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OPENING STATEMENT

Deregulation of the Energy Industry
Chairman Joe Lieberman

June 13, 2001

Good morning and thank you all for coming. Let me begin by saying that it’s a great honor for me to become Chairman of this committee, which has a proud past, and I hope, a bright future. It’s an honor for many reasons, but perhaps the most meaningful one to me is that my mentor, Senator Abe Ribicoff, of Connecticut, served as chairman of this committee back in the 1970s. Under his leadership, the committee did what was right to protect the interests of the American people, and that’s a legacy I hope to carry on. I would also like to thank Fred Thompson for his distinguished and thoughtful leadership of this committee over the past several years. I know we will continue our good, working relationship, so that together, we can continue to do what is right for the American taxpayer.

Before I came to the Senate, I spent six wonderful years as Attorney General of Connecticut. I was a public advocate then, as I hope to be a public advocate now, with this chairmanship. I would like this committee to serve as the eyes and ears of the citizenry to make sure the people we represent have the most efficient, most ethical, and most economical government we can provide them.

Over the course of the next two weeks, we will be paying particular attention to the economic interest of the taxpayers as consumers of electricity and natural gas. As a committee charged with oversight, it is our job to make sure federal agencies are doing their job to fairly and appropriately protect the interests of the American people.

It comes as no surprise to anyone, much less the American consumer, that we face an array of serious energy problems, and have for some time. Whether it's the price of gasoline in the Midwest, shortages of heating oil in the Northeast, electricity blackouts and price spikes in California, or consumers and businesses struggling to pay their natural gas bills, energy scares are becoming perennial events from one end of this nation to the other.

If we ignore these problems, we put our economy at risk and leave our citizens unprotected. California accounts for 15% of the U.S. economy. If you add its western neighbors, Oregon and Washington, which are also part of this most recent crisis, we are talking about the economic health of roughly one-fifth of the economy. So, what transpires in California and the West has the capacity to affect the rest of the nation. This Spring, the North American Electric Reliability Council also issued warnings not only about California and the Pacific Northwest, but New England and New York City, as well. None of us can afford to be complacent. So, what the federal government does in this current situation sets a precedent for what it will do in the next energy crisis elsewhere in America.

Today, and again next Wednesday, we will be looking at the role of the federal government in addressing the issues of price and supply. In particular, we will be looking at the affects of deregulation on the energy market , and at how the Federal Energy Regulatory Commission fulfilled its obligation to oversee these changes.

> FERC was created in 1977 under the Department of Energy

Organization Act and charged with the same responsibility its predecessor, the Federal Power Commission, had: to set "just and reasonable" wholesale energy rates. But who among us would call California's energy costs "just and reasonable?" In 1999, the state spent $7 billion on energy. A year later, that number multiplied to $27 billion. And estimates for this year are between $50 billion and $70 billion - *even though*

Californians are conserving and using 11 percent less energy today than a year ago. FERC itself has said electricity prices in California are not "just and reasonable."

Like each of our economist witnesses today, I am a fan of free markets. I do not believe in price controls or price caps or other economic contrivances that inhibit the free marketplace. But we're looking at an energy market in California and the west that is not free. The fact of the matter is that the California market is not even functional. So we need to examine the appropriate role for regulators when the market doesn't work. Let me emphasize: This should not be a partisan fight. The primary legislative proposal to resolve the problem - the Feinstein-Smith bill - is a bipartisan bill. The problem affects everyone, regardless of party. So let's keep our eye on finding a solution rather than finding a scapegoat.

We are fortunate to have a distinguished panel of nationally renowned economists to help us understand the changing nature of the energy markets, and how consumers have been affected by the transition from electricity and natural gas industry heavily regulated by both federal and state agencies to an unregulated, market-oriented system.

Twenty-five states and the District of Columbia have already moved to deregulate their electric utility systems. But the recent experience of California, in both the electricity and natural gas markets - to say nothing of electricity price spikes in the Midwest in 1999 and the Northeast last spring - has raised gnawing doubts about this "Brave New World" of spot markets, electricity futures, and open-access to natural gas and electricity transmission systems.

Several states on the verge of deregulation - including two of California's eastern neighbors, New Mexico and Nevada - have blinked and put the brakes on. The rolling-black outs, the bankrupt utility companies, the ten- and twenty-fold increases in electricity prices experienced in California aren't the best advertisement for deregulation. I think it's fair to say if the federal government doesn't step in and provide temporary price relief, the natural trend toward deregulation will come to a halt.

So I look forward to the testimony of our witnesses on where we stand in this transition to deregulated energy markets. I hope they can explain the lessons we need to learn from California, outline the role the federal government needs to play in these new markets, and tell us what we need to do when, as in the case of California, good intentions go painfully off-course.

Thank you. Senator Thompson?