
Canada
Washington
Idaho
Nevada
California
Utah
Colorado
North Dakota
South Dakota
Kansas
Missouri
New Mexico
Texas
Arkansas
Wisconsin
Kentucky
Alabama
Georgia
Mississippi
Pennsylvania
New York
Pacific Ocean
Atlantic Ocean
Gulf of Mexico
Bay of Campeche
Mexico
United States

POWER PLAY

On May 22, 2000, rogue Enron traders in downtown Portland transformed staid electricity trading into an elaborate gaming scheme, initiating a chain of events that cost consumers more than **$1 billion** and ultimately could have blacked out the entire West Coast. A local economist who helped expose the scheme warns that the gaming may not be over. >

BY PAMELA A. MACLEAN

PHOTOGRAPHS BY DAVID EMMITE

WITH ITS TIDY BED OF PRIMROSES and clipped lawn, the 1950s bungalow at 3816 SE Woodstock Blvd seems no more remarkable than any other home in this shady corner of Eastmoreland.

Until you walk through the front door.

The customary couch and television set in the living room have been supplanted by an immense wooden desk lit by a glowing world globe and three flickering flat-panel computer displays. Each of the three bedrooms is similarly furnished: more desks, more sophisticated computer equipment, an assortment of technology that suggests a CIA safehouse.

The only outward indication of the purpose of this place sits atop a long conference table in the wood-paneled basement: a lone white teddy bear embroidered with Enron Corp's now famous slanted "E" logo. At the head of the table, controlling two large flat-panel TVs hanging on the opposite wall, an imposing white-bearded economist taps away at a wireless keyboard, queuing documents onto the screens.

Meet Robert McCullough, president of McCullough Research, a consulting firm helping federal regulators and utility companies get to the bottom of one of the most audacious financial scandals ever to rock the West Coast energy industry.

Five years ago this month, on May 22, 2000, Enron electricity traders working on the third floor of the World Trade Center in downtown Portland helped trigger a 14-month-long artificial energy crisis that resulted in almost daily emergencies and service disruptions—including six days of rolling blackouts in California—all across the West Coast. By the time the dust settled, the market manipulation—which ultimately spread to a host of other companies—had cost the region as many as 70,000 energy-dependent jobs, bilked the State of California out of as much as $45 billion and tarnished the reputation of Portland General Electric.

McCullough remembers May 22, 2000, like it was yesterday. An audience of 500 had gathered in the ballroom of a Montreal hotel to hear Enron CEO Kenneth Lay deliver the keynote address at an international energy industry conference. Midway through Lay's speech, McCullough's cell phone began jangling. In call after call, puzzled clients demanded to know why power prices on the West Coast had suddenly shot up by a factor of 10.

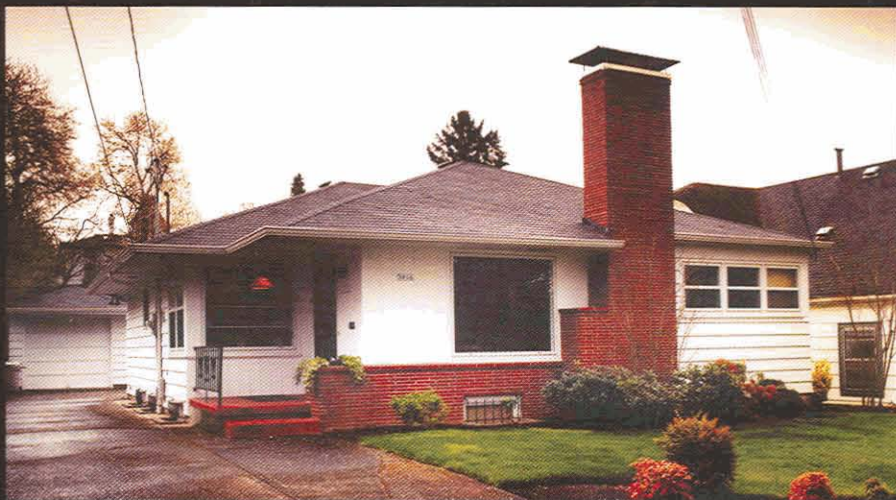
"By the end of the day I had been hired by a coalition of companies—Georgia Pacific, Boise-Cascade, the City of Seattle and a half-dozen others—to figure out what was going on," recalls McCullough, 54, a former PGE executive who specializes in negotiating bulk-power purchases for public and private utilities. "It was a very bizarre outcome."

As the power crisis played out, Washington's Snohomish County Public Utility District also joined the fray, retaining McCullough as an expert witness in a legal battle challenging the exorbitant fees Enron allegedly charged the Tacoma utility at the height of the event.

