incomes are forced to choose between keeping their lights on, heating their homes, and putting food on the table. While electricity and natural gas prices have stabilized somewhat in recent weeks, it is likely our region will experience more price spikes later this year. In addition, some analysts are still predicting blackouts in the Northwest this winter.

Why all this chaos in energy markets? Inside you'll find an article explaining the flawed assumptions behind electricity deregulation, including an explanation of the various failures around the U.S. and the world. As I predicted when I was one of only 60 representatives to vote against federal deregulation legislation in 1992, the promise of lower rates, more choice, increased efficiency and better service for consumers under deregulation have all proved illusory.

In a recent trip to the B&I Hardware store in Springfield, I waited in a large line of customers in order to buy compact fluorescent light bulbs with coupons from the local utility. That experience drove home the point that Oregonians and other Americans are committed to promoting energy conservation and efficiency. Unfortunately, the Bush energy plan proposes taking the country in exactly the opposite direction. I've included an article on why the President's energy plan is not a solution to our nation's energy woes (page 2), and another proposing a better way to devise an affordable, sustainable energy future (page 4). Finally, you'll find an article detailing my plan for stabilizing oil prices (page 4).

As always, please feel free to phone, e-mail, write or just drop by like the Azalea Middle School students from Brookings recently did (see photo above). Your thoughts and concerns are important to me.

Sincerely,

BPA Rate Increase Looming

The electricity crisis in the West is about to smack the customers of the Bonneville Power Administration with a 46 percent wholesale rate increase. Four major factors are driving the big jump in rates: (1) the drought and reduced hydro production; (2) under political pressure and over my objection, BPA over-committed its system by 3,000 megawatts for the upcoming rate period beginning October 1st; (3) California's failed deregulation scheme affected markets throughout the West; (4) blatant market manipulation by energy conglomerates in order to maximize profits.

There is little we can do about the near record drought, except to conserve as much power as possible. As California has shown with a reduction in demand of around 20 percent, conservation plays a vital role in keeping the lights on and prices under control.

BPA has tried to make up for its mistake in over-committing its resources by asking for a reduction in demand of 10 percent from both its public and private utility customers. BPA also negotiated with the region's direct service industries, primarily aluminum companies, to voluntarily close down their operations for up to two years and allow BPA to retain the power. In return, BPA is providing cash payments sufficient to cover the pay and benefits for idled workers.

It didn't have to be this way. Electricity rates in the Northwest rose from an average of \$25-30 per megawatt last year to an average of \$267 per megawatt earlier this year, a 1,000 percent increase. Whole-

sale prices in the Northwest were actually 15-30 percent *higher* than in California.

A one-thousand percent increase or more for the same megawatt in just one year is outrageous and illegal. By comparison, a \$3.25 gallon of milk that suffered the same one year price spike would cost \$32.50!

Two years ago, the entire bill for power purchased in California was \$7 billion. Last year, for virtually the exact same amount of power, the bill jumped to \$27 billion. This year, analysts project the power bill will rise to \$50 billion or more with little increase in demand.

These skyrocketing prices are attributable to market manipulation by a few large energy companies that have taken advantage of a deregulated market to mercilessly gouge consumers (see page 3 for an article on why deregulation will never work).

If the Bush Administration and the Federal Energy Regulatory Commission (FERC) would enforce the law requiring "just and reasonable" wholesale electricity rates, then BPA would likely have been able to buy affordable replacement power for all of its customers without thousands of job dislocations in the Northwest or a big rate increase. FERC's refusal to act to rein in the obviously dysfunctional wholesale market is inexcusable.

In response, I authored legislation, H.R. 264, to return the U.S. to the regulated electricity system that functioned well from the 1930's through the early 1990s. I also joined dozens of my colleagues from the Western U.S. to introduce legislation, H.R. 1468, to mandate a return to cost-based pricing with a reasonable profit level.

The President's Energy Plan: Back to the 1950s

Earlier this year, President Bush released his proposed "National Energy Policy." Unfortunately, it's a plan rooted in the outmoded technologies of the 1950s, with an almost total reliance on a dig, drill, burn, and build strategy that ignores 21st century technological opportunities.

