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A Big Victory By California In Energy Case
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In the first major settlement to come out of the California **energy** deregulation debacle, the Williams Companies agreed yesterday to pay more than $400 million to settle accusations that it helped drive up prices and overcharged customers during the state's electric power crisis.

Williams, one of the nation's biggest suppliers of electricity and natural gas, said it would settle a broad set of civil claims with three West Coast states -- California, Oregon and Washington -- and also resolve class-action lawsuits. As part of the settlement, California said it would not seek customer refunds.

Williams also agreed to restructure a 10-year, $4.3 billion power contract it signed with California at the height of the **energy** crisis last year, when power prices were soaring.

The settlement is considered an important victory for California state officials, who have insisted that some of the biggest **energy** companies manipulated prices and the state's complex power system in 2000 and 2001, creating widespread shortages and causing electricity prices to soar.

State officials say that by renegotiating the power contract with Williams, they could save more than $1 billion. Williams is also expected to make huge cash payments to the states, to help California reduce its **energy** consumption and to provide equipment for new power plants to serve the West.

"This is an important victory for ratepayers," said Gov. Gray Davis of California, who has called some of the big **energy** companies pirates for their actions during the **energy** crisis. "The new contract provides us with reliable power delivered at more favorable terms."

Williams officials had once called California's accusations that the company withheld power or helped contribute to the power shortages "erroneous" and "patently false."

But yesterday, officials at Williams said they were tired of fighting in California.

"At some point it's best to simply cease striving and make peace," said Kelly Swan, a spokesman for Williams, which is based in Tulsa, Okla. "We've always tried to act in good faith in California. But we need to get some legal issues behind us."

The announcement comes at a time when federal and state officials are stepping up their investigations into whether some of the biggest power marketers conspired to manipulate West Coast power and natural gas prices in 2000 and 2001.

Last week, Duke **Energy**, Reliant Resources and Williams said they had received subpoenas from federal officials seeking information about their involvement in the California electricity market, which depends largely on natural gas generating plants in the state, along with nuclear **energy** installations and hydroelectric dams in California and elsewhere in the West.

Yesterday, two other companies -- Mirant and AES -- said they had also received federal subpoenas regarding **energy** they supplied to California.

The announcements come less than a month after Timothy N. Belden, a senior power trader at Enron, agreed to plead guilty to federal charges that he participated in a conspiracy to manipulate the California power market during the **energy** crisis. He also agreed to cooperate in the investigation.

Profits at most major **energy** trading companies -- those that deal primarily in power and natural gas -- have collapsed in the aftermath of the bankruptcy of Enron, once the nation's biggest **energy** trader.

Several suppliers have decided to get out of the **energy** trading business entirely. Others, like Williams and Dynegy, once **energy** trading behemoths, are now trying to stave off bankruptcy and return to concentrating on their traditional roles as **energy** suppliers and pipeline distributors.

Robert McCullough, who runs an **energy** consulting firm in Portland, Ore., that has been investigating the California

energy crisis for major **energy** users, said that, all in all, Williams appeared to be getting off relatively lightly.

"The value seems low to me," he said. "Williams had one of the biggest footprints in California. They appear all over the place with possible antitrust issues. So I'm not surprised they'd want to settle."

Williams shares, which had fallen in trading during the day, rose 12 percent in after-hours trading, after the settlement was disclosed, to $2.60.

Williams is one of the most troubled **energy** traders. Not long ago, it represented a highflying array of **energy** providers branching out also into telecommunications.

Now, the company is struggling to survive after drastically cutting its work force and scaling back its ambitions. Williams is trying to decide whether to sell its trading unit or find a partner. Resolving this case, the company says, could help market the trading operation because, even at the lower renegotiated prices, a long-term deal worth billions of dollars remains in place.

"We still have eight years on that contract," Mr. Swan said. "This makes our trading portfolio more valuable if we are to find a joint venture partner."

As part of the settlement, Governor Davis negotiated up to $1.1 billion in price reductions in the state's $4.3 billion power contract, which was signed in February 2001. The state's attorney general negotiated an additional $180 million in price cuts.

State officials said Williams had also agreed to pay $147 million in cash, with most of the money going to California municipalities and state programs to reduce **energy** consumption. The states of Oregon and Washington will receive $15 million in cash each over three years. And Williams will provide six power turbines worth about $90 million to California so that the state can build power plants in San Diego and San Francisco.

State officials said that they were continuing to investigate Williams and that Williams was cooperating with their investigation and making documents available.

State officials say the settlement does not close off the possibility of bringing criminal charges against Williams in the future and that the state is monitoring federal investigations.

The settlement, while resolving state claims, also does not preclude investor-owned utilities like Pacific Gas and Electric from seeking their own refunds or settlements.

Bill Lockyer, the attorney general of California, called the settlement a big victory for the state.

"This is sweet justice," he said. "The idea that the **energy** gougers would have to pay to reduce the demand for **energy** is great."

State officials had accused Williams, among other things, of promising as early as 2000 to sell the state electricity and then contending that the power was not available in order to resell it for a higher price on the open market, where state agencies were forced to purchase it at a premium.

"They were double-selling electrons," Mr. Lockyer said in a telephone interview. "They withheld power, and then they resold it at a higher price."

The Federal **Energy** Regulatory Commission and other federal agencies are still looking into a variety of issues related to the California **energy** prices, like whether **energy** traders created sham transactions, whether they bottled up supplies to drive up prices, and whether they sent falsified pricing data to companies that publish gas and power prices.

Mr. Lockyer also said he was not finished.

"We've got three more in our sights," he said, "Duke, Mirant and Reliant. They help make up the four horsemen of the apocalypse."

Photo: Gov. Gray Davis of California said the agreement provides "reliable power" at improved prices. (Associated Press)(pg. C6)

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