In helping Snohomish build its defense against Enron, McCullough and his staff of six—which includes two young graduates of Reed College, just across SE Woodstock Blvd—amassed a vast trove of Enron-related evidence. They converted 12 million documents, many from the government's own Web sites, into a searchable database maintained on servers humming at the busy bungalow. The ready access to the mountain of evidence has even prompted Federal Energy Regulatory Commission staffers to call at 5:30 a.m. from Washington, D.C., asking for help in tracking down specific bits of digital data.

Among McCullough's most stunning finds are the audio tapes he unearthed on October 1, 2004, with the help of Thomas Larvin, co-owner of Creative Switching Designs Inc, a Houston firm McCullough had contracted to help analyze conversations between West Desk traders on eight tapes provided by federal prosecutors in San Francisco. McCullough and Larvin traced the source of the tapes to a room at Enron's Houston Center, where they discovered dozens of recording machines loaded with audio cassettes that Enron had never surrendered to the government. The tapes were used to monitor trades at the company's Portland trading desk as a routine aid in resolving potential disputes over transactions.

The gloating, profane and callous traders surprised McCullough for their lack of circumspection. Who would chat so freely on recorded lines as they brokered bogus deals that reaped millions in profits for Enron—even as their actions unleashed havoc on California and the Northwest?



MORE THAN MEETS THE EYE: Inside, the headquarters of McCullough Research suggests a CIA safehouse.

MCCULLOUGH AND HIS STAFF OF SIX HAVE AMASSED A VAST TROVE OF ENRON-RELATED EVIDENCE.

Soon after the discovery, McCullough submitted the tapes to FERC as evidence in the dispute between Enron and the Snohomish County PUD. He also published transcripts of the conversations on the utility's Web site. The tapes, better than any document, illustrate the shocking behavior of Enron power brokers on the third floor of Portland's World Trade Center.

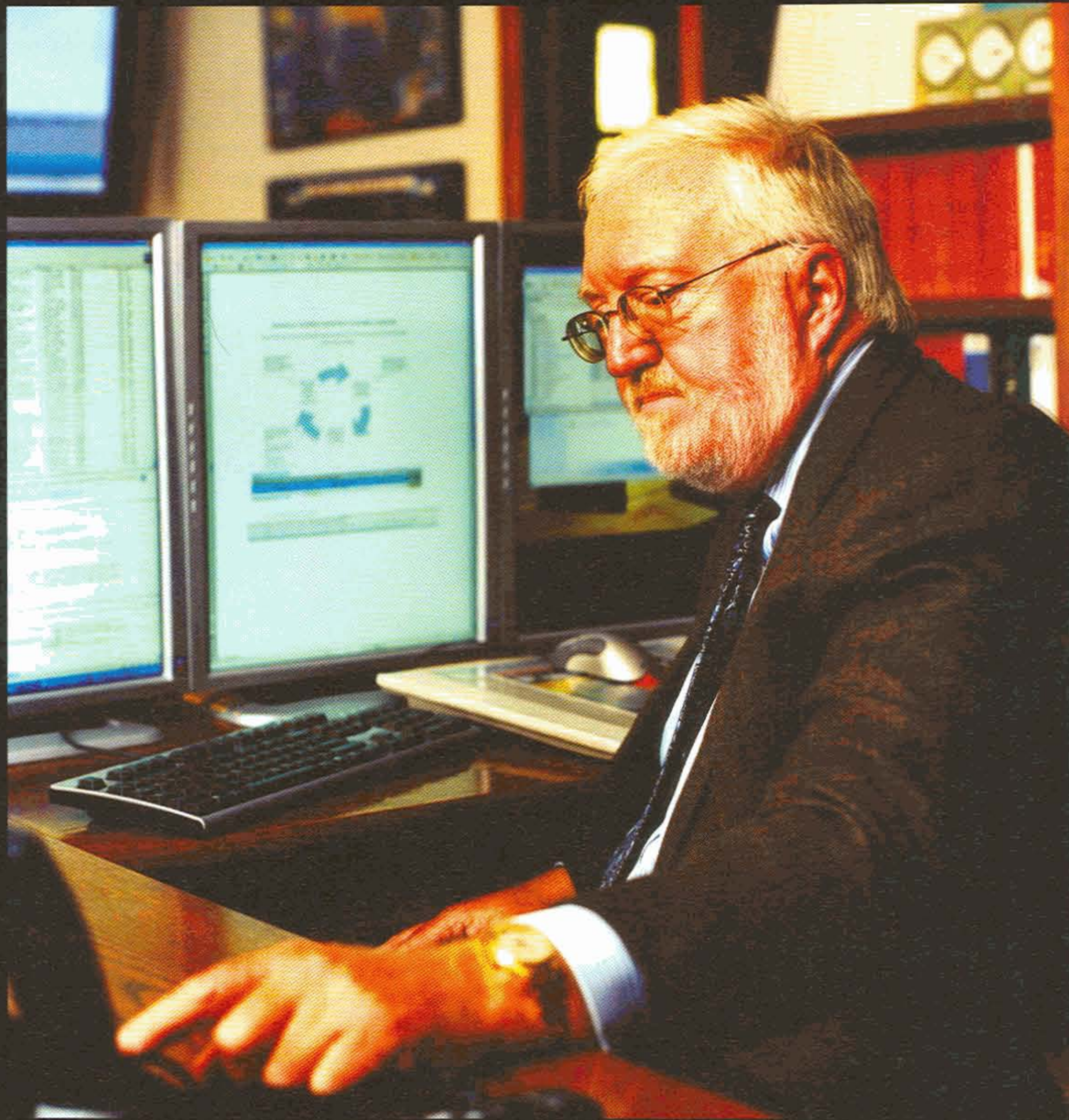
"It was a moment of naïveté in the market," says McCullough. "They lied to everybody. There was no understanding that any of this was real and that they could have blacked out the West Coast."

