New evidence of Enron's criminal role in California's energy crisis

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Recently released tapes and documents provide further evidence that the 2000-2001 energy crisis in California was the result of a criminal conspiracy in which energy giant Enron played the leading role. On February 3, the Snohomish County Public Utility Department (SCPUD) in Washington State released material detailing Enron's flagrant manipulation of the power supply in California. The evidence was released as part of an effort to convince the Federal Energy Regulatory Commission (FERC) to void a $122 million termination fee Enron was demanding from the Washington State public utility.

California's energy crisis resulted in numerous days of rolling blackouts over the course of several months, a $5.7 billion hike in energy prices for consumers, and brought the public treasury of the most populous state in the US to the verge of collapse, by draining it of more than $11 billion. Previous evidence of Enron's involvement in this process was made available by the SCPUD in June 2004, when tapes of Enron traders joking about stealing money from "those poor grandmothers in California" were released to the public.

In addition to shedding further light as to how Enron created artificial power shortages in California, the latest SCPUD evidence reveals that the company had been experimenting with various means to gouge the California market since at least 1998, when the energy system was first deregulated. The documents and recordings expose a systematic and conscious effort over the course of several years to defraud the sixth largest economy in the world.

For example, on January 16, 2001, while power plants throughout the West Coast were under a federal emergency order to keep their operations running, the following conversation took place between Bill Williams, an Enron trader, and a representative from a Las Vegas power plant who has only been identified as "Rich."

Williams: Ah, we want you guys to get a little creative
Rich: OK.
Williams: And come up with a reason to go down.
Rich: OK.
Williams: Anything you want to do over there? Any...
Rich: Ah...
Williams: ...cleaning, anything like that?
Rich: Yeah. Yeah. There's some stuff we could be doin' tonight.
Bill: That's good.

After agreeing to the shutdown, both men can be heard laughing. The following day, while residents and consumers in Northern and Central California lost power in rolling blackouts, the Nevada plant kept 52-megawats of power, enough to supply over 36,000 homes, offline for maintenance.

The evidence provided by the SCPUD also demonstrates that Enron representatives openly engaged in price gouging. In one recorded exchange between an Enron trader and a buyer, after assuring the buyer that he was not one of his intended victims, the trader can be hear proudly proclaiming, "There's two people I will gouge and one is LA and the other one is Nevada."

On yet another tape provided by SCPUD to prove that Enron was fully aware of the impact of its actions, one Enron trader, speaking about the California energy crisis, callously comments, "Those guys are f***ed." Just how many accidents, injuries, deaths and other hardships Enron's criminal practices caused have yet to be tallied.

In addition to the recordings, the Washington agency also uncovered information about the existence of a scheme to illegally inflate energy prices in Alberta, Canada, whose supplies are often used on the California power grid, by colluding with other marketers. The scheme, known as Project Stanley, was listed on the calendar of Enron's CEO Jeffrey Skilling on at least two occasions.

While previous information on Enron's "gaming" (the term used to describe its market manipulations) largely

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concentrated on its actions at the height of the California energy crisis, the new documents reveal that the company had been slowly preparing its assault on the state's power supply for years.

In a performance review for company executive Tim Belden dated May 1998, under the subhead "Needs Work," the following is written: "California gaming—we always say that we need to increase this activity yet we never do. Need to work more closely with cash, scheduling, and real time to maximize opportunities."

The early gaming of the California market continued into 1999, with a scheme called "Silver Peak," which consisted of over-scheduling the power supply in the state. Enron traders took note of the fact that it was not noticed by California regulators.

As the SCPUD press release notes, "These pilot programs, tested before the western energy crisis, gave Enron traders a chance to refine skills prior to the dysfunctional energy market of 2000-2001."

Moreover, given the fact that the May 1998 Belden document refers to gaming practices already in existence, there is ample reason to believe that Enron's plans to manipulate the California market extend all the way back to 1996, when the company was lobbying hard for the deregulation of energy in the state.

Enron was joined by numerous power suppliers, including the Duke, Reliant and Williams energy companies in these maneuvers in California's market. As a leading player in West Coast energy markets and controlling 3,500 megawatts of electricity (enough for more than 2.6 million homes) in the state, Enron was in a unique position both to control the power supply and lead the way in manipulating the market.

The political and economic fallout from the California crisis has been vast, resulting in a further decline in the living standards of California's working class.

The multibillion-dollar shortfall in the state treasury, which was a direct consequence of skyrocketing of energy prices that went from $40 a megawatt to as much as $1,000 a megawatt in 2000-2001, paved the way for the institution of severe budget cuts. First initiated under the Democratic governorship of Gray Davis, they have since deepened under Republican Governor Arnold Schwarzenegger.

Schwarzenegger's assumption of office itself, through the manipulation of the electoral process by a right-wing cabal in a recall election, was in part made possible by the political damage done to the Davis administration as a result of the state's energy crisis. Schwarzenegger has since presided over and proposed the institution of some of the most severe fiscal austerity policies in the history of California, leading to massive cuts in public education, the state's university system, health care, and a vast array of social programs.

Enron has thus far been ordered by the FERC to return $1.7 billion in illegal profits made since 1998 to various customers, including California. However, according to one report, Enron reaped at least $1.6 billion in profits due to the California power shortages alone. This money and the further billions made by energy suppliers using similar illegal methods will never be returned.

The SCPUD tapes and documents are only the latest evidence in ongoing revelations about Enron's criminal business activities. The company is currently in Chapter 11 bankruptcy and both of its top officials, Jeffrey Skilling and Kenneth Lay, have been indicted for their role in the company's fraudulent financial practices. However, the two have yet to face any charges relating to Enron's practices in California.

The outright gangsterism and corruption that permeates Enron's business practices finds political expression in the Bush administration, many of whose current and former members had close connections to the company. Prior to his indictment, Enron's leading representative, Lay, was the Bush campaign's largest financial backer.

Vice President Dick Cheney met numerous times in closed-door sessions with Lay to discuss the administration's energy policy. On April 17, 2001, one of these meetings took place, the subject of which Cheney has acknowledged was the "California energy crisis." The following day, the vice president told the *Los Angeles Times* that the Bush administration opposed the institution of price caps in California.

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