Deregulation of The Power Industry
Lessons Learned

Synopsis

Only a few years ago almost everybody believed that deregulation of the power industry would bring substantial benefits. Deregulation of the airline, natural gas, railroad and telecommunication industries had delivered more choice and lower prices for most consumers. Deregulation in these industries had resulted in an annual savings to American consumers equal to nearly one-percent of US gross domestic product. This led to the convinction that the same benefits could be obtained by bringing free-market competition to electricity, which was still largely produced and distributed by monopolies under tight government regulation.
With the benefit of hindsight, people are now much more skeptical about deregulation in the power industry – at least about the way that deregulation has been implemented. In California, deregulation became synonymous with government incompetence and the failure of free-market economics. It also raised many questions about the underlying objectives of the more toward deregulation as well.

The objective of this paper is to review California's experience with deregulation of the power industry and to assess the implications for power markets worldwide. This is especially pertinent given that the California market design was originally based on the British model, and has been adopted by many other states and countries