TIMELINE: Tracking one of the West Coast energy industry's most audacious scandals

• JANUARY 1997
Enron Corp launches ad campaign during Super Bowl XXXI, hoping to persuade Americans to demand faster deregulation of the electricity industry.

• JULY 1997
Enron buys Portland General Electric Co for $3.2 billion. Timothy Belden helps establish independent trading operation, called West Desk, in the World Trade Center in downtown Portland.

• MARCH 1998
California deregulates its electric utility market, bringing intense market pressures to bear upon the West Coast's fragile energy trust.



ROBERT MCCULLOUGH: The economist is helping unravel an Enron scandal that was orchestrated from Portland.

PORTLAND General Electric Co was incorporated in June 1889, just 10 years after the invention of the light bulb, as Willamette Falls Electric Co. It transmitted electricity from a single hydroelectric plant on the Willamette at Oregon City, sending power downriver to Portland 14 miles away. Known as T.W. Sullivan, the plant survives to this day, churning out 16 megawatts every hour. Day and night, the rush of falling river water pours through a funnel called a forebay and into the plant, where wicket gates control the flow that spins the turbines. The turbines, in turn, spin magnets to create electricity that can be transmitted along lines to homes and businesses.

In the 1930s, as rivers were dammed and more and more hydroelectric plants went online, President Roosevelt ordered the construction of an elaborate electricity distribution system in the West. By the 1970s, the need for an efficient method to supply the growing California market prompted the fabrication of two of the world's largest transmission lines: one massive conduit feeding northern California through the tiny town of Malin, and the other running from Oregon through Nevada to Los Angeles.

Electricity, which travels at the speed of light, is not easily stored. Once generated, it must be transmitted at roughly the same rate people consume it. To keep the grid in balance—to prevent shortages or overloads that could cause blackouts—the supply of power produced must perfectly match demand. It's a complicated juggling act requiring intense planning and coordination between utility companies.

In the summer, when the weather turns hot in California and demand for electricity peaks, utilities in Oregon ship surplus hydropower generated from snow runoff to the south; during overcast and cold winter months when Oregonians flick on lights and crank up electric furnaces, California sends its excess power north. Utilities—public and private—have traded energy this way for decades, writing schedules based upon anticipated power demands and expected supply. But schedules, essentially educated guesses anticipating the next day's needs, don't often match up exactly with actual power flows; surpluses or deficits must be balanced by last-minute adjustments of the grid.

In theory, a cunning trader could manipulate power schedules to gain an economic upper hand—perhaps withholding supply to artificially drive up prices—but doing so would risk undermining the coalition, which, after all, was held together by trust. For electricity traders, maintaining the integrity of the system was sacrosanct.

"They were like the Hasidic diamond merchants in New York," McCullough says of old-school utility traders. "They never broke their word. They could imagine, maybe, someone cutting back power plant production—it would be shocking, but they could at least imagine it. But lying on energy schedules, no one could even imagine it. That could do serious damage."

On July 1, 1997, Enron purchased Portland General Electric for $3.2 billion. Soon afterward, Enron opened its West Power Trading Division at Portland's World Trade Center, one floor above PGE's independent operation. The Enron trading division, also known as West Desk, gave the Houston company a gateway into the lucrative California energy market on the eve of its deregulation, a develop-

- **NOVEMBER 1999** — Enron negotiates deal to sell PGE to Sierra Pacific Resources for $2.1 billion, but the deal later collapses.
- **MAY 22, 2000** — Price of electricity suddenly spikes. California declares first emergency due to power shortages as Enron's West Desk traders falsify power schedules for profit.
- **JUNE 14, 2000** — As West Desk traders continue gaming the system, nearly 100,000 San Francisco Bay Area customers are blacked out for the first time in the history of the local utility.

Continued >

ment that brought intense market pressures to bear upon the West Coast's fragile energy trust.

Enron hired Timothy Belden, a slightly built, balding 33-year-old graduate in public policy from the University of California at Berkeley, to run its West Desk. Under Belden's direction, Enron traders began brokering deals that moved electrons and money, lots of money, around the West Coast. Often described by his peers as brilliant, Belden was quickly promoted to managing director of the trading operation, overseeing a staff of more than 100.

