The Public Fleecing by PGE/Enron

Oregon is #1 per capita in:

- Campaign contributions by Enron and its executives to state legislators since 1997 (mainly through PGE).
- Dollars lost on Enron stock by a state employee pension fund ($80 million).
- Dollars lost by employees in 401(k) pension plans (about $100 million). Enron executives urged employees to put all their 401(k) money into Enron stock while they were urgently selling theirs.
- Electric rate increases imposed by PGE (over $400 million per year). Oregon's Public Utility Commission allowed PGE to raise rates 41% overall, 53% for business customers, in October 2001.
- Money collected to pay federal taxes but never paid to the IRS.
- Money in the hands of multi-millionaires from cashing out Enron stock. PGE's former CEO, Ken Harrison, cashed out his options in 2000 for a cool $75 million! Former PGE treasurer, Joe Hirko, cashed his for a measly $35 million.

PGE's Tax Burden

- Since the 1997 Enron takeover, ratepayers have paid about $496 million to PGE to cover the alleged cost of its "federal income taxes." The IRS has received a total of $221,000, this occurring in 2002.
- Over the 4-year period of 1997-2000, not only did Enron pay no taxes, including what PGE ratepayers provided, it received "net federal tax rebates" totaling $379 million.
- Since 1997, ratepayers have paid to PGE about $76 million to cover the alleged cost of its "state income taxes." The Oregon Treasury has received $10 total in the seven years.
- During 2002, PGE had earnings of $66 million on revenue of $1.855 billion.
- In 2003, ratepayers are continuing to be charged $15.6 million for state income taxes and $77 million for federal income taxes. In all probability, PGE and Enron will pay no income taxes in 2003.

In October 2001, the Oregon Public Utility Commission (OPUC) allowed PGE/Enron to raise rates by 41% overall, 53% for businesses. This $400 million annual increase continues to harm consumers and our local economy. Businesses have closed and Clackamas County residents have lost their jobs as a result. PGE signed high-priced power contracts during the period of May 2000-2001 while Enron, its owner, was manipulating the West Coast energy market to inflate power prices with “Fat Boy”, “Death Star”, “Ricochet”, “Load Shift”, and “Get Shorty.”

In a three-part series on the power trading scandal in 2002, Oregon Public Broadcasting reported that Portland General Electric employees knew or suspected that some of their energy trading transactions were at least questionable and probably illegal yet they failed to report their concerns to regulators. “PGE’s own transcripts of telephone conversations, submitted to federal regulators, show that some of the utility’s employees raised concerns about questionable transactions, but they did not report those concerns to authorities,” OPB’s Jeff Brady reported.

During a June 24, 2002 interview, PGE Executive Vice President Fred Miller said, “I don’t expect traders to know that when they buy or sell from someone that they know the ultimate destination or how it’s used. And our research showed that they didn’t know that, or weren’t party to anything with a funny name attached to it.” Yet OPB’s Brady reported, “A day later, PGE filed with federal regulators transcripts of telephone conversations among PGE, Avista and Enron employees that contradict Miller’s statement.” Brady cited this example: “In April 2000, transcripts show Enron trader John Forney describing to a PGE transmission employee a plan to send power from California to Oregon and then back into California. That practice was part of what was known at Enron as ‘Forney’s Perpetual Loop’, which was used to take advantage of the California Market.” It was reported that a PGE employee told a colleague at another energy trading company “This is a scam and you know it.”

An Oregon Public Utility Commission staff report in April 2003 found that even though PGE rejected a similar trading strategy in 1999, *it did not scrutinize Enron’s fraudulent “Death Star” deals to the same extent*. The report concluded that PGE managers and traders knew the transactions were illegal. “Death Star” allowed PGE’s corporate parent to collect payments for relieving congestion on over-crowded transmission lines even though no power flowed and no congestion ever developed. Meanwhile, the Federal Energy Regulatory Commission has implicated PGE in “Ricochet” and a second scheme similar to “Death Star.”

Other Facts!

