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POWER FAILURE

How the PGE deal collapsed.

By **NIGEL JAQUISS** | Published March 15, 2005 Updated January 24

Last Wednesday night, Tom Imeson and several pals gathered in the downtown Hilton's Pavilion ballroom.

Imeson, the former chief of staff and business partner of onetime Gov. Neil Goldschmidt, was attending a dinner for the Cystic Fibrosis Foundation where he dined on lobster-stuffed calamari and duck with almond pesto.

There was excitement in the air. The next day, the Oregon Public Utility Commission would render its verdict on the biggest Portland business deal in years—whether Imeson's client, the Texas Pacific Group, would be allowed to purchase Portland General Electric.

According to one source, Imeson told friends over dinner that he expected the PUC to okay the deal with conditions. (Imeson doesn't remember things that way but would not elaborate.)

Imeson, whose firm Texas Pacific hired in November 2003 to guide it through the shoals of Oregon politics, is a close adviser to Gov. Ted Kulongoski and a former PacifiCorp executive intimately familiar with the PUC's inner workings. If anybody could read the regulatory agency's signals, it ought to be him.

Imeson guessed wrong.

On Thursday, the PUC unanimously rejected Texas Pacific's proposal to buy PGE, sounding what is probably the death knell for the deal and also helping to break the grip Neil Goldschmidt has had on this state for 30 years.

When Goldschmidt resigned from his Texas Pacific obligations after last year's sex scandal, the Fort Worth-based buyout firm's proposal had to stand on its own merits, which were few. Texas Pacific compounded the sting of Goldschmidt's departure with an arrogance and clumsiness that belied the firm's brainy reputation.

Texas Pacific's 16-month dalliance with PGE was not a waste of time for Oregonians, however. The firm's own financial legwork preparing for the sale and the work of a few watchdogs revealed how poorly PGE has been run for many years. It also revealed that the utility has generated profits far in excess of the rate allowed by the PUC, leading to the conclusion that the agency has been unwilling-or unable-to protect ratepayers. (Texas Pacific declined to comment for this story.)

Even people who applaud the PUC's rejection of Texas Pacific say the decision had less to do with the proposal's merits-or lack thereof-than with political realities the commissioners could not ignore.

"I would think the political pressure on them was tremendous," says state Sen. Rick Metsger (D-Welches), who

☰ should know, since he was among those turning up the heat.

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"Texas Pacific recognized from the start that this was a political deal and would stand or fall on politics," says utility lawyer Dan Meek. "That's why they chose Neil, who knows nothing about utilities. The PUC proceeding was just window dressing."

On Nov. 18, 2003, in the same Hilton hotel where Imeson dined last week, former Portland mayor and Oregon Gov. Goldschmidt stunned the state.

At a morning press conference, Goldschmidt, who'd kept a low profile since leaving the governor's office in 1991, announced that he would rescue PGE from its scandal-torn, bankrupt parent, Enron.

The aging statesman who, as Portland's boy-wonder mayor in the '70s, sired Pioneer Courthouse Square, Tom McCall Park, light rail and countless other Portland landmarks, was storming back onto the public stage to save the state's largest utility.

Standing next to Goldschmidt were two trusted lieutenants: homebuilder Tom Walsh, the former TriMet director, and Delta Airlines Chairman Gerald Grinstein, a Seattle resident.

The money for the \$2.35 billion acquisition came from the deal's architects: Texas Pacific, a firm perhaps best known for its ownership stakes in Burger King, J.Crew and various airlines.

Although Goldschmidt, Walsh and Grinstein lacked meaningful utility experience-as did Texas Pacific-the announcement was high-octane enough to effectively block the City of Portland's own quest to acquire PGE.

Goldschmidt, a Democrat who served as mayor from 1972 to 1979 and governor from 1987 to 1991, brought extraordinary political influence to the deal. That's why Texas Pacific was willing to pay him a \$200,000 annual salary, retain his firm at \$50,000 per month and grant him stock options potentially worth several million dollars.

Several of Goldschmidt's former acolytes, including then-mayor Vera Katz and her probable successor Jim Francesconi-and, best of all, Gov. Kulongoski, who less than one week earlier had asked Goldschmidt to chair the state Board of Higher Education-were in a position to help Texas Pacific.

Also on Texas Pacific's team: Imeson, Kulongoski's gubernatorial transition director; Port of Portland Commission President Jay Waldron, Texas Pacific's local attorney; and NW Natural CEO Mark Dodson, who advised the Texans. "Texas Pacific seemed to have all the right answers: financial horsepower, local representatives and political muscle," says Metsger. "It looked like the Dream Team."

