FROM THE ENRON FILE: ELECTRICITY DEREGULATION, ENRON & JOHN ROWLAND
June 25, 2004

In the wake of Governor John Rowland's resignation on June 21, much of the public discussion in and around Connecticut will likely focus on the quid pro quo aspect of the Rowland scandal – the trading of state contracts by various members of the Rowland Administration for all manner of benefits (cottage improvements, money, gold) – or the ethical violations – on-the-cheap vacations, gifts, sweetheart real estate deals for the Rowlands – or the crony capitalism practiced by Rowland with his friends William Tomasso and Robert Mathews. While these issues are important for the people of Connecticut to understand, they potentially obscure a deeper problem with democracy in the state: how big money influences who runs for office and who gets elected.

In 1994, John Rowland spent $4 million in beating out three other candidates to become governor of Connecticut. Rowland's margin of victory over his closest competitor, Bill Curry, was three percent – 36% to 33%. His platform made little, if any, mention of electricity.

In the mid-1990's, having convinced the Federal Energy Regulatory Commission to deregulate natural gas in 1993, the energy industry moved on to another green pasture – the state electricity markets. Led by Ken Lay's Enron, the energy and manufacturing industry initiated a nationwide effort to deregulate the electricity market, pouring millions of dollars into political campaigns in many states, including Connecticut. In 1996, the energy and natural resources industry gave $76, 231 to candidates for the state senate in Connecticut. This figure does not include contributions from the lobbyists, attorneys, consultants, or accountants for the industry, nor any contributions from the manufacturing industry, which benefits greatly under electricity deregulation from its ability to negotiate cheaper prices from suppliers.

Despite the earlier contributions from the energy industry, the Connecticut Senate failed to pass a deregulation bill in the spring of 1997.

In summer 1997, Governor Rowland was preparing to run for reelection. His last race was close – three points. The $4 million he had raised in the 1994 campaign had almost not been enough.

In the summer of 1997, the energy industry was also contemplating a future campaign – the unfinished business of electricity deregulation in Connecticut. Doubtless aware that the $76,000 in the previous cycle had been insufficient to get their bill out of the senate, the industry upped their campaign contributions in Connecticut in the 1998 election cycle to $384,576. Rowland, whose support and signature were crucial to the industry's efforts, received $151,165.

As a measure of how much energy companies valued deregulation, Northeast Utilities, one of the two Connecticut companies who held a monopoly over electricity generation while the market was still regulated in Connecticut, hired 14 lobbyists and spent $500,000 to pass deregulation.

The energy companies weren't alone in pushing for deregulation. The executive director of the Waterbury-based Manufacturing Alliance of Connecticut (MAC) called deregulation "the most timely and critical issue for manufacturing in Connecticut." Governor Rowland was also on board now. In a speech to the MAC's 1997 legislative planning session, he ascribed the earlier failure to pass a deregulation bill to "weak-kneed" legislators. In the 1998 election cycle, manufacturing interests gave $423,955 to state candidates in Connecticut, including $194,731 to Governor Rowland.

HB 5005, the bill which would deregulate the electricity generation market in Connecticut, passed the Connecticut Legislature in the spring of 1998. At the time, some doubt existed as to whether Rowland would sign the bill because of a last-minute amendment that would have restricted the circumstances under which the utilities could seek adjustments to rates to customers. Rowland signed the bill on April 29, 1998. Deregulation was scheduled to take full effect on July 1, 2000.

Rowland ended up raising more than $6 million for his 1998 campaign, helping him to defeat opponent Barbara Kennelly by a nearly 2:1 margin – 63% to 36% of the vote. Kennelly received $44,667 from manufacturers, $40,120 from the energy and natural resources sector – less than one fourth of what Rowland received from the two sectors.

Around the country, the results of the energy industry's push to deregulate the state electricity markets were mixed. It wasn't for a lack of trying. In the 1998 election cycle, the industry gave out over $9 million to state-level candidates in 37 states, including nearly $7 million to candidates in those 17 states that enacted deregulation legislation. Ken Lay personally contributed $195,000 to state-level candidates around the country; his company Enron kicked in another $625,000.