- Since 1997, Enron has received $684 million in profits from PGE.
- PGE spent $5 million of ratepayer's money to defeat the 1992 measure that would have closed the Trojan Nuclear plant at no cost to ratepayers. Within a week, PGE closed it permanently at ratepayer expense.
- PGE buys life insurance on its low-ranking employees. Known as "dead peasant" and "dead janitor" policies, PGE has accumulated about $80 million. This money funds long-term compensation plans for managers, directors and top officials and helps pay for supplemental executive retirement payments.
- PGE's value as a regulated electric utility is about $1.9 billion If its transmission and generation assets are sold out from under state rate regulation, PGE's value jumps to as much as $5.0 billion. This can be done by putting PGE into bankruptcy or folding it into Enron's. Selling the assets will raise PGE rates by about $300 million annually, a 30% rate increase.

As of May 2002, all but one investor-owned utility in California, Oregon, and Washington had filed complaints against Enron and the other energy trading firms. *The lone exception is PGE, as doing so would mean filing a complaint against itself*. Enron owns all 42,758,877 shares of PGE stock as of June 2003.

Seven Northwest utilities are seeking $500 million in refunds for excessive prices they paid for power. Tacoma Power is seeking $144 million and Eugene Water & Electric Board $39.7 million and it's believed that almost every West Coast utility will eventually file refund requests. It's expected that PGE's actions will be the focus of the utilities' evidence for a refund, said Portland energy consultant Robert McCullough. Yet PGE has not sought refund relief for its own ratepayers even though the Federal Energy Regulatory Commission (FERC) has ordered refunds, expected to be about $3 billion, for California ratepayers.

On January 14, 2002, an e-mail on daily power prices was sent by PGE analyst Scott Gardner to Enron managers and PGE Chief Executive Officer Peggy Fowler and two PGE vice presidents even though the affiliate agreement between PGE and Enron prohibits the sharing of pricing and trading information. "By providing that to Enron suggests a violation of affiliate rules," said Philip Movish of Denver consulting firm Energy & Resource Consulting Group. "It's giving another competitor who is an affiliate the competitive advantage. This is a document that should not be given to PGE managers."

PGE could face additional shareholder lawsuits and the possibility of antitrust and RICO (Racketeer-Influenced and Corrupt Organizations Act) action for helping Enron profit from the 2000-2001 energy crisis. "PGE has been implicated in a lot of bad behavior," energy consultant Robert McCullough said. "This is going all the way up the chain of command."

A telecom subsidiary of Portland General Electric, Portland General Distribution Co., came under fire by the Oregon Public Utility Commission in March 2002. The Commission cited several examples in which PGE neglected to supply information about loans to Enron-related companies that posed a risk to its earnings even though state law requires regulated utilities to report expenses involving affiliated interests within 90 days. In 2002, PGE sent a $27 million dividend to Enron for corporate-owned life insurance, which the commission found out about after the fact.

In the biggest drain of retirement plan dollars in Oregon history, Oregon PERS lost over $80 million.

In June 1997, Enron took over PGE and two years later merged the PGE employee 401(k) with its plan, allowing employees to contribute up to 15 percent of their income and matching it with Enron stock. PGE employees were prohibited from selling until they reached age 50. Less than half of 1 percent of 401 (k) plans tell their employees when they can sell their stock, according to the Employee Benefit Research Institute and the Investment Company Institute. PGE employees were later enticed to invest 100 percent of their 401(k) contributions in Enron stock. The result was that almost 60% of all Enron employee 401(k) accounts consisted of Enron stock.

In late October 2001, as Enron's stock was crashing, PGE employees were forbidden from selling their stock. During this same time, Enron executives were cashing out. On the last working day alone before filing for Chapter 11, executives gave themselves $55 million. Approximately 3,000 PGE employees lost about $100 million in their 401k plans. Many retirement accounts were completely wiped out. Workers lost their life savings and in the process had their dreams shattered and have been forced to delay retirements and other life decisions.

The U.S. Justice Department has launched a criminal investigation into Enron, looking into fraud by company executives. A Seattle-based law firm filed a class action lawsuit in January 2002 charging Andersen LLP and Enron Corp. employees and officers with violating the Racketeering Influenced and Corrupt Organizations Act (RICO). The suit claims the two companies conspired to hide Enron's true financial condition, causing Enron employees to lose more than $1.3 billion from their retirement funds.

The U.S. Labor Department filed a suit against Enron and 20 company officers, including former PGE top executive Ken Harrison, in June 2003. He and others are accused of violating the Employee Retirement Income Security Act (ERISA) for failure to consider the prudence of Enron stock as an appropriate investment for two retirement plans. The suit also states they did nothing to protect the workers and retirees from extensive losses.