PEGGY FOWLER: PGE's chief executive joined the company as a chemist in 1974.

Helping Belden guide young traders with little or no experience in power marketing was Jeffrey Richter, a former math teacher from Wisconsin who loved numbers and at 30 was running the short-term California energy trading desk. Richter supervised a half-dozen traders who bought and sold electricity just before it was needed, a day or as little as an hour ahead of demand.

Belden's fortunes really started to rise in June 1999 when John M. Forney arrived in Portland after a six-year stint at Enron's Houston headquarters. Forney took over what's known as real-time trading, selling power at a profit to cover sudden shortages on the grid.

Real-time trading is a pressure cooker of a job, akin to controlling hub air traffic or trading in Chicago's open commodities pits. The real-time traders sometimes worked 10-to-12-hour days on rotating shifts around the clock to keep the deals and the energy flowing. They were at the bottom of the pecking order in the office. Before Forney arrived, the real-time desk had a reputation for paltry revenues and an inexperienced staff.

One former West Desk employee, who negotiated longer-term energy contracts and asked not to be identified for this article, described the short-term traders as operating "in a black box. We were not invited to their trading meetings or anything."

As a group, the inexperienced yet brash young Enron power brokers of West Desk stood in sharp contrast to PGE's traditional workforce: 42 percent of employees are over 50, and the average tenure is 14 years.

In April 2000, by the time Peggy Fowler was promoted to president of PGE, she found herself at the helm of a century-old company that was built on generating power but that was now wedded to Enron, a new kind of energy company, one that emphasized trading electricity rather than producing it.

"There was definitely a clash of cultures," recalls Fowler, 53, a 30-year PGE veteran who joined the company as a chemist in 1974. "We used to be able to do things by a handshake when it came to power supply. And we would all meet together and talk about it. Now they call that antitrust. It is against the law. It is all to make it better I suppose, but in the interim we all went through a very difficult time."

BUT ON THE WEST DESK trading floor, things just kept getting better and better. In 1999, Timothy Belden's trading unit reported revenues of $50 million; by 2001, that figure would soar to $800 million.

And it seemed so simple.

On May 22, 2000, far from the air-conditioned confines of the West Desk trading room on SW Salmon St, the day dawned hot in northern California. The state's Independent System Operator (ISO), the office that coordinates power transmission over California's grid, saw its electricity reserves fall dangerously low.

The ISO constantly matches demand and supply on the lines. When the margin of extra electricity available falls below a 5 percent cushion, engineers declare an emergency to prevent grid failure and blackouts. That day the ISO declared a Stage 2 emergency at 11:40 a.m., ordering utilities to limit service to several hundred of their largest customers. Factory workers were sent home, and plants closed for the day to save power.

Then an odd thing happened. The ISO discovered a miscalculation. It had lost track of nearly 1,500 megawatts of available electricity, enough to power 750,000 homes. Or so it thought.

In reality, the May 22 incident resulted from the combination of ISO miscalculation and Enron traders at West Desk taking advantage of the system in games dubbed Fat Boy and Ricochet, names coined by traders to describe what proved later to be improper power scheduling.

'THERE WAS DEFINITELY A CLASH OF CULTURES. WE USED TO DO THINGS BY A HANDSHAKE. ... NOW THEY CALL THAT ANTITRUST.'

Robert McCullough has spent years reconstructing the events of these and other quirky-sounding deals, with names like Death Star, Ping-Pong and Get Shorty.

What frightens McCullough and other investigators is the fact that West Desk traders were able to pull off so many games at once.

"They were doing maybe 20 different schemes at the same time," he says. "You end up with a whole set of potentially concatenating failures."

In other words, by filing false schedules, West Desk traders risked

TIMELINE: Continued

• **AUGUST 2000**: Enron stock hits all-time high of $90.56.

• **DECEMBER 2000**: Spot prices for electricity in California top $1,400 per megawatt-hour, up from $30 a few months earlier.

• **JANUARY 17, 2001**: West Desk traders ask an employee at a Las Vegas power utility to find a reason to shut down a plant, straining California's already tight supply and further raising prices.

• **JANUARY–FEBRUARY 2001**: Unprecedented rolling blackouts hit northern California.

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bringing down the entire system.

Say a natural disaster, such as an earthquake, had disabled one of the primary transmission lines linking Oregon to southern California through Nevada, as happened during the Los Angeles earthquake of 1994. To compensate for the downed line, McCullough says, the California ISO would have shunted power through an alternate undamaged main line; if that line had been operating near capacity and false trading schedules indicated otherwise, the ISO inadvertently could have overloaded the line, causing the entire network to fail.