As a witness who recently testified before Congress said, the Stone Age didn't end because they ran out of rocks. Similarly, the U.S. doesn't have to wait to reduce our reliance on fossil fuels just because we haven't extracted all of it from the ground yet.

I am strongly opposed to a number of the recommendations in the President's plan, including:

- Allowing federal bureaucrats in Washington D.C. to take private land in order to put up new transmission lines to facilitate further energy deregulation;
- Continued taxpayer giveaways to natural gas, coal and nuclear power producers;
- Rolling back a variety of environmental protection regulations, including drilling in the Arctic National Wildlife Refuge (ANWR); and
- A massive expansion of nuclear power without resolution of the safety and storage problems;

The President's energy policy mis-diagnoses the problem our country faces. Our nation does not face a massive, immediate imbalance between supply and demand. When the lights went out in California late last year and this year, demand was actually lower than the previous year and output was less than two-thirds of the generating capacity. While demand has gone up around four percent in California in the last year, prices shot up by 1,000 percent or more.

The energy crisis in our region is caused by the greed of energy conglomerates who are manipulating the California "market" in order to boost profits. Recently whistleblowers from major energy producers have come forward to document shutdowns and company directed sabotage to take plants offline. The President's energy plan does nothing to address this reality. By contrast, I have introduced legislation to return to a regulated system where generators have a duty to serve customers at a cost of service based rate.

There is a long-term supply and demand problem in various energy sectors, but the President's energy policy approaches this difficult problem with inappropriate solutions.

First, the Administration dismisses the role conservation and clean, renewable energy production can play in keeping supply and demand in balance. Since the energy crisis in the 1970s, America has saved or produced four times more energy through efficiency, conservation and renewables than was produced from other sources. **The Department of Energy's own scientists indicate that the need to build new sources of energy could be cut**

nearly in half with more aggressive conservation and efficiency programs.

The President has begun to pay lip service to the need to invest in conservation, efficiency and renewable energy. Unfortunately, in the budget he submitted to Congress, the President cut conservation and renewables investment by 34.6 percent; geothermal and hydrogen research were cut by 48.3 percent; hydropower by 49.9 percent; solar energy by 53.7 percent; and wind energy by 48.2 percent.

The Bush energy policy also rolls back various environmental protections. Yet, even his supporters in the energy industry claim environmental regulations are not the cause of any of the energy problems. A spokesperson for one

of the most profitable energy companies, Reliant Energy, said the allegation that environmental restrictions had anything to do with the problems in California were "absolutely false."

Huge investments are underway in natural gas and coal-fired generation. But, a viable national energy policy would also provide robust investment to enhance conservation and energy efficiency programs, as well as to promote clean, renewable energy sources (See Page 4). It is also critical to return to cost-based delivery of electricity that is regulated in the public interest.

These steps will help end our dependence on foreign oil and will end the boom-and-bust cycle for electricity and other energy sectors.

Follow the Money: The "New Oregon Trail"