But even in that carefully orchestrated first press conference, a sour note sounded. Nancy Newell, a public-power activist and reporter for the enviro-friendly *Cascadia Times*, hammered Texas Pacific boss David Bonderman for what she claimed were anti-union tactics in another Texas Pacific investment, Continental Airlines.

☰ "Bonderman and Goldschmidt and Imeson misread this thing from the start," says Larry Tuttle, director of the Center for Environmental Justice. "After years of dealing with Enron. People who didn't know equity from a sheepdog three years ago can now explain Texas Pacific's double-leveraged structure."

At least Goldschmidt had the state's biggest newspaper on his side: "Tuesday's announcement that Enron has agreed to sell Portland General Electric to private investors with strong local connections was good news on several fronts," *The Oregonian* opined the day after the deal was announced.

Almost immediately, however, problems developed. Local financial adviser Bill Parish, who keeps a close eye on the Oregon Investment Council and the nearly \$60 billion in public funds it manages, alerted the press that Texas Pacific's largest investor was none other than the OIC.

Parish also noted that Goldschmidt's wife, Diana, was one of the four appointed board members who controlled the OIC's billions. Just days before Texas Pacific announced its bid for PGE, the investment council had voted to invest \$300 million in a new Texas Pacific fund. That vote raised the possibility that Diana knowingly directed money to a group employing her husband-which could violate state law.

"Texas Pacific's decision to hire Goldschmidt without resolving the potential conflict shows arrogance, incompetence or both," Parish says. "Whatever the truth was, it gave the appearance of a cozy deal that could enrich a few at the expense of public pensioners."

(Months later, a state attorney general's inquiry concluded that Diana Goldschmidt had broken no law, but by then Kulongoski had already kicked her off the council because of the perception of self-dealing.)

Texas Pacific invited even more scrutiny by hiring the Ater Wynne law firm to represent it before the PUC.

For more than a year prior to the announcement of PGE's bid, Ater Wynne had advised the City of Portland on its efforts to buy PGE. In February 2004, a retired lawyer, Lloyd Weisensee, filed a bar complaint against the firm, alleging it had violated ethics that prohibit representing two clients in the same matter. (A bar investigation into Ater Wynne's conduct is in progress.)

In May, shortly after the PUC began official consideration of Texas Pacific's proposal, *WW* published a story about Goldschmidt's sexual abuse of a 14-year-old girl in the '70s.

The furor that followed cost the investment firm its greatest asset: a power broker whose influence could compensate for Texas Pacific's lack of utility experience and the growing opposition to the deal. Goldschmidt severed ties with Texas Pacific immediately.

Texas Pacific replaced Goldschmidt with Oregon Health & Science University President Dr. Peter Kohler, the leader of Portland's largest employer.

Kohler's decision troubled some university employees who thought the university faced more than enough challenges to keep him busy. Critics also charged that OHSU's reliance on electricity consumption put the university in conflict with the multimillion-dollar payday that awaited Kohler if Texas Pacific could flip PGE for

☰ a big profit.

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The same week that Goldschmidt resigned, another Texas Pacific ally, City Commissioner Jim Francesconi, stumbled badly. Francesconi opposed the city's pursuit of PGE and had been the overwhelming favorite to succeed Mayor Katz. But in the May primary, Francesconi ran a weak second behind upstart challenger Tom Potter. (Now mayor, Potter is a strong advocate of the city's purchasing PGE.)

In negotiations before the PUC, Texas Pacific showed no interest in compromising with various business groups and consumer advocates who wanted the company to cut electricity rates, which are the highest among the Northwest's 10 largest utilities.

Unlike Enron, which artfully cultivated allies in its successful 1997 bid for PGE, Texas Pacific earned the opposition of every customer group and interested party across the political spectrum. "With Texas Pacific, it was all or nothing," says Jason Eisdorfer, a lawyer with the Citizens' Utility Board, a ratepayer advocate.

Texas Pacific also insisted on unparalleled confidentiality in the information it was providing the Public Utility Commission, the state regulatory agency responsible for making the ultimate decision. Initially, Texas Pacific insisted crucial data it submitted be viewed only by PUC staff and not by any intervenors, as the interested parties are called. "I'm not aware of that being done before," Brian Conway, the PUC staffer in charge of Texas Pacific's case, told *WW* earlier this year.

After some arm-twisting, Texas Pacific offered rate concessions of \$43 million in October 2004; the PUC staff wanted \$75 million. Soon thereafter, the staff offered to split the difference, according to several parties present at a closed-door settlement conference. Texas Pacific astonished intervenors by rejecting the compromise. "If they had taken that offer, the deal was done," Eisdorfer says. "But they blew it."

