

Reprinted From

The New York Times

FRIDAY, OCTOBER 18, 2002

Enron Trader Pleads Guilty To Conspiracy

Former Worker Admits Manipulating Market For Energy in California

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with MATT RICHTEL

A former senior trader at the Enron Corporation pleaded guilty yesterday to engaging in a conspiracy that illegally manipulated the California power market during the state's energy crisis, driving up prices and generating millions of dollars in excess profits for his employer.

In the plea, Timothy N. Belden — the former head of trading in Enron's office in Portland, Ore. — admitted to working with others on trading tactics that effectively transformed California's complex system for buying and transmitting energy into a fictional world, complete with bogus transmission schedules, imaginary congestion on power lines and fraudulent sales of "out of state" energy that in fact came from California itself.

Mr. Belden's plea established for the first time that traders engaged in crimes to take advantage of the energy crisis that began in California in 2000, worsening an already bleak situation for the state's consumers. The possibility of such criminal activity has long been suggested by politicians in the state, including Gov. Gray Davis, who said the plea vindicated his stance. The plea also prompted calls for reimbursement and greater regulatory scrutiny.

"Belden and others conspired to defraud California electricity consumers and customers through a variety of schemes designed to artificially increase payments from the California power manager to Enron," Larry D. Thompson, the deputy attorney general, said at a news conference announcing the plea deal. He added that

the conspiracy "allowed Enron to exploit and intensify the California energy crisis and prey on energy consumers at their most vulnerable moment."

But the plea has ramifications that reach outside California. Because Mr. Belden has agreed to cooperate with the government in continuing investigations, the plea opens up a new avenue of inquiry for prosecutors who are seeking to determine the role that crime played in the collapse of Enron last year.

Indeed, the Belden admissions, coupled with those of others at Enron in related cases, establish that criminal activity infused several parts of the company, from the way it conducted trading to the methods it used to obtain financing.

Mr. Belden has already been interviewed by prosecutors and agents with the F.B.I. about his role in the illegal trading strategies as well as other areas of investigation, people involved in the case said. For example, he was questioned about the operations of Enron's broadband unit, as well as the potentially improper use of reserves established out of the the company's huge profits in its energy trading during the California energy crisis, these people said.

In his statements yesterday and in court filings, Mr. Belden made clear that other Enron executives, whom he did not identify, participated in the conspiracy, which began in 1998 and lasted through much of 2001. And in a statement yesterday, Cristina C. Arguedas, a lawyer for Mr. Belden, said that the crimes were simply the way her client was trained by Enron to do business.

Mr. Belden "did what was expected of him," Ms. Arguedas said, adding that he took his actions "in accordance with Enron's policy, expectations and training."

Ultimately, though, the conspiracy proved immensely valuable to Mr. Belden,

internal Enron documents and court records show. Data from Enron show that in 2001 alone Mr. Belden received two bonus checks totaling about \$5 million — the seventh-highest amount of bonuses paid to any executive at the company that year.

Already, the government and Mr. Belden's lawyers have calculated the amount of his compensation that can be traced to the illegal conspiracy. As a result, under his plea deal, Mr. Belden has agreed to forfeit \$2.1 million he maintained in two brokerage accounts at Charles Schwab. That money is earmarked for Californians who paid too much for their energy because of the scheme.

Mr. Belden formerly worked as a researcher at a federal energy laboratory, and several times was listed as a co-author on scholarly papers about the energy markets. From there, he went to the Portland General Electric Company and joined Enron when it bought that company. By the time of the collapse, Mr. Belden — who devised many of the trading strategies — headed a trading unit of more than 100 people.

Mr. Belden, 35, pleaded guilty to one count of conspiracy to commit wire fraud before Judge Martin J. Jenkins of Federal District Court in San Francisco.

He faces a maximum of five years in prison and a \$250,000 fine. Because he is cooperating with the federal inquiry, however, any sentence is likely to be significantly lower.