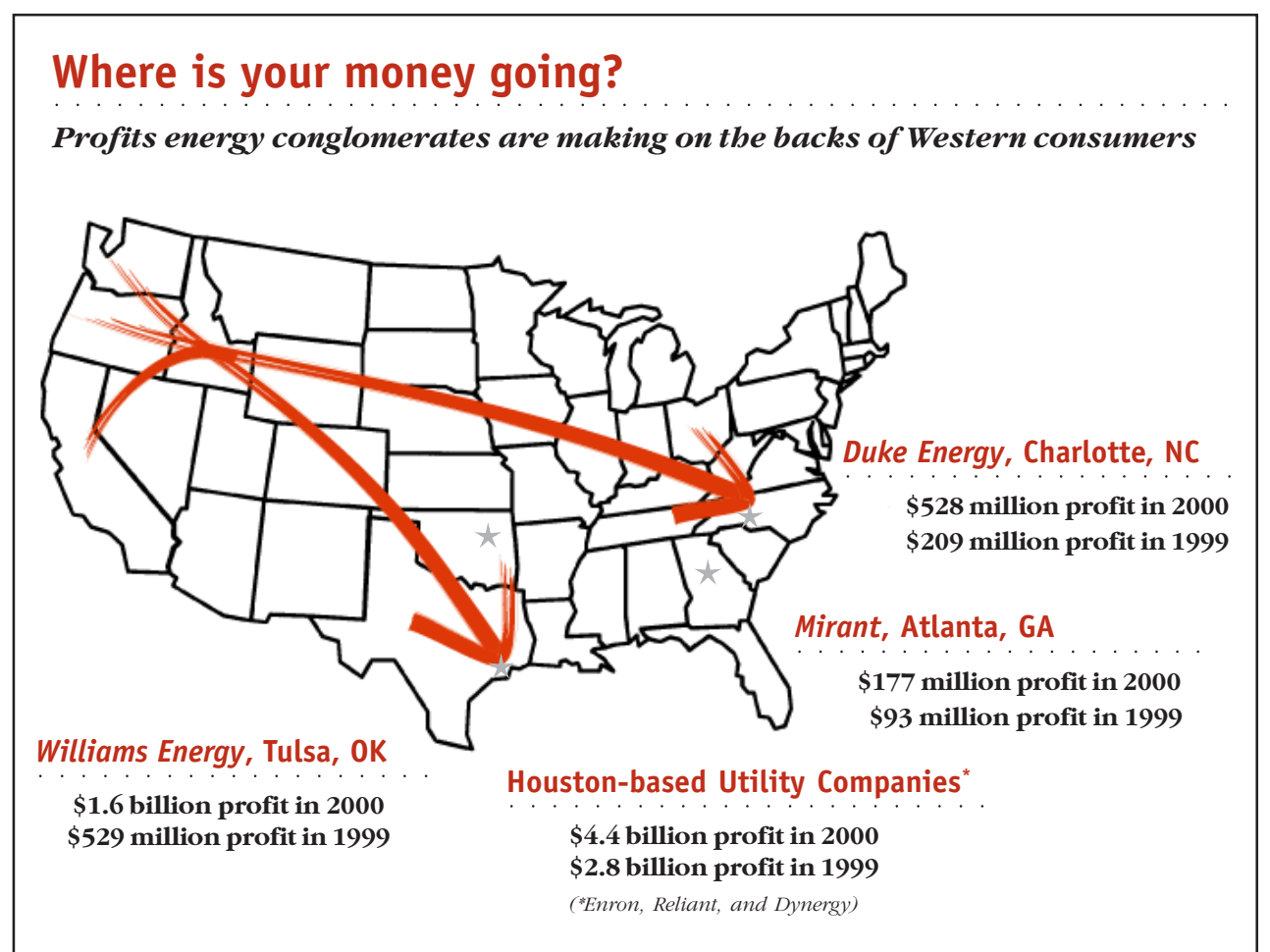
While you have been saving every penny in order to be able to afford your electricity bill, Enron CEO, Ken Lay, and other energy barons have had a much happier "problem": how to spend the billions of dollars siphoned from your wallet?

Under the Federal Power Act, which has been the law of the land since 1920, the Federal Energy Regulatory Commission (FERC) has the responsibility to ensure that wholesale electricity rates are "just and reasonable." Unfortunately, for nearly a year, FERC has staged what amounts to a sit-down strike. A majority of the commissioners have simply

refused to enforce the law prohibiting price gouging. Power that sold in the Western United States just one year ago for \$30 a megawatt was being sold over the last several months for \$250-500 a megawatt on a daily basis. Duke Energy, an energy conglomerate based in North Carolina, actually sold power to California for more than \$3,800 a megawatt!

While federal regulators sat on their hands, vast amounts of wealth were transferred from working families in our region to the towering, shiny headquarters of energy conglomerates, mostly based in Houston, Texas.

I refer to this transfer as the "New Oregon Trail." Just follow the money:



➤ Wondering how much the CEOs made? See page 4.

