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Have Michigan Legislators Learned from California's Mistakes?

by Lawrence W. Reed

Summary

As price controls come off this month, Michigan consumers will begin paying the higher, market-level rates for natural gas that the rest of the country has already been paying. State legislators have wisely resisted calls to re-impose economically harmful, California-style price controls, and instead are wisely proposing tax credits and other market-friendly solutions.

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As California lawmakers wrestle with an electricity crisis of their own making, our own legislators are pondering the impact of pending increases—*big* increases—in natural gas prices here in Michigan. So far, it seems that Michigan legislators are learning a few important lessons from the California experience. They are showing a surprising level of caution and moderation in their statements and proposals.

In late 1998, the average wellhead price for natural gas was as low as $1.69 per thousand cubic foot (Mcf). By last September, prices had risen to almost $4.00 per Mcf. For reasons that mostly relate to a cold winter in the United States and developments elsewhere in the world, the spot market price has recently spiked as high as $10.00, and is in the $5.00 to $6.00 range today.

Until this month, consumers here have been insulated from the price hikes by a lucky coincidence. Three years ago the Michigan Public Service Commission (MPSC) launched a voluntary pilot program to introduce more competition into the gas market. The goal was to give customers a choice among competing sources of natural gas. The program failed, for the same reason California's misnamed electricity "deregulation" is a disaster: *price controls*. Since alternative suppliers could not make a profit competing against retail price caps from $2.84 to $2.99 per Mcf, no new competition developed.

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Now Michiganians are angry because the choice program's temporary price caps are coming off, and they soon will be hit with the same high rates that the rest of the country has been paying all along. Consumers Energy's caps end this month. MichCon's rate is frozen until year-end. Semco, with far fewer customers, will live with caps for another year, having locked in lower cost supplies with a long-term contract. Combined, these three companies sell 94 percent of natural gas in Michigan.

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administration spokesperson told them, "The most we can do . . . is create a real, viable market." There was no angry grandstanding, no populist, class-warfare demands to "crack down" on "greedy, price-gouging" suppliers or to re-impose price controls.

House Republicans want to give a one-percent sales tax cut on the commodity-only portion of gas bills, for any amount in excess of a $3.00 Mcf rate. They also would create an income tax check-off for contributions to fund heating assistance programs. Two members of the House GOP caucus have scheduled "listening tour" meetings to hear senior citizens' views on the issue.

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Both Democrats and Republicans are focusing on helping the poor instead of re-socializing gas markets with price-fixing or other controls. Republicans want to expand the tax credit (which currently applies to those earning 110 percent of the poverty level) to 125 percent, Democrats to 150 percent. Both parties would extend or remove the credit's sunset provision. A Democratic caucus form letter promises constituents that members will " . . . pressure suppliers to seek new supplies." It actually offers a reasonable explanation of the supply/demand realities and even cites environmental regulations as being partly responsible for short supplies.

While both parties seem to accept the idea of using the tax system to channel help to low-income Michiganians—a notion with its own flaws—it is encouraging to see that direct interference with market prices or supply and demand is simply not being seriously considered in Lansing. Instead of going to war against the market, which is what got California into trouble, lawmakers here seem to understand that more supply is the answer and that you don't coax that forth by beating up on suppliers, verbally or otherwise.

As natural gas prices in Michigan actually begin to rise to the same market levels that exist in many other states, this climate of moderation may change and legislators may revert to their old ways of attacking the market, no matter the consequences. But for now, we may have California to thank for teaching legislators here that free and flexible markets work far better than elaborate schemes for government control.

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