The latest crisis was precipitated by the state legislature's restructuring of state energy policy in 1996. Prior to restructuring, providers of electricity in California had been regulated by the Public Utilities Commission (PUC) as "natural monopolies." Three investor-owned utilities—Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric—supplied about 85 percent of the state's electricity. Under the old system, the utilities operated their own power plants and transmission lines. The PUC granted the utilities the exclusive right to sell electricity within their regions at rates that guaranteed a return to their investors above the costs of production. The utilities, lacking sufficient incentives to improve efficiency or reduce costs, steadily raised their PUC-approved rates. By the mid-1990s, Californians were paying rates 50 percent higher than the national average.

The utilities and their large industrial customers, along with out-of-state power generators and marketers, joined forces to demand a change in state energy policy. The resulting restructuring plan—massively complex and little understood—was unanimously approved by the legislature in 1996. The restructuring plan required the utilities to divest themselves of most of their electricity-generating power plants. The legislature expected that increased competition among independent power producers would lower wholesale electricity prices and consumers' utility bills by as much as 25 percent.

Problems with the plan first became apparent in the summer of 2000 when customers of the San Diego Gas and Electric Company, expecting rates to drop, were startled to find their utility bills suddenly tripled. What apparently had been unforeseen by the legislature was a sharp rise in the wholesale electricity rates charged by the companies that had bought power plants from the state's utilities. The power companies—headquartered in Texas, North Carolina, Georgia, and other states—increased the wholesale price of electricity from $30 per megawatt hour to more than $400.

The state's largest utilities announced that they were unable to purchase enough electricity to meet their customers' needs. In early 2001, for the first time ever, the entire state was hit by rolling blackouts. Blocks of the statewide power grid were shut down, leaving more than a million customers temporarily without electricity.

Leaders of state government responded to the crisis in a variety of ways. Governor Gray Davis began by challenging Californians to reduce their overall demand for electricity. He also signed additional legislation to support expanded renewable energy development by $135 million a year through 2012. Davis and the legislature realized, however, that conservation and the development of renewable energy sources alone were not sufficient to meet the immediate crisis. Using emergency powers, the governor streamlined the approval process for the building of two dozen new fossil-fuel electricity-generating power plants. He also signed long-term contracts with power companies for enough electricity to meet the needs of 9 million residential customers. The governor's critics quickly charged that the contracts locked the state into buying too much power at too high a price.

As electricity prices skyrocketed the profits of the power generators and marketers surged accordingly, more than quadrupling within a single year. Governor Davis denounced the "out-of-state profiteers" for price gouging. One California consumer advocate declared that the increased rates represented the greatest "transfer of wealth from people in this state to those outside the state in history."

State and federal regulatory agencies soon launched a series of investigations of the electric power generators. The PUC charged the generators with illegally manipulating prices by deliberately withholding electricity. The Federal Energy Regulatory Agency (FERC) probed charges of price gouging by the generators and eventually found that 30 companies had manipulated prices during the crisis. The FERC ordered the firms to refund several billion dollars to the state, far less than the amount sought by Governor Davis. The out-of-state generators, the governor charged, had "taken advantage of the market, gamed the system, and ripped people off."

The crisis passed as additional supplies came online but the future remained clouded. The California Energy Commission estimated that the state's demand for electricity would require the construction of 100 new power plants by 2030. The legacy of the restructuring debacle was a confused patchwork of dismantled or barely functioning state agencies. University of Southern California researcher Christopher Weare, author of *The California Electricity Crisis* (2003), concluded that the crisis had "left California's energy sector in disarray."

For some observers the electric energy crisis was indisputable evidence of the power of money in the political process. Windfall profits were being reaped by the very same interests that had supported the restructuring legislation that precipitated the crisis. Attention soon focused on Enron Corporation, a huge Texas-based energy marketing firm. Enron was one of the loudest voices calling for restructuring in 1996 and later raked in enormous profits as wholesale energy prices skyrocketed. Following the spectacular collapse of Enron, state and federal officials began investigating charges that the company had conspired to drive up prices by manipulating the California energy market. "Enron's fingerprints are all over all the dysfunctional parts of the market," commented an aide to the chair of the state legislative committee on deregulation.

The most damning evidence, from tape-recorded phone conversations, revealed Enron's role in creating artificial power shortages by taking generating plants offline for fictitious "maintenance" as rolling blackouts hit California. The recordings featured Enron traders chuckling about how they exploited "Grandma Millie" and other hapless California ratepayers with schemes they dubbed "Death Star," "Fat Boy," and "Get Shorty." Democratic Attorney General Bill Lockyer eventually won a $1.5 billion settlement against Enron in a lawsuit charging the corporate giant with massive market manipulation during the energy crisis. Kenneth Lay, the chief executive officer of Enron and an enthusiastic financial supporter of President George W. Bush, was convicted of several counts of criminal fraud and conspiracy. Although Lay was not specifically charged with crimes in California, former governor Gray Davis was among those who expressed satisfaction with the outcome.

Looking beyond the political dimensions of the crisis, experts warned that supplying future energy needs remained one of the gravest challenges of the twenty-first century. Alistair W. McCrone, petroleum geologist and president of Humboldt State University, believed that the state's recent electricity supply and price problems were but the beginning of crises "on a much wider and larger scale." What had happened in California was the harbinger of a global energy crisis to come. Worldwide energy production, based on the burning of petroleum and other fossil fuels, would begin to