Source: Company Reports

Why Electricity Deregulation Will Never Work

The last time you went to the grocery store, you were likely confronted with dozens of choices for what type of cereal to buy. Likewise, if you've looked into buying a new car, you know there are virtually limitless choices among dealers, models, and features. If free markets work to buy and sell cereal and automobiles, why not electricity?

That was the ill-conceived logic behind the 1992 Energy Policy Act. I was one of only 60 representatives to vote against this law. The Energy Policy Act mandated deregulation of wholesale electricity markets and allowed states to move forward with deregulation on the retail side. Proponents of electricity deregulation argued that competition would provide better customer service, increased investment in infrastructure, and, most importantly, lower prices for consumers. Not surprisingly, proponents were wrong on all counts.

The problems with treating electricity like cereal, automobiles, or any other good that can be bought and sold are clear.

Electricity can't be stored in any significant amount. Therefore, supply and demand must be balanced instantaneously.

There is virtually no substitute for electricity, which means demand for electricity is relatively inflexible. In other words, consumption can only be reduced so much, no matter how high the cost rises.

Electricity flows based on the laws of physics, not at the whim of the "invisible hand" of the market.

The distribution of electricity will always be a natural monopoly since we can't afford and don't want transmission towers crisscrossing the landscape, and we certainly don't want duplicate wires running down residential streets.

Further, any standard economics textbook mentions the fundamental requirements for free markets to work well — low barriers to entry, adequate transparency and availability of information, many buyers and sellers, and the inability of any competitor to use its size to influence prices on its own. These features will never exist with respect to electricity.

That point likely helps explain why the "father" of deregulation in the trucking and air transportation industries, economist Alfred Kahn, has expressed doubts that deregulation of electricity can ever work.

The last time the United States had a deregulated electricity market was in 1932. That deregulation experiment ended abruptly with the disastrous collapse of the energy empire run by Samuel Insull (a huge multistate conglomerate similar to today's Enron). That collapse threatened to blackout the entire Midwest industrial heartland. In response, Congress quickly stepped in and set up the mixed state and federal regulatory framework that served our country well for the next 60-plus years. **Despite a 60-year track record of guaranteeing the most reliable, affordable electricity in the free industrialized world, market ideologues thought we could do better. They have been proven extraordinarily wrong.**

In a deregulated market, the first thing you lose is predictability and reliability. Generators are no longer bound by a "duty to serve" customers. This duty to serve customers is replaced by a duty to serve stockholders.

A reliable electric grid requires around 15-20 percent excess generation capacity. Generation plants need to go offline for maintenance, transmission lines can fail, and severe weather can unexpectedly increase demand. Excess capacity is necessary to meet these challenges.



Rep. Defazio in front of a Bonneville Power Administration substation in Albany. He was one of 60 in Congress to oppose energy deregulation.

In a regulated market, the Public Utility Commission would order utilities to build backup generation capacity or acquire reserves through another source. The utilities would be guaranteed repayment for their investment plus a reasonable profit, even if the reserves were never used, via the rates they would be allowed to charge consumers.

As has become clear in the volatile deregulated wholesale market in the Western United States, utilities have no incentive to build excess capacity since additional generation would drive down prices. Instead, there is evidence that generators have benefitted handsomely from tight electricity supplies by creating artificial shortages with accompanying price spikes.

Electricity is a commodity so essential to our economic and physical health that it should not be left to the vagaries of manipulated markets and energy conglomerates.

I have introduced legislation, H.R. 264, to return the U.S. to the regulated system that worked successfully for most of the 20th Century. While most of my colleagues are not willing to admit the failure of electricity deregulation, I will continue pushing to get H.R. 264 enacted.

