The California Energy Crisis

Name

Institutional Affiliation

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**About the Energy Crisis**

The California Energy Crisis that occurred between 2000 and 2001 was a scenario in which the state of California, experienced an unprecedented electricity shortage (Nakoutis, 2016). In the year 1996, the state passed Bill 1890 to achieve a restructuring of the electricity sector. In the subsequent years, the market functioned normally with customers benefiting from price reductions. However, the prices began to rise abnormally in the 2000s thereby breaking the $100 per MW mark. This resulted in acute shortages as California suffered many cases of large-scale blackouts prompting a collapse of one of the biggest energy companies in the state, and also hugely dented the standing of the then California’s Governor, Gray Davis.

**Causes of the Crisis**

One of the major reasons that led to the crisis was a shortage in the generating capacity of electricity within the state (Nakoutis, 2016). During the past years within the market, there was ample electricity supply as the whole market reasonably worked well. On the same note, markets are always competitive when there is enough supply thereby meeting demand. However, according to Weare, (2003), California during this period, demonstrated a tight market with an increase in the total consumption per year by 1.5% between 1990 and 2000. Additionally, there was an increase in demand by 4% between the years 1998 and 2000s majorly driven by the booming economy. In this regard, therefore, the limited generation of electricity could not meet the surge in demand coupled with increased prices thereby accounting for the energy crisis. Moreover, market failures also contributed to the crisis. The inability of electricity generators to produce enough electricity equivalents to the surging demand was a failure of the market to send them a signal of the need to expand their capacity and production to meet the demand. As a result, they heavily relied on spot prices of the market as an anticipation of future market demands and profitability levels. This, undoubtedly laid the ground for the shortage that led to the crisis. Another cause of the crisis was existing bottlenecks in other related industries. This included constraints in related markets such as pollution market permits, pipelines for natural gas, and the electricity’s systems of transmission which drove the market price of the commodity up. For instance, natural gas price is the most preferred due to its level of cleanliness and inexpensiveness. The fact that it was in high demand inconvenienced the generation capacity of the electricity generators thereby leading to the crisis.

**How Deregulation worsened the Crisis**

The intensity of the crisis and the degree of its consequences were truly increased by a series of regulation mishaps and this is greatly attributed to the ineffective design of California’s deregulation policies. As pointed out by Weare, (2003), California was responsible for the majority of the problems that arose from the then-new deregulated market and deems AB 1890 policy as the flaw behind the crisis. Weare, (2003) characterizes California's wholesale market as a flawed one, and a caricature of a retail market that arose from a combination of poor political practice and an ineffective economic theory. By this, he implies that there are two problems that deserve mention: The failure of the authorities to act in the face of the looming crisis, and the AB 1890 in which the decisions arising from the dictates of the policy, led to surplus exposer to spots in the electricity market thereby creating the electricity shortage that precipitated to the crisis.

References

Weare, C. (2003). The California electricity crisis: causes and policy options. Public Policy Instit. of CA.

Nakoutis, A. (2016). The California Electricity Crisis.