Brazen Trade Marks New Path of Enron Probe --- Alleged Fraud Is Tied To Windfall Profits In 3 Western States
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Beowawe, Nev. -- AT A SMALL POWER plant built atop a subterranean cauldron of steam in the desert here, night-shift operator David Gates was an unwitting participant in the Enron Corp. scandal.

Most of the geothermal **energy** the plant makes flows over the mountains to power-hungry California. But in the midst of that state's electricity crisis two years go, the California utility that bought the power sometimes had to ask Mr. Gates to cut back, even as shortages caused blackouts and sent the price of power soaring

"It didn't make sense," Mr. Gates said. "They needed power, but ordered curtailments."

No, it didn't make sense -- except to an Enron trader named Timothy Belden, who pleaded guilty last week to a conspiracy to commit wire fraud by manipulating California power prices during the crisis. He told investigators that Enron made false trades to drive up prices and deliberately create congestion on the state power grid, sometimes forcing generators -- like the little plant in Nevada -- to divert power to other markets.

Mr. Belden's plea signals a new direction in the Enron investigation, which has so far focused on the failed **energy** firm's alleged use of phony bookkeeping to hide debt and inflate reported profit. Prosecutors are building the new case against Enron in secret grand-jury proceedings in San Francisco, investigating alleged fraud by Enron and other power traders that let them reap windfall profits while costing customers in California, Washington and Oregon billions of dollars in higher rates. Mr. Belden's testimony is expected to lead to criminal charges against other former executives at Enron, and some of its trading partners.

Investigators believe the little Nevada power plant may have been drawn into this drama in one of Mr. Belden's first-known trading schemes. Shortly after California's wholesale electricity market was deregulated, former Enron employees say, the 35-year-old trader began testing the limits of the state's transmission grid.

Early on, say former Enron employees, Mr. Belden, a vice president and its chief Western power trader, saw California's transmission bottlenecks as a weakness that could be exploited. Mr. Belden learned that by scheduling power deliveries over congested transmission lines, he could drive up the price. At the same time, he would have power to sell at the higher price on the other side of the bottleneck, reaping payments from the state authority by relieving the apparent congestion that he himself had created.

The Beowawe geothermal facility became an unwitting cog in Mr. Belden's scheme. At the plant, mile-deep wells draw superheated water into a huge turbine, which generates about 15 megawatts of electricity an hour, enough to run a small town. The power courses across Nevada to a terminal in the desert ghost town of Silverpeak, where Southern California Edison Co. lines carry it over the Last Chance mountain range into California.

At 6:10 a.m. on May 24, 1999, working from a computer on Enron's vast electricity-trading floor in Portland, Ore., Mr. Belden entered four bids to sell power to the California power exchange, according to records obtained by state and federal investigators. He proposed to sell a total of 2,900 megawatts for next-day delivery, at $18 to $29 a megawatt-hour. That's a river of power large enough to light up a midsize city. The power exchange soon approved Mr. Belden's offer.

At 7:29 a.m., Mr. Belden told the state power grid that he would use the Silverpeak line. Investigators believe he knew it was only big enough to handle the Nevada geothermal plant's output. Sending 2,900 megawatts across the line would cause transformers to explode, or even melt the power lines, so Mr. Belden's schedule obviously made no sense. It wasn't long before a confused duty officer at the California grid operator, identified only as "Karen" in a transcript obtained by investigators, phoned for an explanation.

The call was immediately put through to Mr. Belden.

Mr. Belden: "Um, there's a -- there -- we just -- we did it because we wanted to," he said. "And I don't mean to be coy."

Karen: "'Cause, I mean, it's -- it's a -- I mean . . . it's a pretty interesting schedule."

Mr. Belden: "It -- it's how we -- it makes the eyes pop, doesn't it?"

Karen: "Um, yeah. I'll probably have to turn it in [to power-grid regulators] because it's so odd."

"Right," Mr. Belden answers.

In the automated system that manages the state's electricity-transmission lines, run by the California Independent System Operator, the false bids caused congestion, which Mr. Belden could then be in a position to relieve by scheduling a complex series of counterbids. It also drove up the price of electricity by more than 70% that afternoon across the state, a potential windfall for Enron and other power producers and traders.

The brazen trade was indeed reported to the compliance unit of the state's power exchange -- and the result was a slap on the wrist, even though state authorities determined that California electricity customers were overcharged by $4.6 million to $7 million that day as a result of Mr. Belden's scheme.

It fined Enron only $25,000 for the incident, more than a year after it occurred, and accepted a promise from a senior executive that it wouldn't repeat the tactic -- a promise that had already been broken, according to Enron memos and records obtained by investigators. The San Francisco grand jury has already sought subpoenaed records of the Silverpeak trade.

"Tim Belden wanted to see what would happen if the state system operator went into an emergency" through the use of false power scheduling, said **Robert McCullough**, an economist for several of the Western utilities and power users that say they were victimized by Enron. "What happened was the price of power went through the roof. Silverpeak was a `proof of concept' showing that a single fraudulent trade could destabilize the entire market."

Mr. **McCullough**, in testimony submitted to the California Senate, estimated that Enron cleared as much as $10 million from the Silverpeak effort. Mr. Belden has declined to comment on the incident; his attorney on Friday also declined to comment, except to say her client was now cooperating with federal investigators.

As Mr. Belden honed his skills and his team of traders focused on new ways to game the system in the months after the Silverpeak test in 1999, Enron trading revenues soared. Federal investigators say that revenue for his Western states' power-trading operation rose from $50 million that year to $800 million by 2001.