Deregulation's Failures: Not Just in the West

Although it is the most visible debacle, California is not the only place in the United States, or even the world, where deregulation of electricity has been a failure. Here's a small sampling:

- **Britain:** Electricity deregulation in Britain became the model for the 1992 federal energy deregulation legislation in the U.S., as well as the colossal deregulation failure in California. How has it worked there? Britain's Office of Electricity and Gas Markets has concluded that manipulation and collusion in the market has become standard business practice. Britain has suffered higher prices (70 percent higher than in the United States), decayed service, and blackouts.
- **Pennsylvania:** Pennsylvania is often cited as the U.S. success story. It's hard to understand why. Rates were set 15 percent above market (and artificially fixed) to allow utilities to cover previous bad investments. At least one utility has already asked for permission to raise rates 30 percent in violation of the cap. The number of generators has decreased from a high of 25 to six, essentially creating an oligopoly. Reliability has decreased. Analysts predict a huge price run-up when the caps are removed in 2009.
- **Montana:** Prior to deregulation, utilities in Montana produced twice as much power as the state could use, had the sixth-lowest prices in the nation, and utilities had a duty to serve Montanans. After deregulation, rates skyrocketed 1,000 percent, Montana industries have laid-off more than 1,000 workers, and generators have been exporting power out of the state where it can fetch higher prices. Despite the fact that residential ratepayers were supposedly "protected" from the market, rates have risen by 50 percent or more.
- **Rhode Island:** Residential electricity bills have risen 66 percent in the last year. Rhode Island House Speaker John B. Harwood recently proclaimed the law he helped produce is not working.
- **Alberta, Canada:** The province went from one of the lowest-cost providers of electricity in North America to one of the highest. The Alberta government has been forced to pledge billions of dollars in energy subsidies and rebates. The same large industrial customers who until recently were singing the praises of deregulation are now demanding a return to a regulated framework and threatening to move to areas that didn't deregulate.

A Sustainable Future

Harnessing power from the wind and sun, heat within the earth, or waves off the Oregon coast can sound like a science fiction dream. However, these energy sources, as well as fuel cells or microturbines the size of a water heater, could make central power stations virtually obsolete. Many of these technologies already play a significant role in meeting the energy needs of other nations and even some parts of the United States.

Clean, renewable sources of energy can and should have a leading role in meeting our nation's future energy needs. Our nation deserves a Star Trek energy policy, not a Flintstones energy policy.

Earlier this year, I offered an alternative federal budget proposal that redirected research money from fossil fuels and nuclear power to renewable energy technologies.

In addition, I am a cosponsor of H.R. 2478, the Comprehensive Renewable Energy and Efficiency Act. This critical legislation aims to reverse the 20-year decline in federal investment in renewable energy technologies, as well as efficiency and conservation measures.

Consistent with a recommendation by the Union of Concerned Scientists (UCS), H.R. 2478 sets a goal of meeting 20 percent of our nation's energy needs with renewable energy sources by 2020. In contrast, President Bush believes only 2.8 percent of electricity should come from renewable resources by 2020.

The UCS recently issued a report documenting that an increased commitment to conservation and renewable energy would lower consumer bills, promote clean air and water, and boost economic growth.

Forty years ago, President Kennedy committed us to put a man on the moon in one short decade. In the new millennium, the President and Congress should dedicate the resources necessary to assure our nation's technological leadership and put us on track to an environmentally sound, sustainable, low-cost energy future within the decade.

Fighting for Lower Gas Prices

Last year, ExxonMobil's profits rose 102 percent to an astonishing \$15.9 billion. Phillips Petroleum's profits rose 205 percent, and Unocal's skyrocketed 454 percent.

There is growing evidence of the manipulation of markets by big energy conglomerates. There are reports the oil industry shut down refining capacity in order to drive up prices.



Rep. DeFazio with an energy efficient vehicle of yesteryear. Rep. DeFazio doesn't support returning to the days of horse and buggies but does support legislation, H.R. 1967, to rein in oil companies.

The Federal Trade Commission (FTC) investigated gas prices and found companies made "strategic choices" that maximized profits and increased prices. One company investigated by the FTC admitted it limited the amount of gasoline it sold because "increasing supply...would push down prices."

