

STATEMENT

**PREPARED STATEMENT OF SENATOR FRED
THOMPSON
HEARING ON THE ROLE OF THE
FEDERAL ENERGY REGULATORY COMMISSION
ASSOCIATED WITH THE RESTRUCTURING OF
ENERGY INDUSTRIES**

California will suffer rolling blackouts this summer primarily because of an inadequate supply of electrical power to meet demand. When California's deregulation law was enacted 5 years ago, things looked much brighter. Back then, supply exceeded demand. Applications to build new plants spiked up after the deregulation law was signed, after the law took effect in 1998, and again after the defeat of Proposition 9, which would have repealed deregulation.

To be fair, California had some bad luck, including a drought that reduced hydroelectric power from the Northwest last winter, coupled with a severe cold spell, as well as a natural gas shortage. But it appears that Governor Davis' failure to act in the face of clear warnings allowed the problem to become a crisis. In 1998, for example, a report to the State warned of energy shortages occurring as early as 2000. As California grew through the high-tech boom, the State failed to ensure that supply grew with rapidly expanding demand. When price spikes occurred in 2000, Governor Davis' solution was a wholesale rate cap, all but ensuring an insufficient electricity supply.

At last week's hearing, esteemed economists -- even those supporting a temporary wholesale price cap -- called California's cap on retail electricity prices "ridiculous." The State also failed to suspend the prohibition on long-term contracts. And the State failed to truncate the cumbersome siting process that has discouraged new plants. All of these actions could have been taken a year ago or even earlier.

Recently, California has taken such steps begrudgingly, but it is too little, too late. Sadly, the costs of inaction are inescapable. Some experts have said that if the Governor had raised retail rates earlier at just half of their recent 40% hike, he could have mitigated this impending crisis. Others have said that if the State had allowed utilities to enter into long-term contracts last

year, they could have gotten prices almost one-third as high as the State recently got. If the State had abridged its siting process, more power would be on-line today. All of this could have prevented the impending blackouts.

Instead of making the hard choices needed to solve the problem, Governor Davis seems to prefer the blame game. He has blamed everyone from the new Administration, to federal regulators, to the former governor, to a public utility that he bankrupted, and so-called corporate "pirates" -- even though municipally owned utilities charged higher prices. He hired political spin masters, costing California's taxpayers \$30,000 per month. This blame game does a great disservice to Californians and to the nation by diverting attention from the causes of California's energy supply crisis.

This failure to act has wasted literally billions of taxpayer dollars. It bankrupted Pacific Gas & Electric, the State's largest utility, once worth \$22 billion. It has jeopardized spending for California's schools, parks, and other pressing needs. It poses a serious risk to the environment and public health. Because the State is now hard-pressed to obtain more power, the Governor has rolled back the State's environmental protections. By some accounts, boilers and turbines have released more than 2,045 tons of pollutants so far -- twice as much as they had by this time last year. It also appears that emergency diesel generators may be required, which would throw up particulate emissions into the air -- emissions which the EPA has said can cause cancer.

On Monday, the Federal Energy Regulatory Commission took action to extend its April order to mitigate wholesale electricity prices in the West. FERC's actions can help, but the only lasting solutions to this energy shortage have to come from California's leaders. The ultimate questions posed today are these: Will California return to the failed regulatory approaches of the 1970s that could lead to even greater blackouts, or will it pursue more promising market approaches that have made America the envy the world? Will California's leaders take responsibility for the tough choices that will make the State's future bright once again, or will they continue to play a blame game that may be politically expedient in the short run, but doubtlessly will be harmful to the State of California?

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