the once beloved utility company…

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A Brief History

1905

- The Pacific Gas & Electric Company created with the merger of San Francisco Gas and Electric Company and the California Gas and Electric Corporation.

1930s

- 98% of homes in Northern California have services.

1946-1961

- PG&E builds pipelines throughout Texas, New Mexico, and California to service their customers in Northern California.

1970s

- PG&E 2nd largest utility company in the U.S. and establishes 1st energy conservation programs.

1990s

- The flight of large industrial customers to independent suppliers continued to hurt PG&E.

1996

- PG&E deregulates.

Today

- PG&E reads an average of 425,000 meters every day.

Source: www.pg&ecorp.com/aboutus/history

Regulated Monopoly vs. Deregulated Monopoly: The Case study of PG & E

Unregulated Monopolies:

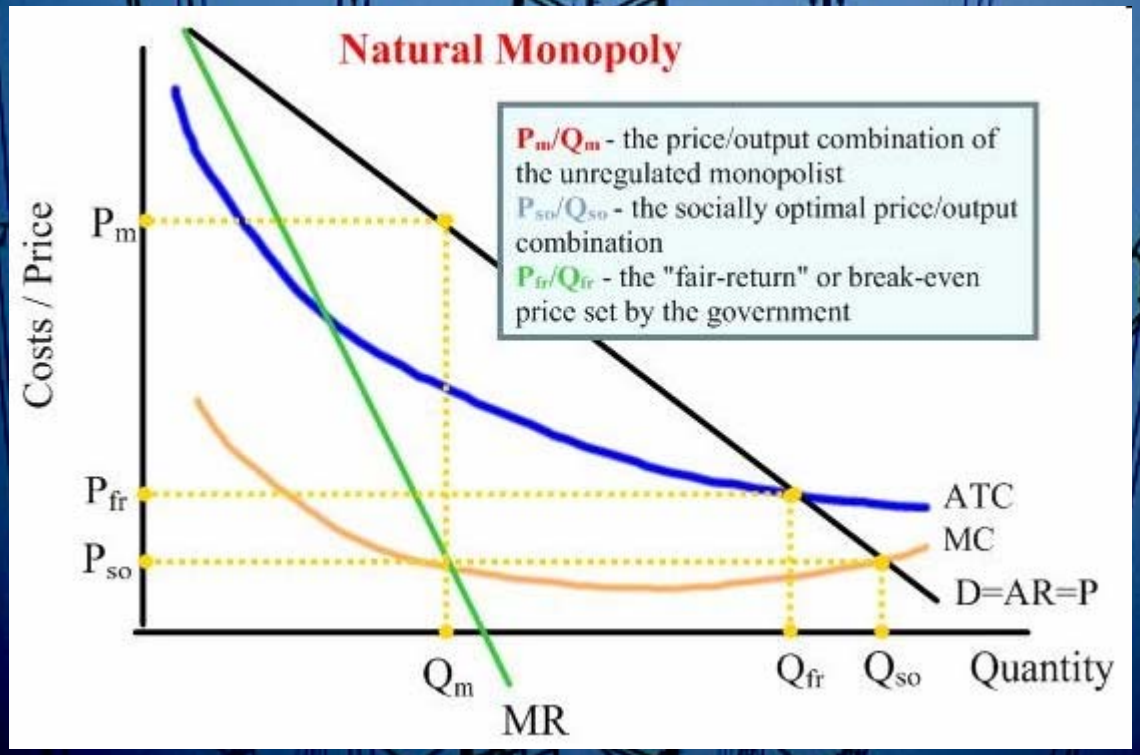
- seek to maximize profits
- output is restricted
- price is set higher than what everyone can afford

Regulated Monopolies:

- offer a socially optimal price, with the assistance of subsidies.
- offer a price lower than the unregulated price

Regulated monopoly is preferred over unregulated monopoly

Regulated Monopoly vs. Deregulated Monopoly: The Case study of PG & E



Regulated Monopoly

Socially optimal price (which is also allocative effiency) : P=MC:

- Produce P = MC, to achieve allocative efficiency,
- to simulate allocative efficiency governments set a price ceiling

which…

1. Forces them to produce at P = MC = MR
2. Sometimes the price ceiling is set so low that it does not cover the Average Total Costs of production

making…

Companies become bankrupt in the long run remedied by the governments setting a fair return price.

Benefits of a regulated PG & E

include…

- Reduced prices for consumers
- increased output
- reduction in profit for the PG & E

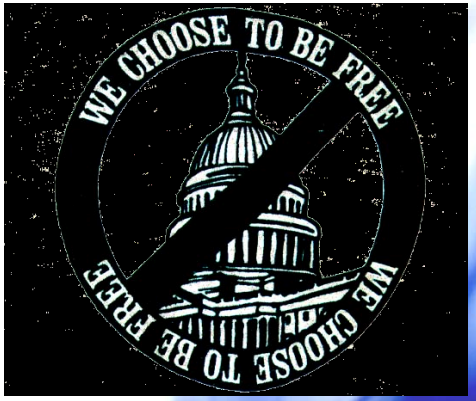
as a result…

Economic growth in the long run is promoted

Deregulation of PG & E

1996

- PG&E deregulated, which promised greater efficiency, competition, and lower prices.
- Instead, Californians were hit with brownout/blackouts soaring wholesale power prices High rates from out of state electricity trading firms.



TODAY, the U.S. looks at California as an example of What NOT to do!!

Deregulation

- a process by which government's control over businesses and individuals is reduced or eliminated.
- promotes a movement towards a more free market

Deregulation and PG & E

- Deregulation was supposed to inspire competition for lower rates

but instead…

PG&E went on the defensive and played unfair games with the consumers and others wanting to enter the market

Proposition D

- They also argue that a public power utility could save money on rates by cutting out PG&E's profit, which is about 15 percent on total revenue.
- PG & E spent money fighting the proposition in order to protect its monopoly power.
- Proposition D was going to make PG & E a public good, thereby decreasing the company’s power to keep higher prices.
- Proposition D was not passed

In Conclusion…

- PG&E should be regulated to promote social and economic optimality in the form of…
- Lower prices
- Increased output

Everyone needs electricity and gas!!!