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PGE solution has been here all along

By BILL PARISH Issue date: Fri, Nov 28, 2003

The Tribune

Suddenly, there's a great investment opportunity before the Oregon Investment Council, the group that manages the \$40 billion in Public Employees Retirement System assets.

That opportunity is Portland General Electric.

Remarkably, up until now no one has suggested that Oregon PERS, along with perhaps CalPers and a few other public pensions, make a direct investment in PGE. Even Neil Goldschmidt may have missed the obvious, since he is now championing the purchase of PGE by a Texas firm that, like Enron Corp., has significant activity in the Cayman Islands for which no disclosure is available.

PERS could instead lead the purchase of PGE by forming a partnership and negotiating a bond deal in which it was paid a good interest rate and also received an added payment as the bond matures - a hybrid convertible bond. Such a transaction would eliminate massive investment banking fees, provide more transparency and also allow PGE to slowly migrate to a co-op structure in which businesses and consumers would become owners and benefit from more reasonable power rates.

This would not be a people's utility district, but rather a private co-op, not unlike co-ops at leading companies ranging from utilities to financial firms such as the Vanguard family of mutual funds.

Such a structure would allow the focus to shift to where it should be -- on identifying a management group. It could include Goldschmidt and would work with existing PGE management and then quickly transition into a top-performing utility.

This management group would not be selected via a political process by city or county officials. Instead, it would be chosen by the bondholders, in this case the PERS pension systems.

Citizen fears of the city, county or state running PGE are reasonable. But a PERS investment is quite different in that the bondholders would have no interaction with daily operations after selecting the management group. Of course they would maintain strong influence over the board of directors.

Oregon is awash in outstanding business executives, many of whom lost their jobs as a result of mergers and hostile takeovers, one prominent example being Willamette Industries. This includes many executives from the utility industry; outstanding law firms with strong utility backgrounds, such as Stoel Rives; and proven leaders of large

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public entities, including Tom Walsh and Mike Burton.

Walsh supervised the completion of the original light rail under budget and ahead of schedule, and Burton led Metro during a difficult period with a balanced perspective.

A PERS-led buyout also could eliminate the potential for the abuses that plagued Enron, including excessive executive compensation via stock options and lack of transparency resulting from offshore operations in the Cayman Islands. Surprisingly, the current Texas Pacific proposal would award stock options to Goldschmidt

One might ask: What has PERS been investing in lately? This year the Oregon Investment Council gave \$300 million to a firm that specializes in acquiring public parking facilities, for example those at universities and hospitals, and wringing more revenue out of them. The net effect of public entities selling these facilities because of budget crisis is to drive up costs for students, teachers, physicians and patients -- costs that businesses and taxpayers will bear over the long term.

Today, more than half the \$40 billion of Oregon PERS investments are managed by firms based in Europe. These include Barclay's in the United Kingdom; Pimco, now a subsidiary of the German insurance conglomerate Allianz; and Alliance Capital, a subsidiary of the French Insurance conglomerate Axa.

Even when the Oregon Legislature mandated that \$100 million be invested in Oregon startups, the Oregon Investment Council has pushed for this program to be managed by New York-based Credit Suisse.

Gov. Ted Kulongoski has talked about reinventing government; perhaps now is a good time to recognize that a knock on the door of state Treasurer Randall Edwards might bear more economic fruit for Oregon than a trip to China.

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