Mr. Belden's team was responsible for Enron's previously disclosed "Death Star" and "Get Shorty" trading strategies, which were designed either to create congestion or exploit other loopholes in California market rules. Some of these strategies were simply legitimate arbitrage, or aggressive trading; but after Mr. Belden's guilty plea last week, it's clear that some were also illegal.

Mr. Belden and other former traders are now cooperating with federal authorities and are expected to identify former senior Enron executives as either being involved in the alleged schemes or seeking to conceal them, as well as to describe the role of other **energy** companies that did business with Enron during the crisis.

Investigators are closely examining the roles of at least three senior Enron executives, including John Lavorato, Mr. Belden's supervisor; former trading chief Greg Whalley, who was also Enron's president and chief operating officer before the firm sought bankruptcy protection in late 2001; and Enron's former chief executive, Jeffrey Skilling, who denied in congressional testimony that Enron had manipulated California's **energy** market.

Mr. Lavorato's lawyer, B. Michael Rauh, said his client didn't know the Portland office was using illegal tactics, and he said that Mr. Lavorato isn't a target of the probe. Lawyers for Messrs. Skilling and Whalley have both said their clients weren't involved in the alleged trading abuses; Mr. Whalley's lawyer, Zachary Carter, says his client is cooperating with investigators.

Mr. Belden, who earned a master's degree in public policy from the University of California at Berkeley, landed a job in Enron's Western trading office in 1998, just as California was opening its newly deregulated **energy** market. Despite his limited trading experience, the young trader was steeped in **energy** economics and the changing markets, having spent five years as a researcher at Lawrence Berkeley National Laboratory, in Berkeley.

He had co-authored papers on **energy** markets with a top researcher there, Dr. Steven Stoft, who says he stayed in touch with Mr. Belden over the years. He describes his former assistant as smart and talented, with a streak of idealism that led him in his Berkeley days to invest -- and lose -- money in environmentally-friendly wind-power projects. "Not your cookie-cutter Enron type," Dr. Stoft says.

Even as he prospered with Enron, Mr. Belden defied the stereotype of the flashy, hard-charging trader, according to those who worked with him. He typically rode his bicycle to work, striding through the office helmet in hand. His car was a beat-up Honda Accord. He was the only executive in the Portland office who dressed in costume on Halloween, and when stress levels rose on the trading floor, he'd break the tension by tossing around a nerf football. Still, he soon came to fit into the Enron culture: smart and driven, and working 14-hour days, poring over tariffs, combing through market rules and concocting trading strategies.

Mr. Belden's run-in with the state power authorities resulting from the Silverpeak experiment didn't hurt his career. Despite his failure to explain the disputed trade to authorities, his Western trading desk was producing an increasing share of Enron's profits, and he was the most powerful executive in the Portland office. "Everything revolved around him," says a former Portland employee. "When Tim spoke, people listened and heads rolled."

His small group of traders were at the top of the hierarchy in the office, dining and drinking together, and once a year, jetting to Cabo San Lucas or other Mexican resorts for company-paid retreats. On the trading floor, there were no individual offices: Bosses sat among workers in a sea of desks, a roiling atmosphere of ringing phones, constant movement and nonstop din of conversation.

Mr. Belden was richly rewarded for his work, and Enron management gave him a total of $5.1 million in bonus payments in 2001, company records show. Part of the payment was made even after his trading schemes were identified by Enron lawyers, who said they ordered them stopped. In his plea agreement, Mr. Belden agreed to forfeit at least $2.1 million that was traceable to the fraudulent trading he admitted.

During the Silverpeak incident, operators of the geothermal plant in Nevada, which is owned by Caithness **Energy** LLP, New York, were never aware the lines they used had been effectively hijacked by Mr. Belden. The prices they were paid fluctuated wildly during the California crisis, and they worked to keep the plant humming to supply power, even if congestion on the grid meant that the plant sometimes had to sell its power in Nevada instead, where prices were usually lower.

Says Mr. Gates, the night-shift operator: "I'm glad I don't live in California."

Southern California Edison, whose lines carry power from Silverpeak, wasn't involved the incident, and a spokesman for the Edison International unit had no comment yesterday. Mark Palmer, Enron's spokesman, declined to comment on the Belden case, saying, "We have and will continue to cooperate with all investigations into the company's past." Gregg Fishman, a spokesman for the California Independent System Operator, said that the state's power grid "has been served subpoenas by the FBI, the U.S. attorney and state officials, and we're cooperating with all of these investigations."

As for the Silverpeak incident, Mr. Fishman added, "It wasn't clear what their motivation was at the time -- but it was clear that you can't send 2,900 megawatts on a 15-megawatt line, and we reported them." The state's power exchange, which levied the $25,000 fine, has since been disbanded. But in an April 29, 2000, report, it found that "Enron knew or should have known" that the line couldn't handle the power, and in a settlement, Enron promised not to engage in "substantially the same conduct."

It was signed by the then-president of Enron North America, Mr. Whalley.

--- Power Grab

Tracing Timothy Belden's Silverpeak scheme

1. Enron offers to sell 2,900 megawatts into California power exchange on May 24, 1999, for next-day delivery.

2. Silverpeak, Nevada transmission line is scheduled as the point of entry, a line meant to handle only the 15 megawatt output of the Beowawe geothermal plant.

3. The false trades cause congestion, and the California power grid is thrown out of balance. Enron gets a payment from the state for relieving that congestion, investigators find.

4. Prices soar by more than 70% that afternoon, a windfall for power traders.