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Power Grab

Another group of Texas cowboys wants to buy our electric company.

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It would have been the most audacious move in Portland's recent history.

Scrapping the Mount Hood Freeway in 1974 in favor of light rail? Ripping out Harbor Drive along the Willamette that same year and replacing it with Tom McCall Park? Gambling \$100 million on OHSU's dream for the riverfront?

Those were gutsy moves, but none would have approached the scope, complexity or cost of the city's quest to acquire the state's largest utility, Portland General Electric. It would have been "bigger than any of those projects," says Mayor Vera Katz.

And it seemed headed that way until early this week, when the idea of public ownership slammed head-first into the announcement that PGE, owned by the bankrupt Texas company Enron, would be sold to another Texas company for \$2.35 billion. The announcement was made Tuesday morning at a press conference by Neil Goldschmidt, the former mayor and governor. Goldschmidt will be the chairman of a new company called Oregon Electric Utility Company, and the money for Oregon Electric to buy the utility comes from Texas Pacific Group, a high-flying buyout company whose chairman hired the Rolling Stones to perform for his 60th birthday last year.

It's increasingly clear that the city's threat to condemn PGE drove the utility right into the hands of Texas Pacific. Mayor Vera Katz and City Commissioners Erik Sten and Randy Leonard were prepared to begin the process of seizing PGE's assets as soon as January. Yet until Tuesday morning they were completely in the dark about Goldschmidt's move.

"I had no idea," said Sten.

At the press conference, Goldschmidt said he had been working on the deal for "a very short period of time." Joining Goldschmidt on the executive team is his good friend Tom Walsh, formerly the head of TriMet, and Gerald Grinstein, a Washington venture capitalist.

The completely unexpected developments of this week have much of the city stunned, from old-boy Republicans to society Democrats to environmentalists like SOLV and the bleeding hearts at Oregon Ecumenical Ministries--in part because all of these constituencies have a stake in who owns PGE. And while there are more questions than answers at this point, what's clear is that a tectonic shift occurred in the political and corporate fault lines of the city this week.

The battle for PGE is important, and not only because it will directly affect your wallet. So grit your teeth, grab something to drink and spend the next few minutes sorting through questions that could define Portland for years to come.

I don't get it. One Texas company is buying PGE from another?

That's right. The new guys are called the Texas Pacific Group, a bunch of financial wizards from San Antonio who have less experience with energy and utilities than did Enron. Texas Pacific has \$13 billion of other people's money to invest and has made a fortune by purchasing depressed companies, fixing them up and selling them. Texas Pacific bought Continental Airlines in 1992 when it was bankrupt and turned it into a huge success. The company that wants to keep your lights on also owns a large hunk of Burger King, Ducati motorcycles, Del Monte Foods and J.Crew, among others.

Who is the big cheese?

A ruffled former civil-rights lawyer named David Bonderman, who was at the press conference. Bonderman, who is characterized in the media as a billionaire, knows how to spend money as well as make it. He reportedly let loose with \$7 million to finance his 60th birthday party in Las Vegas last year, at which he hired the Stones, John Mellencamp and comedian Robin Williams to perform. He is also an investor in the Boston Celtics basketball team.

Who are the local guys?

Two of the three Oregon Electric partners are well-known to Portlanders. Goldschmidt and Walsh were Portland political whiz kids in the '60s and '70s, bright young stars with a progressive streak and a knack for big ideas. Goldschmidt, a former mayor, governor and U.S. transportation czar, remains Oregon's most influential private citizen. When Bechtel was looking for cheap real estate and Gov. Ted Kulongoski needed someone to shake up the state board of higher ed, they both whistled for the man known as Big Dog. His wife, Diana, is a former PacifiCorp exec who in 1998 served as the interim superintendent of Portland Public Schools.

Walsh is the former head of TriMet, who gave up his stake in a local family-run construction company to make the trains run. After stepping down from the regional transit post in 1998, he went back into the developing biz, with a Pearl District office across the hall from his wife, Patricia McCaig, a political consultant whose clients have included--you guessed it--Neil Goldschmidt.

Gerald Grinstein is the lone out-of-towner, a Seattle investor and former CEO of Burlington Northern railroad. He's perhaps best known for his role last year as chair of the University of Washington Board of Regents in which he helped oust university president Richard McCormick after learning he'd had an affair with an underling.

How did Texas Pacific get interested in PGE?

Not clear. We do know that Bonderman, who says he'd been eyeing PGE for a year, is a friend of Grinstein's, who is a longtime friend of Goldschmidt's. We also know that Diana Goldschmidt sits on the Oregon Investment Council, the agency that invests billions of dollars of Oregon pension money. And we know that the OIC has invested with Texas Pacific Group for years.

Whoa, you're going too fast!

Take me back in time. How did we get here in the first place?

