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*Institutions and Long Term Planning: Lessons From the California Electricity Crisis*

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Abstract by Carol Willette

The California electricity crisis abolished five years of regulatory reform and forced two of three large private utilities in that state into insolvency. This article examines the events leading to the electricity crisis in California. It reviews the traditional structure of the electricity industry and compares California's revolutionary reforms. The article argues that structural flaws caused the crisis and were based in the reforms. Decentralization led to a failure to plan long-term. Ideology surrounding the reform prevented recognition of transaction costs in the market place. Manipulation of the market, while touting the market as the perfect regulator, forced private utilities into impossible situations. Finally, the article argues that there were sound, market-based reasons for the traditional structure that were ignored when modeling California's reforms.

The article concludes that there are lessons to be learned from California. Rather than revert to the traditional structure, the Article proposes that the failures of the reform model be considered and incorporated into a new structure. Specifically, the author argues that the electricity industry should be organized around long-term procurement contracts.