"I knew at the time I was submitting false statements," Mr. Belden said. "I did it because I wanted to maximize profits for Enron."

Such an admission raises the chance that Enron itself could be charged with a crime. In the other criminal cases involving Enron, a majority of the suspected wrongdoing involved actions by executives working to enrich themselves, often at the company's

expense. But under federal law, a corporation can be charged only if an important executive commits a crime with the purpose of benefiting the company, as Mr. Belden said he did.

Enron did obtain huge revenues from the trading in California. According to the charges filed against Mr. Belden, West Power — Enron's electric trading arm — generated about \$50 million in revenue in 1999, the year before the California energy crisis. By 2000, the document says, that amount jumped to \$500 million. The next year, revenue spiked again, climbing 60 percent, to \$800 million. Of course, much of that increase could be attributed to the huge rise in electricity prices in California, which would have occurred even without the criminal activity.

According to the documents filed with the court, the criminal conspiracy began soon after California revamped the state's electricity industry, making it more responsive to market forces. In 1998, the year the new rules became effective, Mr. Belden and others at Enron "agreed to devise and implement a series of fraudulent schemes through these markets."

The schemes took advantage of the structure in the newly deregulated markets. Under the rules, energy marketers like Enron had to schedule their deliveries of electricity to customers. Within that system, the marketers could also be paid for altering their delivery schedules if a particular transmission line became congested. In addition, there were ways to profit from power emergencies — by selling power to California from more expensive out-of-state areas and by making commitments to deliver a fixed percentage of power in such

an emergency to prevent the collapse of the system.

But those methods proved to be ways Enron could increase its revenue with little additional work. By filing bogus electricity schedules, Mr. Belden and his co-conspirators could artificially increase congestion on California transmission lines; then, they would be paid to "relieve" the congestion, which did not exist. The company shipped power out of California, then sold it back into the state, in turn getting the higher prices for out-of-state electricity. And Mr. Belden and the others made commitments to deliver energy they did not have and did not intend to supply.

The accusations themselves were first made public in May, when the Federal Energy Regulatory Commission disclosed internal Enron documents that showed the company had engaged in such practices, giving the trading strategies names like Death Star, Ricochet and Fat Boy. But yesterday's plea is the first time that a participant has acknowledged that the activities were illegal.

Ultimately, though, state and federal officials said that these actions did not cause California's energy crisis, but merely worsened an already deteriorating situation. In essence, Enron was in the role of the pickpocket who lifts the wallet of an unconscious man, not of the mugger who knocks him to the ground in the first place.

Patrick H. Wood III, chairman of the Federal Energy Regulatory Commission, said yesterday that the manipulations described in Mr. Belden's plea played "some role" in the energy crisis but added

that other factors like a drought in the Northwest and a lack of public investment in power plants also appeared to have played a part.

Regardless of the effect of the crimes, the guilty plea had immediate political ramifications in California. Staff members working for Mr. Davis said that the Belden plea demonstrated that the governor had been right all along about there being wrongdoing in the California markets during the energy crisis.

"This is vindication for the governor, who was accusing Enron of market manipulation way back when," said Steven Maviglio, a spokesman for the governor. "He had said a long time ago that someone from Enron needed to go to jail."

Mr. Maviglio said that the admission of wrongdoing by Mr. Belden would also be used by California in its case before the energy regulatory commission. The state is trying to obtain reimbursements of \$9 billion in charges from energy marketers during the power crisis.

Federal elected officials from California also reacted to the news of the plea with satisfaction and calls for reform. Senator Barbara Boxer, a Democrat, said she thought Mr. Belden "will bring down other officials who were in on the process" and also called on federal energy regulators to act on the state's demands for reimbursement.

Senator Dianne Feinstein, also a Democrat, said she did not believe that "this fraudulent activity begins or ends with this one individual," and called for Congress to adopt a bill she has proposed to create greater federal oversight of energy transactions.