

March 15, 2001

MEMORANDUM TO: Chairman Meserve
Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield

FROM: Dennis K. Rathbun, Director **/RA/**
Office of Congressional Affairs

SUBJECT: SENATE ENERGY LEGISLATIVE HEARING ON
CALIFORNIA'S ENERGY CRISIS, 3/15/01

The Senate Energy and Natural Resources Committee held a hearing on legislation introduced by Senators Feinstein (D-CA) and Boxer (D-CA) to address energy costs in California. The hearing demonstrated the Administration's firm opposition to any price caps, lingering resentment by Senators from surrounding states who believe that California brought its troubles on itself by not investing in generation and by "overly-stringent" environmental requirements, as well as some bipartisan consensus to intervene before the situation worsens. Of separate interest, marking the 50-50 Senate split, Senators Murkowski (R-AK) and Bingaman (R-NM) shared chairing duties.

Testimony was received on S. 26, which authorizes the Secretary of Energy to impose interim limitations on the cost of electric energy and on S. 287, which imposes cost-of-service based rates on wholesale electricity sales by public utilities in the western energy market. Additionally, Senators Feinstein and Smith (R-OR) announced their intent to introduce legislation which would mandate that once FERC finds that rates are unreasonable, then it is bound to set a temporary cap on wholesale rates provided that the state passes the rates on to consumers. The Senators said that with the market broken, stability and reliability provided by interim price caps were needed until sufficient generation comes on line. Senators Craig (R-ID) and Burns (R-MT), while not stating a position on the proposal, commended the approach for recognizing that California had to take action as well.

DOE Secretary Abraham stated the Administration's staunch opposition to those bills and to any action which did not increase supply or decrease demand for energy. Responding to bipartisan questioning whether the Administration had any initiatives for this crisis, he asserted that California had caused these problems, caps would discourage generation investment, and FERC had sufficient authority to investigate overcharges. Senator Smith cautioned Secretary Abraham about "fiddling while Rome burns" and commented that his constituents would not listen to abstract market arguments with a recession beginning. Senator Feinstein mentioned her surprise at the "ideologic hardness" of his statement.

CONTACT: Laura Gerke, 415-1692

Senator Thomas (R-WY) and Hagel (R-NE) said that long-term solutions rather than short-term “tinkering” were needed and that more information on California’s efforts to help itself would be useful. Chairman Murkowski stated his continued opposition to price caps, while Chairman Bingaman argued that market forces were not solving the problem and federal intervention was needed. Senator Domenici (R-NM) noted that powerplants were being built in his state for the California market, and he questioned whether that was California’s intent: to maintain its own air quality by having generation built outside of the state. He was also concerned about possible price-gouging in the natural gas market and the effect on industries in his state which might have to close operations due to high energy costs.

OCA will continue to cover congressional hearings addressing the nation’s energy policy.

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