

# THE UNFOLDING CRISIS IN CALIFORNIA

Massive increases in electricity demand due to:

High levels of economic growth

Cold winters

Electricity supply cannot respond to rapid growth in demand because:

Drought limits hydroelectric capacity

Existing generators cannot increase supply due to escalating cost of NOX emission licenses.

Long licensing delays (environmental regulations) limit new plant investment

Limited wheeling ability both intra- and inter-state limit imports and cross state transfers.

Consumers do not adjust behavior due to retail price caps (i.e. reduce their demand).

Electricity market cannot adjust to increase in demand, in the short- and long-term.

Whole sale electricity prices rise rapidly compounded by rising natural gas prices. Wholesale prices > retail prices

Black outs and shortages of electricity

Electricity generators face bankruptcy.