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**Settlement Reveals Another Enron Strategy The tactic, dubbed 'Thin Man,' comes out in a proposal between El Paso Electric and federal regulators.**

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Remember "Fat Boy" of Enron Corp. fame? Now, meet "Thin Man."

Fat Boy was one of the many trading schemes that Enron used in California to increase profits and perhaps illegally manipulate the state's electricity market. To this drama, add a new character with an equally colorful name: Thin Man, apparently borrowed from the stylish mystery-comedies of the 1930s and '40s starring William Powell and Myrna Loy.

The Enron trading tactic came to light as a result of a proposed settlement between El Paso Electric Co. and federal regulators, unveiled late last week.

The Federal **Energy** Regulatory Commission has been investigating El Paso Electric since August because of evidence that an electricity-marketing agreement between the utility and Enron was improper and may have helped Enron boost electricity prices in California. El Paso Electric did not admit guilt but, as part of the settlement, agreed to refund $14 million in trading profit and to give up electricity trading privileges for two years.

Attached to the tentative settlement are 572 pages of exhibits and testimony from FERC investigators that provide the latest window into how Enron, once the world's largest **energy** trader, did business in the West before and during California's **energy** crisis of 2000 and 2001.

Starting in 1997, Houston-based Enron had an accord with El Paso Electric under which Enron would help sell into deregulated electricity markets any spare electrons from power plants owned by the El Paso-based utility, which serves more than 300,000 customers in Texas, New Mexico and Mexico. (El Paso Electric is not related to Houston-based El Paso Corp., which faces its own FERC investigation into whether the company withheld natural gas supplies from California during the **energy** crisis.)

Through the contract with El Paso Electric and 11 similar agreements with other power plant owners -- including municipal utilities in Glendale, Redding and elsewhere in California -- Enron controlled 3,500 megawatts of electricity per day as of August 2000, according to the settlement exhibits. That amount of electricity, enough to serve more than 2.6 million homes, is on a par with some of the biggest suppliers to the electricity transmission grid operated by the California Independent System Operator.

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Contention Disputed

Enron has contended that it primarily was a middleman in the California market, with little control over electricity production and prices. But the numbers laid out in the documents from the El Paso Electric case belie that notion.

"Enron always maintained they were just a bit player in California," said Christian Schreiber, chief investigator with the state Senate select committee probing manipulation of California's electricity market. "The reason why El Paso Electric is interesting is Enron was using municipal utilities in California ... to engineer its schemes."

On Friday, Enron spokeswoman Karen Denne declined to comment on the El Paso Electric case, saying only that "we are cooperating fully with all investigations."

The relationships that Enron forged with the utilities were quite lucrative for the company, accounting for nearly $9 million in profit during the first seven months of 2000, investigators found.

Those earnings are extraordinary considering that the time period included only a few months of the gold-plated electricity prices that began to plague California in May 2000 and remained at high levels for about a year. FERC investigators said they were unable to determine total earnings from the alliances because Enron, operating under Bankruptcy Court protection, was unable to produce key documents and because witnesses already were tied up by other inquiries.

"The evidence shows that Enron entered into a substantial number of 'alliances' with marketers and utilities and failed to disclose the existence of any of these alliances to the commission," FERC **energy** industry analyst Craig E. Detmers said in written testimony submitted as part of the tentative settlement. "More significantly, Enron appears to have utilized these alliances to manipulate prices in the California markets in order to enrich itself."

FERC also is looking into whether Enron was aided in its questionable trading techniques by Avista Corp. of Spokane, Wash., and by Enron's utility subsidiary **Portland** General Electric. The companies have denied wrongdoing.

The FERC investigators unearthed evidence that El Paso Electric allowed its power plants and transmission lines to be used in a variety of schemes to increase electricity prices or wring payments from California's complex system to relieve congestion on the transmission grid serving about 75% of the state.

The investigators singled out particular types of schemes, first outlined in internal Enron memos released last May, including "Death Star," "Ricochet" and Fat Boy.

Death Star was a trading technique in which Enron would create phony congestion on the transmission grid so it could then be paid to relieve it.

Ricochet involved selling electricity out of state -- thus avoiding price caps on power generated in California -- and then selling the power back into California at high emergency prices.

In Fat Boy, Enron would tell electricity officials that it was going to use more power than it actually intended to use. That way, Enron would reap extra payments by appearing to deliver more power on a high-demand day when, in fact, it was merely using less power than promised.

Then there's the newly disclosed scheme, Thin Man, in which Enron reversed the Fat Boy process to take advantage of days when overall electricity demand on the grid was lower than anticipated. At those times, the price paid in an advance market known as the PX might be higher than the price in the Cal-ISO last-minute market.

Thin Man didn't get a lot of use because Fat Boy and other techniques designed to make the state grid operator think it was running out of electricity were more profitable, said **energy** economist **Robert McCullough**, a consultant for the state Senate committee.

"The premise was to make sure the PX was always short," McCullough said. "You want to have a very nervous ISO so they give you a lot of money" for last-minute electricity.

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