

The Best Laid Plans of the Central Planners: Energy in Washington State

01-4

by Scott Fallon - Research Fellow

Shortages and rising prices for electricity in Washington state have been attributed to low rainfall, insufficient conservation, an undiversified energy sources portfolio, the needs of the new economy and the botched restructuring of California's regulatory system. Some of these, such as low rainfall and California's woes, have made Washington state's energy problems worse, but none of them are the direct cause. The cause is more fundamental:

A System Like Soviet Central Planning

Washington's energy system functions like a Soviet-era centrally planned system and is incapable of adjusting to changes in supply or demand. Layered on top is a further series of inflexible restrictions unrelated to power generation, which are instead aimed at other objectives such as increasing fish populations and reducing air emissions.

In the past decade Washington's population has increased 21% and with it energy use has grown 24%. Over the same time energy producing capacity has increased only 4%. The same story can be told of almost every other Western state, with California being the worst. California has seen the largest population increase in the region, yet has added exactly zero new power plants during the 1990s.

There is no Free Market in Energy

How could this be? In a free market economy wouldn't rising demand induce producers to increase supply? And wouldn't

we expect rising prices to encourage consumers to restrict their demand? The answer is that energy in Washington and the rest of the West does not operate in a free market. The dominant force in our region is the Northwest Power Planning Council, made up of various government agencies and other groups. Created in 1980, its task is to come up with a 20-year forecast of energy needs and write a plan to meet those needs. Doesn't sound much like an open, responsive market, does it? It gets worse.

Even on the rare occasions when private energy producers try to enter this "market," they face siting, permitting and operating rules and regulations that only strong hearts could endure. It takes more than five years simply to re-license *existing* hydro-power plants. It can take more than a decade to get approval for *new* hydro plants. Even when new plants eventually come on line they face a set of environmental regulations that sharply curtail output. The Bonneville Power Administration, for example, has been forced to cut power production by 10% to comply with regulations designed to aid salmon.

Finally, government energy regulators at the state and federal level have spent years openly waffling on possible restructuring of how the government regulates the system. While little has actually been done in Washington (as opposed to California which embarked on a bizarre regulatory experiment that further separated demand from supply – wrongly called "deregulation"), years of legal and regulatory uncertainty have reduced long-

term investment by utilities in new power-generating sources.

Special Interests Resist Needed Changes

Most who have offered recommendations for our current problems have missed these fundamental issues and either grasp at short-term fixes or stay married to entrenched special interests (often environmental). Governor Locke and other Democrats have proposed a number of measures centered on conservation, subsidies for the poor and mandating wind and solar power. Because they insist on a no-growth energy stance, the more hardcore environmentalists are reduced to promoting conservation as the only solution. Business interests, the governor and many lawmakers favor tax-breaks for new power plants and for increasing the capacity of existing ones, including those powered by available fossil-fuel supplies. None of these recommendations address the heart of the problem. They merely nibble around the edges, albeit sometimes in a useful manner.

Cut Government's Role in the Power Business

Long-term solutions must address the total lack of a working market in energy today, which has brought about a near complete divorce between supply and demand. We need prices that are set by suppliers, not arbitrarily set by government agencies. Only real market prices will give consumers the information they need to properly adjust their demand - calls for civic-minded conservation promoted by some officials won't do the job. Only suppliers informed by authentic market prices can rationally decide whether to increase production capacity or shrink it. We need to drastically cut the approval process for building new plants. We need to re-examine salmon and emissions regulations and use a balanced cost/benefit analysis to make sure they are justified and benefit human beings. We need to eliminate the market-crippling subsidies which government utilities enjoy over private suppliers. And we especially need to drastically

cut government's role in the power business altogether – the government should not be allowed to act as a utility.

Only these measures will introduce a modicum of market dynamics into energy and redress the government-induced imbalance between supply and demand. No human being, not even the wisest government bureaucrat, is capable of planning that balance into being. Freely-functioning markets are the *only* answer.

Free Market Can Protect the Environment

Ironically, it is a free market which may best serve environmentalists. Today wind power alone isn't capable of meeting our total power needs. But in a market opened to all entrants and their innovation, we will soon see new ideas and creativity that no government can simply mandate via central planning – just as the Soviets couldn't mandate it. Perhaps some entrepreneur will come through with a new type of wind turbine or a fuel cell or some other alternative source we can't imagine. One way to guarantee that won't happen is to continue to handcuff the free market. That market has proven throughout history to be the only process for unleashing creative minds and letting their myriad of ideas be tested.

Conclusion

As Americans we like quick and easy fixes – pass a law, impose a rule, do a bailout – anything to make the problem go away. Unfortunately, we can't undo decades of central planning overnight - just ask the Russians. An incredibly complex structure of government agencies, properties, rules and interests have built up over the decades and won't convert instantly to a sane energy market. There will be pain – higher prices, shortages and the like. But there is no other path – quick or otherwise - but to make the move to a market economy in energy.

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