



CALIFORNIA

Blackout mystery: How did Oregon traders blow \$104 million betting on California grid?

BY DALE KASLER

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At a news conference on Aug. 17, 2020, California Governor Gavin Newsom described the steps California is taking to conserve energy amid rolling blackouts across the state due to the recent heat wave. BY CALIFORNIA GOVERNOR

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California's [rolling blackouts](#) have turned into a costly and embarrassing debacle for an Oregon electric utility.

Portland General Electric Co. reported this week that two of its wholesale power traders [lost at least \\$104 million](#) betting on price swings in California's electricity market. The utility launched a major in-house investigation and put the two traders on administrative leave.

Exactly what happened hasn't been disclosed. But Robert McCullough, an electricity consultant who lives in Portland and monitors California's power grid, said it appeared the traders had entered into complex financial contracts, known as derivatives, that are based on expectations of future price movements in California electricity.

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The traders thought prices would stay low. When a massive heat wave engulfed the West and [prices soared past \\$1,000](#) per megawatt-hour, the bets turned bad and the losses started cascading in.

"Your exposure is unlimited on the downside," said McCullough, himself a former Portland General vice president. "You've been making a series of bets and expecting prices in the \$30 to \$40 range. Then suddenly we had breakdowns and a heat wave and the price goes to \$1,000."

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McCullough said it doesn't appear the trades distorted operations on California's grid or contributed to the two nights of blackouts.

Nonetheless, Portland General's problems illustrate the sometimes chaotic nature of California's electricity market, which consists of thousands of daily trades at hundreds of different spots along the grid.

Right after the blackouts, which occurred Aug. 14 and 15, the Independent System Operator, which manages the grid, twice [suspended a form of trading](#) called convergence bidding. The ISO said convergence bidding, which involves sales of

electricity the day before it's used as well as in real time, was undermining the agency's ability "to maintain reliable grid operations."

'PORTLAND GENERAL CLEANED HOUSE' AFTER ENRON

Asked about Portland General's trades, ISO spokeswoman Anne Gonzales said "we haven't seen any type of market abuses during the heat wave, and regard this as a resource deficiency issue. We are in the process of reviewing the impact of the extreme heat and how we can better prepare and prevent outages in the future."

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The rotating power outages were the first in California since the 2001 energy crisis, when rogue trading companies seized control of large blocs of electricity to jack up prices.

Ironically, Portland General was owned back then by Enron Corp., the Houston energy company that was blamed for much of the manipulative trading behavior. McCullough said Portland General has tried to move past its Enron connections and re-establish itself as a plain-vanilla utility.

After being sold by Enron, "Portland General cleaned house and returned to its traditional role ... a very conservative, very sober organization," McCullough said.

Maria Pope, Portland General's president and chief executive, said in [an email to employees](#) that the recent trades were "not reflective of who we are at our core," and she vowed to get a fuller explanation of what happened.

"While we do not have all the answers, a thorough review is being conducted and we are committed to being transparent," she said.

Portland General said its losses on the contracts could reach \$155 million and are expected to wipe out more than one-third of the utility's projected profits for the year. The news has shaved about 10% off Portland General's stock price.

"Simply put, these trades were ill conceived," Pope said.

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