

# California Dreaming Fallout From a Nightmare

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# Mindset at Onset

- The System is Broken/ Our Neighbors Have Lower Rates
- High Rates/Economic Recession
- Long Term Contracts at Above Market Prices
- Heavy Hand of Government/Regulatory Planning
- Nuclear Costs/ Utility Prudence
- Absence of Strong Wholesale Market and Supporting Institutions

# Institutional/ Bureaucratic/ Political Setting

## Power Trumps Knowledge

- CPUC Initiated Process
- Well Organized Constituent Groups
- Politics Takes Over (Initiative to Legislature and Governor)
- Loss of Clear Policy Direction/ Bargaining Among Interest Groups

# Interest Groups' Primary Objectives

## A Parochial Moment

- Utilities: Stranded Asset Recovery
- QFs: Honoring Existing Contracts
- Marketers: Access and Ability to Arbitrage Information Advantage
- Enviros: Benefits Fund/ Support for Efficiency and Renewables
- Industrials: Choice/Freedom to Negotiate
- Small Consumers: Rate Relief

# Dynamics of Decision Making

## The Interested Leading the Blind

- Every Interest Received Substantial Part of Primary Objective
- Trading Fulfillment of Objectives/ Little Issue by Issue Negotiation
- CPUC Trumped: Little Policy Guidance from Disinterested and Informed Authorities
- Disconnect Between State and Federal Regulation

# The Big Sell

Issac Newton Visits Economics:  
Prices Will Only Go Down

- The Ease of Creating Unreal Expectations/  
Hell Hath No Fury Like a Consumer  
Scorned
- Rigged Discounts: Rate Freezes

# Political/ Regulatory Fallout

One Couldn't Help But Notice The Prices

- Who's Next?
- Slow Restructuring? / Convenient Excuse for Inaction?
- Heightened Jurisdictional Concerns
- Focus on Planning and Siting Issues

# Broader Implications/ Policy Questions

## A Cosmic Moment

- Can Electricity Be Commoditized?  
Politically? Socially?
- How Much Should Policy Makers/  
Regulators Pay to Stakeholder Consensus?
- Who Is The Ultimate Provider?/ Guarantor  
of Supply? (not metaphysically)



# Broader Implications/ Policy Questions (continued)

## A Cosmic Moment

- Are We Confusing Goals (e.g. Efficiency) With Means (e.g. Competition)?
- Do Competitively Derived Rates Automatically Meet The “Just and Reasonable” Test?
- What Incentives Are Really Required?