"It would mean that the West Coast goes dark," says McCullough. "The good news is we never really had a serious crisis ... so we says. West Desk traders submitted false schedules that underestimated power supply and exaggerated customer demand, causing California's ISO to believe an energy shortage was imminent. As the hour approached when that phantom demand had to be satisfied, West Desk traders stepped to the rescue, supplying the withheld generation to the system at the last moment but commanding a higher price than if they had scheduled it normally.

"The bottom line: the ISO's software was hopelessly compromised by false schedules being filed across the system," McCullough says.

He describes what Enron had done—gaining intelligence on the weaknesses in the ISO system—as the equivalent of the meddling of computer hackers.

PGE'S NERVE CENTER: At System Control, technicians monitor a display that tracks the status of every power plant, substation and transmission line in the PGE network.

never got so close that any of these shenanigans brought the system to its knees."

Still, the scheming did cause very real damage.

Traders used a Ricochet, also known as megawatt laundering, to schedule the export of power from California hours ahead of its actual use. A second out-of-state company took control of it on paper for a fee, so that West Desk could resell the same California-produced electricity back into California's market just as it was needed in real time. California regulators could not see the big regional picture, so they could not follow the paper trail, according to McCullough's reconstruction.

By shipping power out of state, West Desk traders could circumvent price caps of $250 per megawatt-hour. The paper trail made it appear they were buying power outside California and shipping it into the state when it was actually California energy. It also hid the supply from authorities, making California appear short of power.

That watershed day in May, Belden's traders made nearly $223,000 in three hours laundering megawatts through southern Oregon on a Ricochet.

Using a Fat Boy created one of the bigger regional problems, because it could increase prices throughout the West, McCullough

"They were gentlemanly hacks. They didn't get inside anyone's computers, but they were computer hacks," McCullough says.

John Forney created another ruse known as Forney's Perpetual Loop or Death Star, in which traders falsified schedules that exaggerated the amount of electricity flowing through the system.

THEY GAMBLED THAT THERE WOULD BE NO EMERGENCY. THEN THE HOUSE OF CARDS TOPPLED.

What the ISO saw as congested transmission lines, clogged with too much electricity, was really paper activity like a snake eating its tail. The West Desk traders were paid a premium to relieve the phantom congestion by holding back power that was never really there.

Yet another notorious game was dubbed Get Shorty.

Get Shorty promised one day ahead of time to provide California with a reserve supply of electricity should demand be larger than predicted, or in case of an emergency. But as the hour approached

TIMELINE: Continued

- **FEBRUARY 12, 2001** Enron president Jeffrey Skilling named CEO to succeed Kenneth Lay.
- **APRIL 6, 2001** To protect its assets from spiraling prices, northern California's Pacific Gas & Electric Co declares bankruptcy, the largest utility bankruptcy in U.S. history.
- **JULY 3, 2001** Energy shortages end—the last day an energy emergency is declared in California.
- **AUGUST 14, 2001** Jeffrey Skilling abruptly resigns as CEO just six months after taking the helm from Kenneth Lay.

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GAMING THE GRID

Definitions of some of the schemes Enron traders used:

- **DEATH STAR:** Traders create false impression of overloaded power grid, then "remove" phantom power from the apparently stressed grid for a premium.
- **FAT BOY:** Traders file misleading schedules overstating power demand, then step in to provide power at an inflated price when need seems most acute.
- **GET SHORTY:** A form of short selling. Traders promise to cover possible power shortages with power they don't have available, then buy the power at depressed rates when the shortages don't materialize.
- **RICOCHET:** Also known as megawatt laundering. Traders export power from a given region, cover up the power's origin and then sell it back to the originating region's market during times of high demand at an inflated price, often well above price caps for power from the originating region.

ABOVE: World Trade Center Building Three RIGHT: West Desk, on the building's third floor, during its heyday

and there was no emergency, the West Desk traders would cover their position by buying other unused electricity supplies at much cheaper prices. They gambled that there would be no emergency. The system worked as long as the power grid wasn't stressed.

Then the house of cards toppled.

On June 14, 2000, normally foggy San Francisco ran a record temperature of 103, spiking power use throughout the area as air conditioners ratcheted up demand. The grid seemed to wobble, with high demand and short supplies in the area prompting the local utility to black out power to nearly 100,000 residential and small business customers for the first time in its history, according to then-president of the California Public Utilities Commission Loretta Lynch.

In a special report to the governor, Lynch described her suspicions that the June 14 problem stemmed from improper gaming in the system a day earlier and from import limitations from the Northwest. And she knew this was expensive and dangerous. During five days in that hot mid-June of 2000, California paid $1 billion to a host of companies to find scarce power. The cost of those five days amounted to one-eighth of the entire amount the state spent in 1999 for power.

The enthusiasm for aggressive, even potentially illegal, trading deals was fed by Enron's tough job evaluation, known as "rank and yank." Managers ranked employees, such as Portland's West Desk traders, and those at the top received large bonuses—while anyone at the bottom would be fired without remorse, according to McCullough.