Remember Enron? The company that made a ton of money trading natural gas in the early '90s? The Houston company thought the next big killing would be in trading electricity, because that market was going to be deregulated--just as natural gas had been earlier. Like the Beverly Hillbillies, Enron decided that California--the largest market and most friendly to deregulation--was the place to be. So they loaded up a company jet and went looking for a utility that could sell power to Californians. They found Portland General Electric, which offered access to cheap Northwest power and a massive transmission system into California. In 1997, Enron bought PGE, paying just over \$3 billion.

So Enron paid \$600 million more for PGE six years ago than Texas Pacific is paying today?

That's right. Bonderman says he likes to "buy good companies that have been through rough patches." And, thanks to Enron, PGE has been through one long rough patch.

It didn't start out that way.

Enron's reputation used to be different. A lot of people once regarded the company as the Intel of the energy business--Fortune magazine named Enron "Most Innovative Company in America" six years in a row.

Enron management also spent money like drunken rock stars. To woo PGE shareholders, Enron offered about 50 percent more than the company's stock was worth at the time--a premium of about \$1 billion. Who could turn that down? Initially, some spoilsports questioned whether there was any benefit in letting an upstart pipeline company acquire a 107-year-old utility, but Enron made friends in Oregon the '90s way--it bought them.

To satisfy critics, Enron agreed to cut PGE's rates, established the \$25 million PGE Enron Foundation and dropped nearly \$10 million on a coalition of 13 environmental groups. That was enough to convince most people. "The merger should be a sound economic-development opportunity for Oregon and the Northwest," opined the Oregonian editorial page. Still, not everybody was convinced. Dan Meek, a pasty-faced walking encyclopedia of utility law, testified in front of the Oregon Public Utility Commission that Enron was "a shell game" that could not be regulated. The guy looks like a prophet now.

So the Enron deal was bad from the beginning?

Not entirely. PGE did cut rates at first, and shareholders (including then-CEO Ken Harrison, who ultimately walked away with \$75 million) scored big-time as Enron's stock soared. But like a kid with too many toys, Enron soon focused its attention elsewhere, for a couple of reasons. First, deregulation at the retail level (i.e., customers choosing their electricity provider the same way they choose their long-distance provider) never really happened. Second, Enron soon discovered it could trade as much electricity in California as it wanted without having billions of dollars tied up in a utility. So in 1999, Enron slapped a "for sale" sign on PGE. "They lost interest in us after a year and a half," says PGE executive vice president Fred Miller, one of the city's most influential businessmen. But Enron overpaid for PGE in the first place, and it couldn't find a buyer willing to repeat its mistake (although Nevada's Sierra Pacific and NW Natural both made bids before backing out). Then the power crisis of 2000-2001 hit, removing almost any chance of a sale. Enron was stuck--until this week.

So I guess the boys from Houston lost their shirts?

Not completely. Enron found a way to recapture most of the billion dollars it left on the table.

Here's how: Utilities are allowed to bill you for the cost of electricity plus a profit, plus enough money to pay taxes on that profit. When PGE became part of Enron, PGE passed the money collected for taxes along to Enron--about \$600 million of Oregonians' money since 1997. But Enron never paid the taxes, instead keeping it for themselves! (The IRS is currently suing Enron for unpaid taxes.)

Not only did PGE help Enron pocket your taxes, it also jacked your rates up sky-high. Before Enron, according to Bob Jenks of the Citizens' Utility Board, PGE's rates were some of the lowest in the Northwest. Today, they're the highest in the state, on average, and the highest of any major utility in the region. That's because under Enron's ownership, PGE wasn't interested in building new power plants as our population and economy grew. Instead, it purchased power on the open market--and got fried in the 2000-2001 power crisis. That meant ratepayers also got fried. "Buying short-term makes PGE vulnerable," Jenks says. "And there's no question it led to higher rates."

(The State of Oregon is also seeking \$367 million from Enron for damages from Enron's alleged manipulations of the electricity market and \$81 million that the Public Employees Retirement Fund lost on Enron stock.)



Public power is cheaper. Here is a comparison between rates at publicly owned and investor-owned utilities for 2001, the last year for which data is available.

SOURCE: FEDERAL ENERGY INFORMATION ADMINISTRATION, DEPARTMENT OF ENERGY

So they scammed me on taxes and jammed me on rates. But didn't Enron get theirs in the end?

That's right. In December 2001, Enron declared what was then the biggest bankruptcy in U.S. history (later surpassed by WorldCom). It has since become clear that Meek's description of the company as a "shell game" was 100 percent accurate. Enron inflated its stock with phony earnings and mind-boggling lies about its businesses--including Enron Broadband, a billion-dollar disaster that started as a subsidiary of PGE.

Up until this week, I thought the city was going to condemn the utility. Or was that just an ego trip for Erik Sten?

No. If it were about ego, Sten would have bailed long ago, because chasing PGE helped kill his mayoral chances for next year. "Both PGE and PacifiCorp have made a concerted effort to scapegoat me," Sten says. "If I were trying to raise money to run for mayor, it would be very, very difficult with them standing in the way."