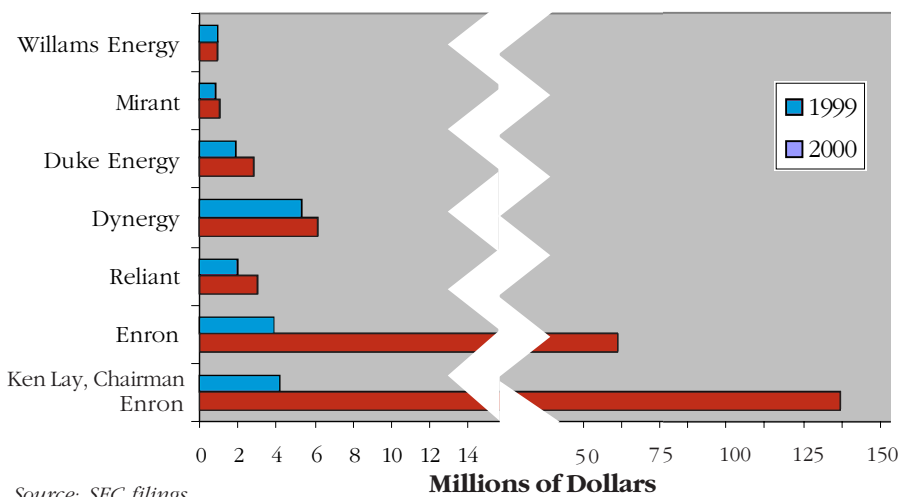
While oil companies profit, Oregonians suffer. I am a cosponsor of H.R. 1967, the Gas Price Spike Act of 2001. This legislation imposes a windfall profits tax on oil companies so they aren't rewarded for gouging consumers. The act also helps reduce our nation's dependence on oil through incentives for purchasing fuel-efficient vehicles and alternative fuel vehicles.

I have also introduced legislation urging the President to file a case at the WTO against OPEC for violating trade rules that prohibit collusion and artificial quotas on exports, and legislation demanding increased burden-sharing from our allies in the Middle East that receive military and financial support from the U.S.

The U.S. Congress and the Bush Administration should not sit idly by while oil company and OPEC barons siphon billions of dollars from the pocket books of average citizens.

Power Payouts

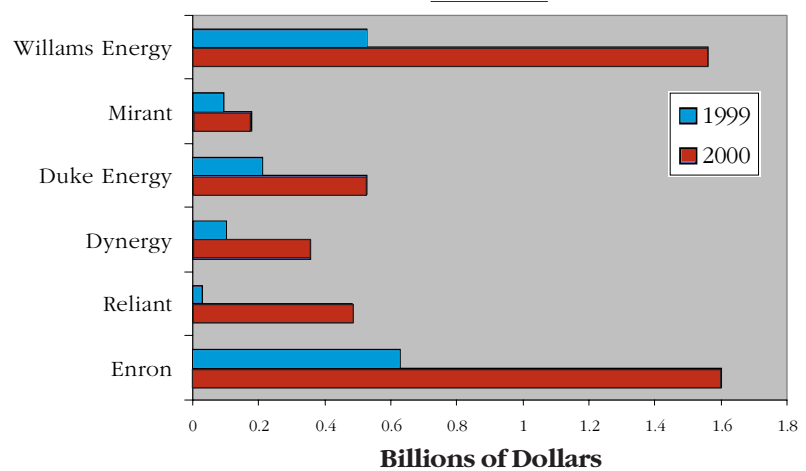
CEO Compensation 1999 and 2000*



Source: SEC filings

*includes salary, bonus, other annual compensation and exercised stock options

Power Profits

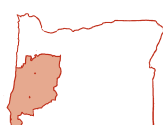


Source: Company reports

Congressman Peter DeFazio wants to hear from you

151 West 7th, Suite 400
EUGENE, OR 97401
465-6732
1-800-944-9603

612 S.E. Jackson Street
Room 9
ROSEBURG, OR 97470
440-3523



FOURTH DISTRICT

2134 Rayburn HOB
WASHINGTON, DC 20515
(202) 225-6416

125 Central, Suite 250
COOS BAY, OR 97420

<http://www.house.gov/defazio/>

This mailing was prepared, published and mailed at taxpayer expense.

Rep. Peter A. DeFazio
151 West 7th, Suite 400
Eugene, OR 97401

Official Business

M.C.
Presorted Standard

SPECIAL ISSUE

Energy Crisis in the West