To be sure, gaming by West Desk traders was not solely responsible for the crisis. The system was stressed by low rainfall in the Northwest that reduced hydroelectric supplies, and new California marketing rules allowed plenty of room for anyone to manipulate trades. Also, Enron was not alone in trying to cut back supply, as the

TIMELINE: Continued

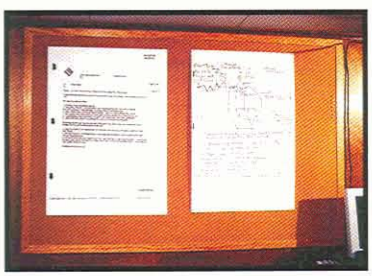
- **OCTOBER 16, 2001** — Enron reports $638 million third-quarter loss, and discloses $1.2 billion reduction in shareholder equity due to off-the-books partnerships run by CFO Andrew Fastow.
- **OCTOBER 22, 2001** — Enron discloses Securities & Exchange Commission investigation.
- **DECEMBER 2, 2001** — Unable to get financing to pay its mountain of debt, Enron files for bankruptcy in Houston.
- **JANUARY 9, 2002** — Justice Department confirms criminal investigation of Enron.

Continued >

state's frantic search for power continued pushing prices higher.

The California ISO claimed that 21 energy companies and public utilities engaged in the questionable Death Star trading practice. An investigation by the California Public Utilities Commission found that five wholesale electricity generators did not use all their capacity during 32 of the 38 days with partial power blackouts or service curtailment in the state. They included Duke, Dynegy, Mirant, Reliant and AES/Williams, according to the report.

ABOVE: McCullough's digital archive BELOW: Two of the 12 million pages of Enron-related evidence



PGE found itself in the middle of accusations of manipulation as well. Although Enron and its PGE subsidiary kept their trading operations separate under regulatory rules, as early as 1999 Enron had allegedly approached PGE with a deal to manipulate California's system to hike profits.

PGE rejected the Enron deal, but federal investigators said it should have put the utility on notice that Enron was willing to push the envelope on rules. In early spring 2000, long before blackouts and price spikes, PGE agreed to several transactions that proved to be bogus.

AS THE CRISIS moved into January 2001, trader Bill Williams III at Enron's West Desk phoned a small Las Vegas cogeneration plant with a stunning request: shut down the plant and lie about the reasons. Although the amount of lost energy was small, it would force prices up and allow Enron to reap the rewards.

On January 17, a Stage 3 power warning hung over California. In a taped conversation McCullough recovered at Enron's Houston Center, Williams tells the Las Vegas operator, named Rich, "Ah, we want you guys to get a little creative."

"OK," says Rich.

"And come up with a reason to go down," Williams says.

"OK."

"Anything you want to do over there? Any ... cleaning, anything like that?" Williams asks.

"Yeah, yeah," Rich responds. "There's some stuff that we could be doin' tonight."

Williams adds, "It's supposed to be, ah, you know, kinda one of those things."

Rich understands. "OK, so we're just comin' down for some maintenance, like a forced-outage-type thing?" he says.

"Right," says Williams.

While Williams and the Las Vegas operator appeared to concoct the false repairs to shut down the plant, the tight power supplies in California prompted Stage 3 rolling blackouts for as many as 2 million customers on two of the next four days.

The crisis stretched through spring and early summer. Then on July 3, 2001, the power emergencies stopped as suddenly as they had begun. But the calls for investigations mounted, including a California state senate investigation in May 2002.

Federal prosecutors in San Francisco, the FBI, and state investigators in Oregon, Washington and California then began to probe for criminal misconduct in the market.

As the investigators tried to understand the arcane wholesale electricity trading market, they fanned out to meet with academics, experts from the industry and regulators around the country, but in the beginning no one really understood what had been happening, according to one prosecutor.

While prosecutors were digging into potential crimes by West Desk traders, Enron Corp began to crumble in Houston. The stock plummeted as an accounting scandal enveloped top executives.

Eric Christensen, general counsel for Snohomish County Public Utility District, Washington's largest public utility district, revoked what he called an exorbitant 2001 contract with Enron. In 2003, Enron sued Snohomish to force the utility to pay $122 million for canceling the pact. Snohomish demanded Enron's internal records to prepare its defense. That unleashed McCullough and his research team.

Snohomish and others are also locked in a battle at FERC to force Enron to disgorge proceeds of the allegedly improper trading. FERC will hear that dispute this summer. The transcripts of McCullough's tapes in FERC's possession certainly don't help Enron's case.

"What really stood out to me when you listen to some of the conversations is the callousness to ordinary consumers who are getting screwed by their manipulation," says Christensen. "It is

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TIMELINE: Continued

- JANUARY 23, 2002 — Kenneth Lay resigns from all Enron positions.
- FEBRUARY 4, 2002 — Former West Desk trader Jeffrey Richter pleads guilty to conspiracy in San Francisco.
- MARCH 7, 2002 — Former Enron auditor Arthur Andersen LLP is indicted for obstruction of justice for destruction of mountains of Enron documents at outset of SEC investigation.
- OCTOBER 17, 2002 — Former West Desk trader Timothy Belden pleads guilty to conspiracy in San Francisco.

