THE WALL STREET JOURNAL.

https://www.wsj.com/articles/when-politicians-direct-capital-11548980161

OPINION | REVIEW & OUTLOOK

When Politicians Direct Capital

PG&E's bankruptcy shows the peril of the public utility model.

By The Editorial Board

Jan. 31, 2019 7:16 p.m. ET

Pacific Gas & Electric vehicles parked at the PG&E Oakland Service Center in Oakland, Calif. **PHOTO:** BEN MARGOT/ASSOCIATED PRESS

Elizabeth Warren wants to remake corporations into de facto public utilities. For a window on how that will turn out, look at the many failures of California utility PG&E , whose bankruptcy this week illustrates the dangers of politicians directing business investment.

Potomac Watch Podcast

PG&E filed under Chapter 11 on Tuesday amid a race to the courthouse by wildfire victims, insurers and other creditors. The utility, which provides electricity and natural gas to 16 million people in Northern California, says it expects $30 billion or so in liabilities from more than a dozen major wildfires in recent years caused by its equipment.

California's Public Utilities Commission (PUC) reviews rates, enforces state laws and establishes safety requirements. Regulators allow utilities to pass most capital and operating expenses through to customers while guaranteeing investors a modest return. The problem is that PG&E's government overseers seem to have prioritized the state's climate goals over safe and reliable service.

As PG&E noted in its last earnings report, the state Legislature has directed the PUC to increase renewable energy and other technologies to cut CO2 emissions such as electric batteries and vehicle-charging stations. The commission also administers state-mandated "public purpose programs" such as energy efficiency and solar net-metering subsidies.

Customers pick up the costs for this green welfare. Last year the commission approved a $269 million rate hike to support deployment of "public fast charging" stations for vehicles. Electric-car owners also get an $800 rebate. Customers will pay another $437 million for an "employee retention program" and "community impact mitigation" following the retirement of PG&E's Diablo nuclear plant, which accounts for nearly a quarter of utility power generation.

Then there's the state green energy mandate. In 2006 the Legislature required that utilities generate 20% of electric power from renewables such as solar or wind by 2010. Lawmakers have since raised the mandate to 33% by 2020 and 100% by 2045. Over the last 15 years PG&E has signed nearly 300 long-term contracts for renewable power.

The price that all utilities paid for solar has dropped by 77% between 2008 and 2015 as technology improved, according to the PUC. But PG&E customers have been stuck paying elevated rates. Renewable developers now worry that PG&E will try to renegotiate contracts in bankruptcy since customer rates will invariably have to rise to pay for wildfire damage and safety upgrades.

PG&E rates are already among the highest in the country and have increased by 40% over the last decade compared to 15% nationwide. But the reality is that rates would be far higher if PG&E had spent more on insulating equipment, clearing overgrown vegetation and taking other precautionary measures to reduce wildfire hazards.

The PUC didn't even issue safety regulations to protect overhead transmission lines in high fire-risk areas until December 2017. Only last year did the legislature require utilities to prepare wildfire mitigation plans. Did regulators let PG&E under-spend on safety to prevent rates from climbing even more amid Sacramento's anti-carbon spending demands?

Democrats in California are lambasting PG&E for putting profits over safety, but its failures owe in large part to a misallocation of capital directed by politicians. PG&E exemplifies what is becoming the liberal market paradigm: Government determines the prices that businesses can charge and the return investors can receive, which depend on their fulfilling political objectives.

Recall the Obama Administration's rescinded "net neutrality" regulations that deemed broadband providers to be public utilities with the goal of imposing more political control over the Internet. ObamaCare limited health insurer profits, though premiums have continued to climb. Liberals are calling for price controls on drugs and want to use the Community Reinvestment Act to direct bank capital.

Senator Warren wants to go even further and establish a federal corporate charter that would require companies to answer to "stakeholders," not shareholders. She means politicians and progressive interest groups.

California lawmakers last year enacted legislation to allow PG&E to socialize some costs of wildfire damage, so customers will have to pay many times over for its failures. The corporate utility future will be expensive.

Appeared in the February 1, 2019, print edition.