Business

PGE says ‘ill conceived’ trades cost the utility at least $104 million; stock slides 8.3%

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By Ted Sickinger| The Oregonian/OregonLive

Portland General Electric said Monday that it has incurred a major and potentially growing loss from trading on wholesale electricity markets in the third quarter, prompting a cut to its annual earnings projection of as much as 47%.

The utility placed two unnamed employees on administrative leave while its board and a phalanx of outside experts undertake a broader review. PGE's stock fell 8.3% in after-hours trading, to $38.47.

"Certain personnel entered into a number of energy trades during 2020, with increasing volume accumulating in the second quarter and into the third quarter, resulting in significant exposure to the company," PGE Chief Executive Maria Pope said in an email Monday to employees and filed as part of its disclosures with securities regulators.

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

The company typically makes wholesale power cost adjustments once a year, adjusting rates to reflect its actual versus projected power costs. This time around the company said it will not pursue recovery of the losses from customers, and shareholders will absorb the cost.

PGE said it has realized losses from the trading of $104 million as of August 24, and

$1,000 a megawatt hour, a level that resembles those seen during the West coast energy crisis in 2000 and 2001.

The company said it was not expecting any layoffs to result of the losses, and said they would not impact customers and communities.

Regulated utilities are not supposed to engage in speculative trading to make money off the utility system, said Bob Jenks, executive director of the Oregon Citizens' Utility Board, an advocacy group for residential ratepayers.

"Clearly somebody did something that took an awful lot of risk and it wasn't prudent," he said. "That shouldn't happen but the company is coming clean about it. They're trying to set up a board committee with some independent members. That's a good sign, but from a customer standpoint, you want a utility that's isn't taking significant risks."

Modest trading losses and gains aren't unusual in any given year, and the annual power cost adjustment mechanism includes a "deadband" where rates aren't affected. But the size of the loss is well outside the $30 million downside deadband, and the company's decision to absorb the costs suggest the trades were outside its internal policies.

Jenks said when the company finishes its review, the appropriateness of trading activity would ultimately be reviewed by the Oregon Public Utility Commission.

Again, PGE did not address the precise nature of its trading activities. But last week, the California Independent System Operator also temporarily banned "convergence bidding," a complicated but risky derivatives market where traders buy and sell electricity a day ahead of when its actually needed.

Robert McCullough, a Portland energy consultant, said PGE's losses may have been in that market, which can help utilities manage power costs when electricity is trading within normal bands, but is wildly risky when wholesale power prices take the kind of swings they have recently.

"It's hard to lose that sort of money in traditional trades," he said. "Traditionally PGE, other than its Enron period, is a pretty buttoned-down place. For them to be taking wild swings in the energy market is out of character."

The company's board has formed a special committee to review the trading as well as

Finally, it hired the retired chief risk officer of Excelon Corp. and J.P. Morgan's energy trading advisory arm to help with its review and potentially its outreach to debt and equity investors and credit ratings agencies.

The company said Monday that it continues to have a strong balance sheet and ample liquidity, and that its operating and capital budgets for 2020 and 2021 would not be affected.

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million subject to market conditions, though the company said they could ultimately exceed that amount.

The company revised its annual earnings guidance from a previous range of $2.20 to $2.50 per diluted share to $1.30 to $1.60 per share.

PGE's management team appeared to pull out the stops Monday in an effort to reassure employees and investors of its financial integrity. It filed a voluminous disclosure with the Securities and Exchange Commission, including a lengthy investor presentation, an email to employees, an FAQ and a press release describing the bevvy of lawyers, industry experts and financial advisors it had hired to review its internal procedures.

What was in short supply was a precise description of the trades in question. In an email to employees Monday, Pope offered a general but still ambiguous explanation of the problems.

Pope explained that the market moved against the company when wholesale electricity prices spiked in August due to extreme weather conditions, power transmission constraints and changes in power supply in the west.

"While we do not have all the answers, a thorough review is being conducted and we are committed to being transparent," Pope told employees. "We are committed to getting to the bottom of how this happened and ensuring it will never happen again."

During the period in question, the California Independent System Operator, which