

Richard J. Pierce, Jr.

*How Will the California Debacle Affect Energy Deregulation?*

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Abstract by Carl Tugberk

California, being the sixth largest economy in the world, has become a leader among the states in legal and political reform movements. Most recently, it began a short-lived movement to deregulate the electricity market. Richard J. Pierce, Jr. critically analyzes the “California experiment” and discusses the lessons to be learned from it.

In 1998, California was the first state to deregulate its retail electricity market, and many other states were soon to follow. In fact, the federal government even considered statutorily requiring all states to deregulate their retail markets. The main goal behind the deregulation was to increase competition and decrease the retail price of electricity. However, any success experienced and optimistic outlook for deregulation in California was quickly tempered by an extreme shortage of power which caused severe rolling blackouts throughout the state. In response to this crisis, California, with additional help from the federal government, immediately re-regulated the market in order to stabilize prices. In addition, California virtually eliminated the private electricity market for intermediaries by becoming the primary buyer and seller of electricity in the state. Unfortunately, this reaction created a large amount of debt which still burdens the state today. As a result of California’s misfortune, the other states which once so vehemently jumped on the proverbial deregulation bandwagon, quickly abandoned the novel concept.

Despite the failure of California’s deregulation plan, Pierce suggests that it provided a great deal of insight into market regulation. However, Pierce also fears that the wrong lessons will be learned because of all the negative publicity created by politicians and special interests. Specifically, he believed that these individuals and entities were more interested in pointing fingers for the crisis instead of identifying the source of the crisis, which eliminated any opportunity to determine if the poor results would persist. In conclusion, Pierce illustrates three valuable lessons to be taken from California’s deregulation experiment: (1) we need to know how to maintain a viable electricity market in the present and in the future; (2) we need to create markets which maximize the ability of demand for electricity to adjust to changes in supply; and (3) we should not rush to judgment on any new policy.