BUSINESS

ENRON TRIALS COULD CONCERN PGE CRIMINAL TRIALS OF FORMER EXECUTIVES MAY SHED NEW LIGHT ON THE PORTLAND UTILITY'S PAST ENERGY TRADING PRACTICES

GAIL KINSEY HILL - The Oregonian
1,154 words
12 January 2004
The Oregonian
SUNRISE
C01
English

Portland General Electric's past **energy** trading practices could come under the spotlight again as the criminal trials of fallen Enron executives unfold in the months ahead.

The legal fallout from Enron's collapse returned to the news last week with negotiations between government prosecutors and Andrew and Lea Fastow. The former Enron executives are among at least 16 defendants scheduled to go to trial in 2004.

The case most likely to reignite controversies about PGE's conduct during the 2000-01 **energy** crisis is that of John Forney, the former Enron trader who allegedly concocted the now-infamous "Death Star" strategy.

Death Star, also known as Forney's Perpetual Loop, at times involved PGE, which is owned by Enron. The series of bogus trades, which looped electricity from California to Oregon and back again, allowed Enron to collect extra fees from California's grid operator for easing congestion on overcrowded lines. In fact, the various sections of the trades -- some supplied by PGE -- canceled each other out so that no electricity deliveries actually occurred.

During a recently concluded federal investigation, PGE submitted phone transcripts and other information that showed PGE may unwittingly have been involved in Death Star transactions on 17 occasions between April and June of 2000. But the utility denied any premeditated participation in Death Star or any fraudulent trading.

In the settlement with the Federal **Energy** Regulatory Commission, PGE agreed to pay $8.5 billion to various parties, including the states of Oregon and California. It admitted no wrongdoing.

Despite the settlement, questions about PGE's trading practices continue to hover over the utility. Forney's trial, currently scheduled for Oct. 12, could fill in some of the blanks and aid regulators in protecting the market from future abuses, say consumer advocacy groups and some **energy** consultants. It also could influence a state investigation into PGE's conduct during the **energy** crisis.

"Was there ignorance and accidental participation" on PGE's part, "or was there more knowledge involved?" said Bob Jenks, executive director of watchdog group, the Citizens' Utility Board. "Clearly this is a chance for more information to come out."

PGE officials said the Forney trial won't expose anything new.

"We've settled the trading case with FERC and other parties, and we've put the issues behind us," said Kregg Arntson, a PGE spokesman. "In our opinion the chapter's closed."

Enron, once the country's largest **energy** marketer, plummeted into bankruptcy in December 2001. A series of financial scandals and overly aggressive forays into **energy**, telecommunications and other enterprises led to the Houston company's collapse.

A deal to sell the utility to investment firm Texas Pacific Group for $2.35 billion in cash and assumed debt is pending before U.S. bankruptcy judge Arthur Gonzalez. Enron would use the proceeds to help pay off creditors.

Forney began working for Enron in 1993. In late 1997, the company transferred Forney to its West Power Trading office in **Portland**, a centralized operation that handled all of Enron's trading in California, Oregon and other western states.

The trading floor was in the World Trade Center in downtown **Portland**, the same building in which PGE traders operated.

In June 1999, Forney became the manager of the Enron "real time" trading desk, which handled immediate electricity transactions. Real- time, or "spot" transactions took the spotlight during the **energy** crisis because they supplied the emergency power critical to avoiding shortages.

The West Coast **energy** crisis began in May 2000, characterized by fears of shortages and wholesale prices that soared more than tenfold. Prices settled back down a year later, but not before regulators, politicians and consumers demanded a reworking of California's electricity management system and investigations into whether **energy** marketers had illegally manipulated markets.

Enron was thrown into the center of the investigations when regulators uncovered memos outlining some of the company's trading practices. Death Star, Ricochet and others apparently were created by Enron to inflate power prices and increase profits, the memos showed.

According to U.S. prosecutors, Forney was the architect of many of these schemes and the one responsible for the trading desk's sudden jump in profits.

The initial iteration of Death Star was called Forney's Perpetual Loop, after its creator, U.S. prosecutors said in a complaint that accompanied Forney's June 3 arrest. When Forney grew worried that Death Star might draw objections from California grid operators, he asked traders to call the strategy "Cuddly Bear."

In December, Forney was indicted on 11 counts of conspiracy and wire fraud. The case is being prosecuted by attorneys with the Antitrust Division of the Department of Justice based in San Francisco.

Forney has entered a not guilty plea.

"We intend to contest the charges," said Robert Breakstone, Forney's San Francisco attorney.

Breakstone said Forney's bosses, Timothy Belden and Jeffrey Richter, are the ones most responsible for the errant trades, not Forney.

"John Forney is a very small potato in this," Breakstone said.

Belden and Richter, both managers at Enron's trading desk in **Portland**, have pleaded guilty to conspiracy to commit wire fraud. They are aiding prosecutors in criminal investigations of former Enron employees, including Forney.

Belden, who was Forney's direct supervisor, supplied prosecutors with detailed information about Forney's trading activities, according to the federal complaint.

Belden worked for PGE before he took a job with Enron.

Federal regulations limit trading activity among affiliated companies, such as Enron and PGE. Trading isn't prohibited, but market indexes are used to set prices. The transactions are posted on electronic bulletin boards to make similar deals available to competitors.

PGE said the only money it made on the transactions with Enron was a transmission fee of 90 cents a megawatt hour, or roughly $2,000 for all the suspect trades that occurred on those 17 days in the spring of 2000.

Enron's trading desk no longer exists. UBS Warburg bought a portion of the operation after Enron's collapse and later closed it down. PGE has banned trading with affiliates.

Forney now works for American Electric Power in Columbus, Ohio. He was placed on administrative leave after his arrest.

Federal prosecutor Matthew Jacobs said the trial will get to the heart of Enron's trading practices and seven key schemes allegedly used by Forney to manipulate markets.

"Definitely, more detail will come out," he said.

Robert McCullough, a **Portland**-based **energy** consultant who has conducted research for critics of PGE and Enron, said he will follow Forney's trial closely.

"There's a lot of material that could shed additional light on the relationships between PGE and Enron," he said.

Gail Kinsey Hill: 503-221-8590, gailhill@news.oregonian.com

Document POR0000020040114e01c00033