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As we contemplate the implications of the BP oil spill, California approaches another ominous milestone: the tenth anniversary of the series of electric power price shocks that came to be known as the California Energy Crisis of 2000-2001. Meanwhile, many try to unravel the economic crisis that walloped the U.S. and world economies so decisively over the last two years. Unfortunately, these disasters have a lot in common.

First, the oil spill. Yesterday, California's governor declared that after seeing TV images of the oil slick in the Gulf, he was retracting his support for new oil drilling off of the Santa Barbara coast. The San Francisco Chronicle quotes him as saying, "You turn on the television and see this enormous disaster, you say to yourself, "Why would we want to take on that kind of risk?'" The lingering question for the rest of us: Why do you have to see an oil spill to know that one could happen?

Then, there is the California crisis, spurred by an electricity deregulation strategy that left the state's utilities and their customers vulnerable to generator and marketer manipulation in the spot market. The well known results: rolling blackouts, a major utility bankruptcy, billions of dollars of new debt, and a governor deposed. After seeing what happened, state regulators and lawmakers stepped back and reduced the vulnerability to these markets. Why didn't policymakers anticipate and study the possibility of price spikes before the deregulation process moved ahead?

Finally, there is the financial "meltdown", resulting from a complex arrangement of sub-prime loans and derivative instruments which could only succeed if real estate prices never went down. Why were people oblivious to that risk? Did people think that housing prices would continue to go up forever?

In a new book called *The Big Short: Inside the Doomsday Machine*, Michael Lewis talks about the financial models used by investment houses to assess the risk of mortgage-backed derivatives. The models did not consider the possibility that real estate values could decline. In fact, they couldn't – there was no capacity for entering negative numbers.

The electricity deregulation model adopted first by California regulators and then ratified by the California Legislature was engineered to minimize interference from naysayers. At the California Public Utilities Commission, those involved in designing the markets did so in isolation. Policy makers selected analysts who were predisposed to market-based solutions, and prohibited any of the other staff experts from participating in the design process.

Public comment opportunities were largely ceremonial. Legislators crafted the deregulation bill in a series of night-time hearings and negotiation sessions. Only well-paid lobbyists could afford to sit through the process.

As for the governor's shifting position on drilling offshore near Santa Barbara, he had undoubtedly been swayed by oil industry officials arguing that rigs are much safer now than they were when oil oozed onto Santa Barbara beaches in 1969, that this would be a different kind of drilling with a long and positive safety record. The question is, did the governor ever invite anyone to challenge these assumptions?

An effective decision maker ought to encourage skilled advisors to tell him why he might be wrong, and set up a steep burden of proof for those leaning the same way he is. And there needs to be greater recognition that even a small likelihood of failure could tip the balance against a certain initiative if the results of failure would be catastrophic. When asked about the $100 million of annual revenues the state might lose without the expanded drilling, the governor said, "If I have a choice to make up $100 million [or] see what I see in the Gulf of Mexico, I'd rather find a way to make up that $100 million." The thing is, that perspective would have made as much sense a month ago as it does today.