In 2002, PGE/Enron paid almost $1 million in retention bonuses to the company's top five executives. PGE's CEO Peggy Fowler was paid a salary of $346,000, a performance-based bonus of $200,000 and a retention bonus of $400,000, for a total of $946,000 for 2002. In comparison, the head of the Los Angeles PUD makes $200,000 annually. The Oregonian wrote in a May 1, 2003 editorial (Adding insult to injury at PGE) criticizing PGE executive bonuses, *"But it's the wrong tactic for a company whose workers lost their 401(k) savings in worthless Enron stock. And it's an insult to customers hit with 30 percent and 50 percent power rate increases."*

PGE/Enron contributed $16.4 million to candidates for the Oregon Legislature in 2000, a substantial increase from 1996's $3.4 million. On a per capita basis, Oregon politicians got more money from Enron than campaigns in any other state.

Since the Enron takeover of PGE in 1997, PGE ratepayers have given PGE over $572 million to cover the alleged cost of its "federal income taxes" and its "state income taxes." This amount grows by almost $8 million monthly. During the seven years, a total of $221,000 (2002) has been paid in federal income and a total of $10 (2002) has been paid in state income taxes. In fact, PGE is charging Oregon ratepayers $15.6 million for "state income taxes" and $77 million for "federal income taxes" for 2003 although in all probability zero taxes will be paid. In addition, PGE ratepayers may have to pay part of a $111 million tax bill as a result of Enron's bankruptcy.

Enron has received an additional $684 million in profits from PGE since the 1997 purchase.

Substantial evidence exists that PGE/Enron engaged in a pattern of fraud and deceit when it provided "proof" in rate proceedings that it would incur such tax liabilities. In fact, they had already put in place numerous schemes for the avoidance and evasion of income tax liabilities, as most recently documented to the United States Bankruptcy Court for the Southern District of New York.
On June 18, 2003, the Federal Energy Regulatory Commission banned bankrupt Enron Corp. from selling electricity or natural gas. *FERC determined that the company was involved in "epidemic" price manipulation during the energy crisis of 2000-01.*

California, Washington and Montana, along with the Port of Seattle, are suing PGE itself on fraud-related matters. Others are sure to follow. Ratepayers could be on the hook to pay damages awarded through even higher rates unless PGE's assets are taken through eminent domain. According to The Oregonian editorial "Improving the lie about PGE's liabilities," additional liabilities include union grievances involving pensions, class-action lawsuits over Trojan, and four separate Federal Energy Regulatory Commission proceedings.

In the Montana lawsuit filed against PGE on July 1, 2003, the Complaint alleges unfair and deceptive trade practices in violation of the Montana Unfair Trade and Practices and Consumer Protection Act, deception, fraud and intentional infliction of harm arising from various actions alleged to have been undertaken in the western wholesale electricity and natural gas markets during 2000 and 2001. Attorney General Mike McGrath said, "In this state, businesses closed, jobs were lost and consumers were bilked out of millions. So true! And it happened and continues to occur here in Clackamas County.

The Oregonian reported on September 25, 2003 that the Oregon Public Utility Commission "voted unanimously Wednesday to endorse Portland General Electric's tentative settlement of charges that the Portland utility engaged in fraudulent electricity trades with its parent company, Enron."

Of the \$8.5 million PGE has "offered" to pay, only \$1.3 million might go to business and residential customers although Industrial Customers of Northwest Utilities, a customer group, and Blue Heron Paper, an Oregon City paper mill, will receive \$250,000 each. To whom the remaining money will go has not been decided.

Even if the \$1.3 million were divided equally between PGE's almost 750,000 customers, it would amount to a total of \$1.73 for each ratepayer. In all likelihood, the refund will be paid over several months or years.

In October 2001, the OPUC allowed PGE to raise its rates by 41% overall, 53% for businesses. In the two years since, PGE has collected about \$800 million from ratepayers due to the rate increase. It is now well known that the increase was due in most part from manipulation of the energy market. PGE's owner Enron played the leading role in this fraud. When prices were near and at their highest, PGE signed long-term contracts for energy with its parent and others. PGE ratepayers will continue to pay the cost of these contracts for years to come, perhaps a few billion dollars.

Clackamas County deserves a public-powered utility that's locally controlled and can be trusted to provide reliable energy at the lowest possible cost. Please join our efforts by volunteering or making a donation.