Things would get worse. Texas Pacific touted Walsh, Kohler, Grinstein and other Oregon board members as evidence that the company would be locally controlled. That claim disintegrated in October when Kohler and Walsh gave testimony before the PUC that displayed a stunning lack of knowledge about Texas Pacific's plans. "In retrospect, that was when the idea that the local board was a benefit imploded," says Eisdorfer.

To shore up public opinion, Texas Pacific hired the local ad agency Gard & Gerber to generate an ad campaign featuring business leaders who supported the deal. Those ads backfired.

The ad campaign mobilized critics, including a pair of very energetic senior citizens, former U.S. Attorney for Oregon Sid Lezak and retired shipping executive Ken Lewis.

The pair penned op-ed pieces, buttonholed influential Portlanders and begged Kohler to save his reputation by quitting the deal. The state's power elite listened. "Having Ken and Sid on the other side made opposition to Texas Pacific respectable at the MAC Club and the Arlington Club," utility watchdog Meek says.

Still, when the PUC wrapped up its nine-month series of hearings and legal arguments in December, many insiders thought the deal would go through.

"We expected the PUC would approve the deal with conditions," says Julie Brandis, a lobbyist for Associated

☰ Oregon Industries, which represents 23,000 employers and opposed Texas Pacific.

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But on Jan. 5, after obtaining confidential records of Texas Pacific's analysis of PGE, *WW* published "The PGE Papers." The documents revealed that Texas Pacific had privately concluded PGE was poorly run; that Texas Pacific could easily lay off hundreds of PGE employees; that it could make more than a billion dollars in five years; and that it would probably sell PGE to another utility.

All of that was new information to the public, and much of it directly conflicted with what Texas Pacific and its local representatives had said previously.

For the next week, local media amplified the revelations. "That story energized the public discussion and really seemed to get the Legislature involved," says Ken Canon, director of Industrial Customers of Northwest Utilities, which represents Intel and other large electricity users.

In late January, several senators jumped aggressively into the PGE issue. In particular, Metsger, chairman of the Senate's Business and Economic Development Committee, sent a clear message when he convened hearings about whether the PUC's regulatory powers were adequate.

While the hearings focused on the PUC's past willingness to let Enron pocket more than \$700 million in local, state and federal tax payments collected from ratepayers, the larger implication was clear. Metsger and his colleagues put the PUC on notice that it had better act in a way that would protect Oregonians and end what he repeatedly called "the fleecing of ratepayers."

Following Metsger's hearings, *WW* also reported that for several years during the '90s, PGE had posted profits far in excess of the maximum return that regulated monopolies are allowed to earn under PUC rules.

As the PUC dragged its feet through January and February, issuing a series of delays in the announcement of its decision, other senators, most notably Ryan Deckert (D-Beaverton), turned up the heat.

Deckert, who had initially supported Texas Pacific's bid, became an opponent. Shortly after Metsger's hearings, Deckert and two colleagues introduced a bill that would allow the state to buy PGE. The City of Portland and at least one other private group geared up as well.

In the end, with Goldschmidt in disgrace and his web of power in tatters, the PUC perhaps had no choice but to reject Texas Pacific. As *The New York Times* noted last week, "An unusual alliance of corporate, consumer and environmental groups—often adversaries—opposed the deal. Only one major electricity customer, *The Oregonian* newspaper, supported the purchase."

PGE Winners & Losers

WINNERS

Oregon Public Utility Commission It may have been driven more by politics than by the facts (which have been in front of the PUC for a year) and it may have taken too long, but ultimately the commission made the

☰ right decision.

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WILLAMETTE WEEK

Erik Sten City commish took a major career risk by bucking the Goldschmidt power structure. Even if the city fails to acquire Portland General Electric, the victory over Texas Pacific adds to his already considerable clout.

Ann Fisher The lawyer who represented the Portland Metropolitan Building Owners and Managers Association buzzed around PUC like an angry hornet. After New York Times reporter David Cay Johnston read her op-ed about TPG's potential profits in *The Oregonian*, he elevated Texas Pacific's bid to the national stage.

Salem Statesman Journal Aggressive reporting on Goldschmidt Imeson Carter's sway over Gov. Kulongoski's office raised questions about the firm's role and the governor's independence.

PGE brass Even though CEO Peggy Fowler and her team paid lip service to the Texas Pacific buyout, they would have would have been done faster than microwaved hot dogs had the deal succeeded. Now they'll hang on and hope Enron distributes PGE stock to creditors, which would save their jobs.

Dan Meek Meek and his colleagues at the Utility Reform Project fought Texas Pacific at every turn and have provided a steady stream of analysis to reporters.

Mike Siebers The CEO of Blue Heron Paper in Oregon City was one of the few corporate leaders willing to speak out about problems with Texas Pacific's proposal.

