Hearings reveal Enron at center of California energy crisis

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In a hearing before the Senate Commerce, Science, and Transportation Committee on April 11, California Public Utilities Commission President Loretta Lynch and California Power Authority Chairman S. David Freeman charged that Enron Corporation's manipulation of the energy market was at the root of California's energy crisis last year. According to authorities, by late 2000 Enron oversaw 30 percent of energy bought and sold in the state's deregulated market, giving it enormous leverage over supply and pricing. California is currently demanding Enron and other energy suppliers refund the state $8.9 billion because of unfair trading practices.

Wenonah Hauter, from the watchdog group Public Citizen, testified that Enron's subsidiaries acted in concert with one another so the giant energy trader could inflate prices. This occurred under the oversight of Thomas White, Bush's secretary of the army who is under pressure to resign because of his actions as an Enron executive.

"In the first three months of 2001 at the height of skyrocketing prices and rolling blackouts, White's division traded more than 11 million megawatts of electricity in the California market alone, making nearly 98 percent of these trades," Hauter said. At the same time, she said, "Enron divisions set astronomical prices up to $2,500 a megawatt hour [the standard price at the time was less than $340 a megawatt hour]. By selling power to itself at inflated prices, Enron helped skyrocket prices in California's deregulated market."

Hauter continued, "Federal and state regulators found it very difficult to trace Enron's trades, since the company had four separate divisions interacting in the wholesale and retail markets, and with each other.... Engaging in transfer pricing allowed these various Enron divisions to overstate revenue and contribute to the accounting gimmickry that inflated the company's share price," Hauter stated.

In addition to these methods, Lynch and Hauter said Enron used its transmission capacity to drive up the cost of electricity by creating congestion on the power grid. According to Hauter, inside traders have reported Enron used its control of transmission points throughout California and on its borders to influence wholesale energy trading. Currently, the Nevada Public Utilities Commission is investigating allegations made against the company with regards to illegal practices at the power grids located on the California-Nevada state line.

While Enron insists its activities in the state were minimal, Hauter noted the company's quarterly *Power Marketer Reports* reveals that its operations on the West Coast were "focused entirely on the California market." This means Enron had extensive interest in manipulating the wholesale price of electricity in the state, as it was the primary source of revenue for the company throughout the region.

Investigators have yet to prove top executives consciously manipulated prices in the state. One reason for the lack of direct evidence is the company's refusal to turn over relevant documents, which the attorney general's office demanded approximately a year ago. An Enron spokesperson claimed the company is in such turmoil from its bankruptcy filing and ongoing federal investigations into its accounting practices that it cannot provide the materials. On March 28, the San Francisco Superior Court ordered Enron to respond to the requests by June 26 or be held in contempt of court.

It is unclear if any incriminating documents still exist. On February 12, California legislators voted to bring criminal charges against Enron for destroying materials sought by the state as part of its investigation.

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There are currently at least three separate probes into Enron's role in California's energy crisis. In addition to California's investigation of the energy crisis, in early February the legislature voted to initiate an inquiry into Enron's role specifically. The Federal Energy Regulatory Commission (FERC) is also working jointly with the Securities and Exchange Commission (SEC), the Commodities Future Trading Commission (CFTC) and the Justice Department. They are exploring allegations Enron played a major part in the crisis, which produced several days of rolling blackouts, skyrocketing electricity rates for consumers and a budget crisis that has resulted in serious cutbacks in social services.

Enron utilized its close connections with the Bush administration to facilitate its price-gouging and profiteering practices. Earlier this year the *San Francisco Chronicle* reported about the memo passed to Vice President Dick Cheney by former Enron President Kenneth Lay in April 2001 during a one-on-one meeting between the two. The memo outlined the company's position on federal energy policy and spelled out Enron's strong disagreement with government-imposed price caps, something several state officials were recommending to stabilize the situation. While California's treasury was being drained of what eventually totaled $11 billion and residents faced huge energy bills, Lay wrote, "Events in California and in other parts of the country demonstrated that the benefits of competition have yet to be realized and have not yet reached consumers."

In addition to integrating numerous aspects of Enron's positions into the Bush administration's energy policy—including the company's choice to head the federal energy regulation commission—a day after meeting with Lay, Cheney publicly denounced price caps. The White House is continuing to defy the General Accounting Office demand that Cheney release details of his meetings with Lay and other energy executives.

Enron's political ties allowed it to increase revenue by four times, from $12 billion in the first quarter of 2000 to $43 billion the following year. In her statement to the Senate committee, Hauter argued Enron was able to manipulate the California market because energy-trading contracts were exempt from regulation by the Commodities Future Trading Commission. This policy was drafted by CFTC, while it was under the chairmanship of Wendy Gramm, wife of Republican Senator Phil Gramm and an eventual board member of Enron. During the California crisis this ruling allowed Enron "to escape scrutiny and purchase enough electricity contracts in the day ahead and spot market to secure significant enough market share, where the company was in a strong position to set prices." Since 1989 Enron has provided Phil Gramm with over $97,000 in campaign funds. From 1993 to 2001 the company paid Wendy Gramm between $915,000 and $1.85 million in salary, attendance fees, stock option sales and dividends.

Enron was well compensated for its investment. In December 2000, just prior to the largest price spikes on the California energy market, Senator Gramm pushed a bill through Congress that deregulated energy commodity trading. According to Public Citizen, it was through Enron Online, the unregulated power auction made possible by the new act, that the company "quickly gained control over a significant share of California's electricity and natural gas market."

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