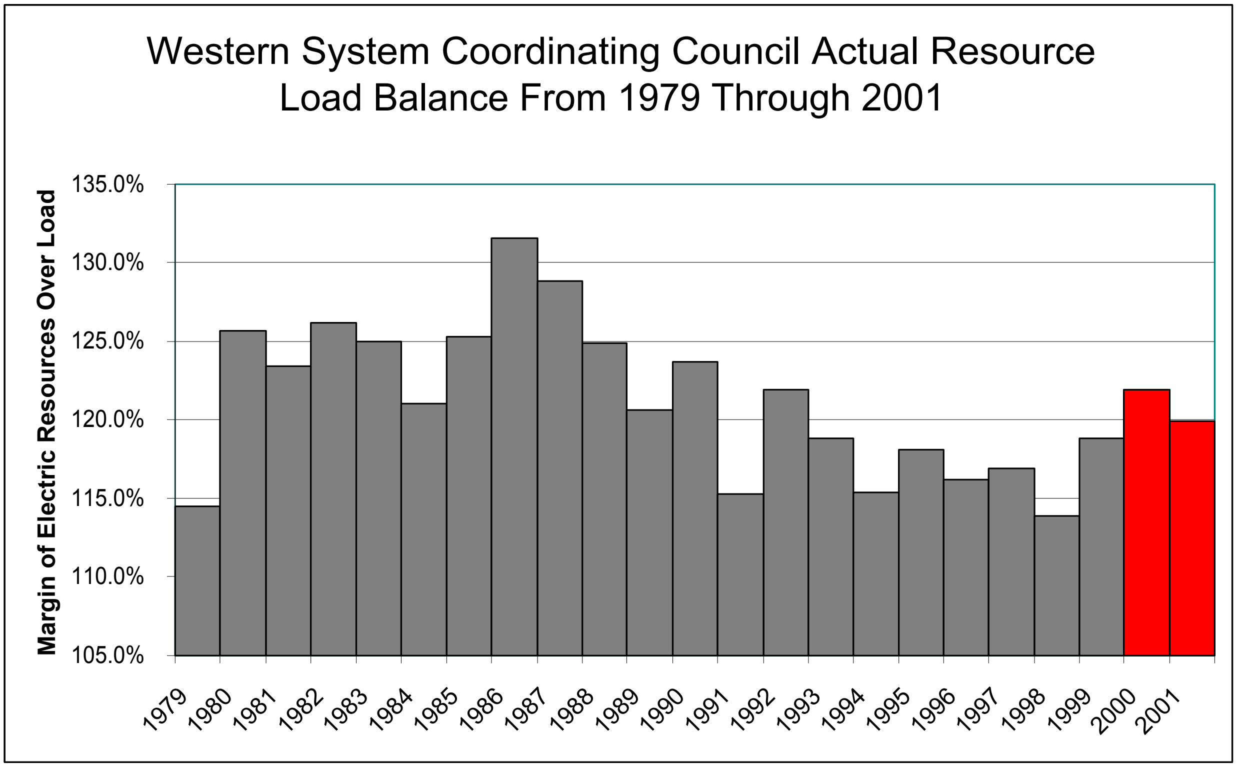
On May 22, 2000 the California Independent System Operator announced the first of 123 daily emergencies that comprised the California energy crisis. The last emergency took place on July 3, 2001, soon after the Federal Energy Regulatory Commission (FERC) intervened to remove the perverse incentives that California legislators and bureaucrats had imposed on the California energy markets as part of their deregulatory experiment. Like a squall, California's energy crisis arrived without warning and disappeared just as quickly.

Recent articles on Seattle City Light leave the impression that the fourteen months of the California crisis was simply a business problem that Seattle City Light could have forecasted and planned for. Over thirty major West Coast utilities were forced to raise rates sharply during the crisis. A considerable number of the absolute rate increases were much higher than Seattle City Light's. The reality is that no West Coast utility, governmental agency, or energy marketer forecasted the crisis or its abrupt disappearance after FERC's intervention.

The Pacific Northwest has enjoyed the benefits of a competitive spot market in electricity since 1980. The market has survived droughts, earthquakes, resource shortages, and gas price spikes. Until May 22, 2000 spot prices always reflected the cost of the last power plant dispatched to meet load. From January 1980 through April 2000, spot prices in the Pacific Northwest averaged $16 per megawatt-hour. Five years ago, the presence of a competitive market in electricity was heralded as a threat to the venerable Bonneville Power Administration. After the onset of California's crisis, prices averaged $190 per megawatt-hour. When FERC finally acted to remove the price distortions in the California market, prices fell to $27 for the remainder of 2001.

The chart below shows the "reserve margin" – the ratio of resources to electric loads – from 1979 through 2001 taken from the official tabulations of the Western Systems Coordinating Council, the agency assigned the task of protecting the reliability of the West Coast of the U.S. and Canada. Contrary to the slogan popularized by the firms that profited from the California crisis, the actual data doesn't show 2000 as a year characterized by "ten years of load growth without new resources."



Although the beneficiaries of California's crisis have blamed that state's environmental policies for the region-wide shortage, the summer of 2000 had the best load resource balance that the West Coast has seen since 1992. And while Columbia River flows were roughly average in 2000, they were 130% of the 1994 levels -- a year with a considerably poorer resource balance. After FERC finally implemented price controls in June of last year, prices fell to competitive levels even though the Pacific Northwest had one of the worst droughts in our history and the resource balance was poorer than it had been in 2000.

Every utility on the West Coast, from California to British Columbia, was blind-sided by the crisis in California. While every utility had carefully studied the fundamentals of the market, they could not have predicted that California's complex intervention in competitive markets had created incentives that rewarded major market players for withdrawing their electricity generation resources from the market. The five large generators in California averaged approximately 50% operations during the crisis. These five firms produced more energy after price controls were imposed than during the crisis itself. This was a complete contradiction of their public position that price caps would force them to reduce production.

The major reason for the turnaround in power prices was that FERC's intervention removed the incentive that rewarded reduced generation during declared California emergencies. Once this incentive was removed, plant operations in California improved. While conservation in the Pacific Northwest helped, the emergencies in California only stopped when FERC applied controls to the California market.

Seattle City Light has been a leader in seeking refunds from Enron and other firms that profited unjustly through this period. Although the politics of seeking refunds from these companies has not been easy, Seattle City Light – with the help of Washington's congressional delegation – has been in the forefront of the battle.

The West Coast's challenge in the months ahead is to keep FERC focused on protecting customers along the West Coast. FERC has hinted that it would like to remove the protections of last year. Amazingly, a recent FERC staff report has noted that since no further emergencies took place after FERC acted, therefore FERC's regulatory involvement was ineffective. If this point of view succeeds in directing future FERC policy, we may well see another squall as soon as the safeguards are removed. Not surprisingly, the firms that profited so richly from the last crisis have been the first to endorse the removal of safeguards.