Peter Kohler OHSU boss Kohler loses the potential for a big payday. But the word on Marquam Hill is that Kohler didn't know what he was getting into and that he can now extricate himself from a fiasco.

LOSERS

Ater Wynne The law firm sullied its reputation by hopping out of bed with the City of Portland and into bed with TPG, leading to a state bar investigation that is now heating up.

Tom Walsh The former TriMet director and current low-income housing developer had been a leading adviser to Sten on the city's effort to buy PGE. He joined Texas Pacific for a big payday and uttered some of the silliest statements: "PGE is really no different than Wells Fargo or Fred Meyer," he wrote to one critic. "Each exists in a competitive environment, dependent on pleasing customers." Hey, Tom: PGE is a monopoly.

Tom Imeson He lost his boss and meal ticket (Goldschmidt) and couldn't deliver for Texas Pacific. Known for political adroitness, he ended up on the wrong side of city government and Senate Dems. The longtime insider is now in danger of being on the outside.

Portland Business Alliance In contrast to Texas Pacific foes Associated Oregon Industries and Industrial Customers of Northwest Utilities, the PBA failed to take a position on one of the state's biggest economic decisions. Probably no coincidence that longtime Goldschmidt ally and NW Natural CEO Mark Dodson chairs the PBA board.

≡ Oregon Investment Council The attorney general's inquiry cleared former OIC member Diana Goldschmidt of criminal wrongdoing. She was described as a clubby and clumsy rather than careful in the handling of their agreement to invest in Texas Pacific. Edwards and OIC chair Gerard Drummond knew Texas Pacific planned to buy PGE but kept other board members in the dark for months; then the OIC voted to give Texas Pacific \$300 million without public notice of the vote or tape-recording the session, both violations of its policy. -NJ

PGE Timeline

June 1889

Willamette Falls Electric Company achieves the nation's first long-distance transmission of electricity, sending power 14 miles from a generator in Oregon City to streetlights in Portland. Portland General Electric is born.

1934

J.P. Morgan buys PGE after owner Samuel Insull-a former aide to Thomas Edison-declares bankruptcy.

1935

Congress acts to eliminate unfair practices in the increasingly consolidated energy market. Utility holding companies can no longer subsidize unregulated business activities with profits made from regulated utilities.

1992

Congress deregulates parts of the energy market and opens the door for increased corporate investment in public utilities.

1993

PGE shuts down Trojan Nuclear Plant after revelations of cracked steam tubes and leaking radioactive gas.

July 1997

Enron buys PGE for \$3 billion. PGE shareholders receive \$1.8 billion in Enron stock.

November 1999

Sierra Pacific Resources agrees to buy PGE from Enron for \$3.1 billion.

April 2001



The Sierra Pacific deal dies.

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WILLAMETTE WE

October 2001

Texas Pacific Group teams up with NW Natural on plan to buy PGE for \$2.9 billion.

December 2001

Enron declares bankruptcy, with former PGE officials cashing out stock options beforehand for tens of millions of dollars.

May 2002

NW Natural backs out. Texas Pacific proceeds with purchase plan.

November 2003

Texas Pacific announces its proposed purchase of PGE. Forms Oregon Electric Utility Company, led by former Gov. Neil Goldschmidt.

May 2004

Goldschmidt resigns from his role as chairman of Oregon Electric and investor in Texas Pacific purchase of PGE, as *WW* reports that he sexually abused a 14-year-old girl in the 1970s.

December 2004

Arizona regulators deny the sale of Tucson Electric Power to a partnership led by Kohlberg Kravis Roberts & Co. The all-Republican Arizona Corporation Commission concludes that the risks of private buyout outweigh potential benefits.

January 2005

WW reveals the sealed contents of Texas Pacific's private analysis. The documents show a lucrative potential investment strategy that's at odds with the company's public pronouncements.

Texas Pacific releases some of the confidential documents to *The Oregonian* and argues that its private analysis shouldn't be taken too seriously.

City of Portland announces its own plan to buy PGE if the state turns down Texas Pacific's offer.

March 10, 2005



Oregon Public Utility Commission unanimously denies Texas Pacific's \$2.35 billion offer to buy PGE.

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-Pete Hunt

PGE by the Numbers

\$1.4 billion revenue in 2004.

\$118 million operating payroll.

767,000 customers in **51** cities.

2,600 employees.

900 public comments on PGE sale received by Oregon Public Utility Commission.

10 percent higher rates on average nationally for investor-owned utilities versus publicly owned utilities.

Sources: Portland General Electric, U.S. Department of Energy



TRENDING

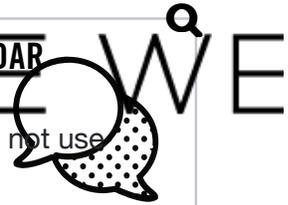
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