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POWER PLAY

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completely upside-down to the world of utilities I came from.

"It is no longer a question of if [Enron should disgorge], but a question of how much."

Just what is on the tapes?

"The magical word of the day is 'burn, baby, burn,'" says one unidentified West Desk trader to another on August 5, 2000.

"What's happening?" asks the second unidentified trader.

The first trader explains that a fire under a core power line in California has threatened to disable it, forcing the state's ISO to reduce the amount of power it can carry, squeezing supply and thereby driving up prices.

Giddy with how much money they could make from a fire threatening a major power line, the two together again sing, "Burn, baby, burn."

"That's a beautiful saying," says the first caller.

Later he repeats, "Buy more. Buy more. Buy more."

"Megawatts, megawatts, megawatts," responds the second caller.

Two days later a caller identified as "Phil" asks West Desk trader Jeffrey Richter about the increasing power squeeze in California. "Did the lights almost go out last week?"

"Yeah. BPA [Bonneville Power Administration] bailed 'em out. Those bastards. I don't like 'em," Richter responds.

The same day, West Desk trader John Forney calls a trader to confirm some deals, then he asks how things are going. Identified only as Brian on the tape, the trader says, "Holden's [trader Holden Salisbury] over there scooping money into buckets."

"He is?" Forney asks.

"He's pretty huge today," Brian responds.

Forney wants to know who is foolish enough to pay a broker to buy what could be purchased on the open market.

"He's taken some of [Eugene Water & Electric's] money and, um, he's taken some in from TransAlta, and I'm doing some importing with a Fat Boy on El Paso," responds Brian.

On November 30, 2000, Bob Badeer, a West Desk trader, called Kevin McGowan in Enron's Houston office; prices hovered near $143 a megawatt-hour, when typically the prices had been $25 to $40 a megawatt-hour prior to May 22. By this time, customers, politicians and regulators were complaining loudly.

"So the rumor's true?" McGowan asks. "They're fuckin' takin' all the money back from you guys? All those [sic] money you guys stole from those poor grandmothers in California?"

Badeer says, "Yeah, grandma Millie, man. But she's the one who couldn't figure out how to fuckin' vote on the butterfly ballot."

McGowan responds, "Yeah, now she wants her fuckin' money back for all the power you've charge right up—jammed right up her ass for fuckin' $250 a megawatt-hour."

On December 4, as prices skyrocketed to more than $1,400 per megawatt-hour, a West Desk trader named Paul called someone named Steve, believed by McCullough to be an employee at El Paso Electric Co.

'WHAT WE NEED TO DO IS TO HELP IN THE CAUSE OF, AH, DOWNFALL OF CALIFORNIA.'

Paul talked about removing more power from the already strained market. "This is a—a freak show. But this is where California breaks," he says.

"Yeah, it sure does, man," responds Steve.

Paul adds, "Yeah. So, ah, what we need to do is to help in the cause of, ah, downfall of California." He chuckles.

ULTIMATELY, Robert McCullough believes Enron Corp's West Desk gouged Western states for $1.1 billion at the height of the 2000-2001 energy crisis. A FERC staff report puts the improper profits at $1.8 billion dating back to 1997.

Despite the huge amount of revenue they generated for West Desk and Enron, individual traders appear to have made very little personally from the gaming, observers agree. Most lived in modest homes and worked long hours, and the bonuses received by many in the upper ranks are being claimed by other Enron employees who were hurt in the company's bankruptcy.

TIMELINE: Continued

• NOVEMBER 2003	• FEBRUARY 19, 2004	• JULY 8, 2004
Texas Pacific Group offers to buy PGE from Enron for $2.35 billion.	Former West Desk trader Jeffrey Skilling is indicted on 35 counts of fraud, insider trading and conspiracy.	Kenneth Lay is indicted on 11 criminal counts of fraud.

Eric Christensen says he saw an almost "religious fervor for deregulation" in the 1990s. "The result was we created basically a Wild West approach to electricity markets that turned out to be a huge failure."

On December 2, 2001, Enron Corp, which once reported annual revenues of more than $150 billion, filed for bankruptcy. Many of the West Desk traders in Portland had scattered to other power companies or simply left. Some, like Timothy Belden, went to work for Zürich-based UBS Warburg after it bought the Enron trading operation.

On February 4, 2002, Jeffrey Richter pled guilty to conspiracy to commit wire fraud and lying to the FBI. Richter's Los Angeles lawyer, Terry Bird, says his client "is doing everything he can to show his contrition and honestly help the government."

On October 17, 2002, Belden pled guilty to conspiracy to commit wire fraud in a federal court in San Francisco. He told the judge, "I was just trying to maximize the profit for Enron."