Sten's pursuit of PGE made sense because Enron's bankruptcy left PGE in limbo, a ghost ship sailing across Oregon with no destination in sight and nobody manning the tiller.

Public power might seem radical in Portland, because we're used to PGE and PacifiCorp. But nationwide, according to federal government statistics, there are 2,008 publicly owned utilities and only 232 investor-owned utilities. Public power is about as common as drive-through espresso stands.

And if city ownership is a half-baked concept, don't tell people in Seattle, Los Angeles, Sacramento, Orlando and San Antonio, because they buy their electricity from their city governments.

But here's the important point--public power is cheaper. In 2001, the last year for which the feds have provided data, investor-owned utility rates were 20 percent higher than those charged by public utilities. The average gap in Oregon was 25 percent.

Still, Sten's efforts amounted to the political equivalent of tugging on Superman's cape, because the utility has Portland wired--literally and figuratively. When Portland Family Entertainment needed more dough to operate Civic Stadium, for instance, PGE agreed to pony up \$750,000 a year to put its name on the city-owned ballpark. When SOLV cleans up the Oregon coast, PGE's name is on the trash bags. Then there's the PGE foundation, which doles out cash to such pet causes of the well-connected as the Portland Art Museum, Oregon Ballet Theatre and the Oregon Symphony. And if you can find a civic board of any significance that doesn't include Fred Miller or his nominee, you're a hell of a detective.

Interestingly, PGE's Miller gave Sten the idea of acquiring the utility in the first place. "Back in '99, when Enron put PGE on the block, Fred [Miller] came to me and asked whether the city would buy it and contract the operations back to them," Sten recalls. (Miller confirms the meeting but says he and another PGE executive simply mentioned the idea as one of many possibilities in a routine conversation.)

What about Leonard and Katz?

Katz has been clear from the beginning about why she supports city acquisition. "The answer is Enron," she said last week. "Enron is a corrupt corporation that happens to own PGE."

As for Leonard, he was initially skeptical about the city's desire to buy PGE. When Miller and PGE CEO Peggy Fowler stopped by to lobby him this past summer, they clearly expected him to be on PGE's side. But Sten had convinced the newest commissioner that the city's case was a good one, and the PGE execs walked into a buzz saw. "They said, 'Things are going to get ugly, and we're going to hit the city hard,'" Leonard recalls. "I took that as a threat and said, 'You need to know we'll respond in kind.'"

Leonard says there were lots of supporters of the city's effort to buy PGE but many are too intimidated to speak up. "People are afraid to say anything publicly about PGE," Leonard says, "just like the Iraqis won't say anything about Saddam because he isn't dead."

So how do Leonard, Katz and Sten feel about the announcement by Goldschmidt and Texas Pacific?

Here's one clue: None of them was at the press conference. Sten says a lot of questions remain.

Not to be unfair, but what will protect me from this group of Texans abusing me like the last one?

Hey, some of my best friends are Texans. But you ask a good question, and the answer is the Oregon Public Utility Commission, or the PUC for short. The PUC is the state agency that regulates investor-owned utilities like PGE and PacifiCorp.

But the PUC's record isn't exactly comforting. Just last month, Meek and Linda Williams, his partner at the Utility Reform Project, won a court decision that said that since 1995 the PUC had let PGE overcharge ratepayers more than \$200 million for costs relating to the mothballed Trojan nuclear plant.

And it was Meek who brought PGE and Enron's tax game to the PUC's attention--not that the commission cared. Last month, the PUC ruled that it was OK for PGE to keep sending our taxes to Texas and added that it would not order refunds or other protections, "even if the rates were based on fraudulent representations."

So what's the next step?

There's a possibility that other buyers, including the city of Portland, might step forward and try to outbid Texas Pacific. (Not to get too confusing, but the \$2.35 billion Texas Pacific is offering is virtually the same amount of money the city offered Enron last summer, only to be turned down.) Even if no one else comes forward, the bankruptcy court, the PUC and the feds have to approve the deal.

What's the upside of this deal?

That Oregon's biggest utility gets out from under Enron's death spiral, makes appropriate investments in this region's energy future and brings some stability to rates.

What's the downside?

Texas Pacific is what is called in the finance industry a "bottom feeder," a firm that buys companies nobody else wants and tries to turn them around and sell them for a profit. According to an August 2002 story in The New York Times, Texas Pacific aims to make 20 percent to 40 percent on its money. It's difficult to see how that can be done with a utility whose profit is capped by the state PUC at 10.5 percent.

Bonderman says he won't sell any of PGE's assets to juice up returns. Rather, he says that PGE has performed poorly--"underearning," in industry parlance--and he also expects the utility industry to rebound.

What's that mean for me?

It's just a guess, but don't expect your electricity rates to go down anytime soon. And if you are a PGE employee, keep your résumé handy.