5 Steps to Preventing the Next Power Crisis

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California could face an electricity shortage as early as 2006. Our generating capacity increased only slightly since the last crisis in 2000-2001, while demand for power has taken off. To ward off another wave of brownouts, we must take steps now to develop new capacity and reduce peak hour demand.

The price tag for inaction could be daunting. In a time of gradual economic recovery, a second energy crisis would put the brakes to our economy, stunting investment, jobs and growth—an effect we cannot afford. It is critical for Californians to come together and find a sound, speedy solution to our energy needs.

Yet the process remains mired in debate. Part of the problem lies in the failure of lawmakers to develop a clear policy that promotes investment in power generation. The issue is whether California's electricity market will be regulated, de-regulated or a hybrid. At the moment it's none of the above—a confusing patchwork that leaves the private sector uncertain whether to invest, while California consumers continue to suffer the highest electricity rates in the country. Unfortunately, the debate in Sacramento is making the problem even worse.

As a result, we are jogging in place. Since the energy crisis, plans for more than 28,000 megawatts of new capacity have been announced. But most of that was never built, and with the retirement of older capacity, we have gained a net of only 3,800 megawatts. Plants with permits haven't been started, and others, such as the Metcalf plant in San Jose, sit unfinished. Meanwhile, economic growth and the erosion of earlier conservation gains are accelerating demand. Unless we build more generating capacity and manage that demand better, California could repeat the backslide of the 1990s, when demand also outstripped supply and power reserves fell to critical levels.

To avoid another energy shortage, California must immediately take five steps:

❶ Increase generating capacity. The California Public Utilities Commission should act now to spur construction of new power plants before 2006, by letting utilities sign long-term power contracts with generators through a competitive, open-bidding process.

❷ Upgrade transmission capacity. Electricity is hard to store, so we must be able to move it wherever needed in the state. Since the last power crisis, the need for greater transmission capacity has become clear, and many new projects to expand it have been proposed. A badly needed solution to the transmission bottleneck between the Peninsula and San Francisco was just approved. Unfortunately, complex and overlapping regulatory requirements at the California Public Utilities Commission and the state Independent System Operator have slowed the approval process for projects still in the pipeline. To move these projects forward more quickly, we have to streamline the regulatory process.

❸ Promote conservation. California should: a) mandate installation of time-of-use meters for all business and residential power users, and b) encourage use of load-management programs. With metering, consumers would pay more for power during peak hours but less when demand is lower, promoting conservation and relieving pressure on supplies. Load-management programs directly reward consumers for cutting their demand during peak hours and can yield results fairly quickly—far faster than we can build new capacity. California lags far behind other states, such as Florida, in this key area, yet it could save consumers more than $2.5 billion over the next 10 years and reduce peak energy demand by as much as 20 percent. Because demand management programs enable us to use less power, they are environmentally friendly, meeting a key state goal.

❹ Maintain adequate power reserves. California should require that all electricity service providers, public or private, maintain specified levels of reserves, giving consumers a cushion of safety against the possibility of power shortages or market manipulation.

❺ Re-introduce elements of consumer choice. We should let larger businesses buy directly from private suppliers if they can negotiate better service and price. This will help California companies stay competitive—while small consumers are assured of stability through continued service by their utilities. While utilities should remain at the heart of our electricity system, providing service to anyone who requires it, independent generators are ready and able to provide competitive alternatives. Experience in the United Kingdom and elsewhere shows that customer choice leads to lower prices for all consumers.

Legislation passed last year made a good start on electrical market reform. But AB2006, a bill scheduled for a Senate vote this week, could take us in the wrong direction. By returning California to full regulation, it would tie all consumers to utilities, denying them competitive, lower priced alternatives, and would create major disincentives to private investment in power generation. It would also increase regulatory uncertainty by creating new processes and requirements that overlay the proceedings already underway at the Public Utilities Commission, further delaying the development of urgently needed power.

The answers to the state's energy challenges are already on the table; with shortages looming, timely action is critical. Clear and consistent policies, and secure electricity supplies, are a prerequisite. California's economic recovery and future economic competitiveness depend on it.