In June 2003, FBI agents walked into a conference room at American Electric Power Co in Columbus, Ohio, where John Forney worked as a trader after leaving Enron. Agents handcuffed Forney in front of startled company executives. In San Francisco he faced 11 counts of conspiracy and wire fraud. In August 2004, he quietly pled guilty to a single count of conspiring to commit wire fraud and agreed to cooperate with prosecutors.

Forney, contacted this year at his home in Ohio, said he would like to tell his side of the story and suggested there is plenty more to say. But he declined to elaborate, pointing to his deal with the government. Of the traders who could be located, all either refused to comment or did not return telephone calls.

PGE CEO Peggy Fowler concedes that her company could have done a better job of monitoring what was happening.

"People were basically greedy I guess, and saw an opportunity to work the system," says Fowler. "They thought their job was to make money, so they made money. I do think the trading that went on maybe isn't that much different from what goes on in Wall Street."

PGE has insisted it was an unwitting victim of the Enron trading tactics, but

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Former West Desk trader John Forney pleads guilty to conspiracy to commit wire fraud.

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• AUGUST 5, 2004

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ultimately agreed to pay $8.5 million to settle claims by FERC, the City of Tacoma and the State of California. PGE acknowledged "posting errors" but did not admit any illegal conduct.

"Everybody learned that we should have been more aggressive and paid attention," says Fowler. "That means that I still believe that our folks didn't do anything illegal. We made the settlement to get on with our lives.

"I also believe had we not been owned by Enron, we would not be under the scrutiny that we were. It still amazes me that in the midst of this, as I watch Snohomish and Sierra [Pacific] that are still going after the Enron traders, they still haven't listened to the tapes from British Columbia Hydro or PacifiCorp, or a lot of other companies that were out there that did things. I know for sure that what we agreed to pay FERC for, a lot of other companies were engaged in."

From Fowler's office, it's a short walk to Enron's now-defunct West Power Trading Division in the World Trade Center's Building Three.

The trading floor, long since dismantled, is a ghost town. Sun streams through curtainless windows that frame the empty room's enviable view across the Willamette River to Mount Hood. The ranks of desks have vanished. Gone are the ringing phones and blinking computer screens. Empty black metal ceiling brackets are all that remains of a half-dozen flat-panel TVs traders once used to monitor weather reports in order to gauge power demand—and follow the occasional baseball game.

Now, where bawdy, fresh-from-college West Desk traders once boasted, cursed and laughed as they fleeced the West Coast power market, there is only silence.

The room's air smells of dust. Tangled wires spill from a wastebasket left under a window. Metal-hooded electric sockets sprout from the floor at regular intervals, each trailing a few feet of empty conduit in a sea of blue-gray carpet.

The trading room has become an embarrassment, a burden, a cautionary totem.

PGE, of course, would like to erase this link to a sordid chapter of its corporate history. Soon, though, the company will be

TIMELINE: Continued	Discovery of West Desk tapes; McCullough releases transcripts of trader conversations on the Internet.

• OCTOBER 1, 2004

rid of Enron. Under the terms of Enron's restructuring plan, the bankrupt company either must sell off PGE, its largest single asset, or distribute reissued shares of PGE stock to creditors. Initially, Enron had agreed to sell PGE to Texas Pacific Group, but that plan was scuttled on March 10, 2005, when the Oregon Public Utility Commission unanimously rejected Texas Pacific Group's $2.35 billion bid. On April 6, however, Enron announced that it was abandoning its efforts to sell PGE, and would issue common stock to creditors. The move essentially severs Enron's ties to PGE, which would operate as a separate, publicly traded business.

"This helps create a certain future for PGE, making it a locally headquartered company like it was before Enron," says Peggy Fowler.

Although relieved to be unshackled from Enron, Fowler concedes that another run-up in electricity prices is still possible, but not as a result of market manipulation.

Prices could be driven skyward by a combination of factors: a really strong economic recovery that increased demand for power, or a drought that reduced generation capacity, she says.

ROBERT MCCULLOUGH, however, is more skeptical.

He points to price spikes in Texas in 2003 and price fluctuations in Alberta, Canada, that raised eyebrows, although no wrongdoing was found.

"Nothing here is obsolete," he warns, tapping at his keyboard.

Hunkered in his basement bunker, McCullough prepares for this summer's trial before federal regulators examining the West Desk debacle. As he sifts electronically through his 12 million documents, he notes that some in the energy industry are lobbying to keep market data out of the public's hands.

"The current refrain is 'national security,' but the goal remains the same," he says. "Enron insists that their records should remain secret on national security grounds on many occasions."

McCullough disagrees. For something like this to never happen again, he believes, the public needs to have open access to market information.

"Democracy," as he puts it, "doesn't work well in the dark." ■

Enron abandons its attempts to sell off PGE, agreeing to issue shares of stock to creditors, severing its ties with the utility.

• APRIL 6, 2005