Energy companies still had several hurdles to manage in the ensuing years before they would be able to cash in on their electoral investments. Deregulation was not set to begin for several years in most states. Depending on a number of factors, a state might limit the stranded costs that electricity companies could recoup from consumers, extend the period in which the often cheaper standard offer prices were still in effect (which then-Governor Rowland was forced to do in Connecticut in 2003), or otherwise postpone deregulation. There were also more states to deregulate. By the time rolling blackouts started in California in January 2001, 24 states had passed legislation designed to deregulate their electricity markets.

In the 1999-2000 election cycle, Ken Lay gave $94,500 to state-level candidates around the country; Enron contributed $673,204.

Governor Rowland's star was on the rise after his landslide re-election in 1998. His name was discussed as a possible running mate for George W. Bush in 2000. After the election, he was often mentioned for a position within the Bush Administration – Pres. Bush thought enough of him to give him a nickname – Johnny. There were some that thought Johnny was destined for the White House. He was also on the shortlist for a leadership role in the influential Republican Governors Association (RGA). (To give you an idea of the RGA's influence, it raised $27,406,751 from 2002-2004, giving away nearly $24 million to state candidates around the country over the same period.)

Deregulation offered a number of unexpected opportunities, especially in Connecticut. Because of deregulation, Connecticut Light & Power (CLP) was forced to divest itself of the electricity generation portion of its business and to make a good faith effort to buy out its long-term supply contracts. One such contract was with the Connecticut Resources Recovery Authority (CRRA), which sold steam to CLP at over double the market price. On March 31, 1999, CLP signed a memorandum of understanding stating that it was prepared to pay the trash authority nearly $300 million to get out of the deal. By early 2000, the two entities had not come to an agreement to buy out the contract. Enter Enron.

In 2000, Enron officials met with Connecticut officials in March and again in August. Enron was interested both in the CLP-CRRA deal and a separate fuel-cell venture with the CRRA. According to an internal Enron memo, the Connecticut officials who were present at the August meeting were Arthur Diedrich, head of the Connecticut Development Authority, and Peter Ellef, who doubled as chairman of the CRRA and Governor Rowland's co-Chief of Staff.

True to form, Enron backed up its lobbying efforts with cold hard cash. The company and its executives gave $1 million to the RGA and Rowland between December 1999 (6 months after the CLP memo) and October 2001 (the month Rowland was named chairman of the RGA).

On July 1, 2000, deregulation went into full effect in Connecticut with little fanfare. Even though retail and commercial customers could now choose their supplier, very few companies had entered the market, so there was very little change in whose electricity Connecticut consumers and businesses used. The energy industry blamed Connecticut's standard offer rates, which protected consumers by locking in rates for a few years at a level based on 1996 rates.

On December 18, 2000, Governor Rowland met with Enron and CRRA officials (including Peter Ellef) in his office. Rowland has said that they discussed the future of the fuel-cell industry. He has denied that the impending deal between Enron and the CRRA was discussed: "I do not get involved in the running of the CRRA or their projects."

Enron and the CRRA signed a memorandum of understanding just days later.

The basic deal: CLP agreed to a $290 million buyout of its contract with CRRA. Enron, in return for assuming CLP's contract with CRRA, received a lump-sum payment of $220 million from CLP. Enron was obligated to make capacity payments of $2.2 million a month to the CRRA until 2012. The Connecticut Department of Public Utility Control (DPUC) signed off on the deal on January 31, 2001. Within the year, Enron would declare bankruptcy, the CRRA would lose the $220 million it fronted Enron, and the people of Connecticut would be scratching their heads.

"Electricity deregulation carries the promise of enormous benefits for the consumer - mainly in reduced electric bills - which I strongly support," Senator Joe Lieberman said

In January, 2001, shortly before the DPUC signed off on the Enron-CRRA deal and some 30 months after deregulation had taken effect in California, the state of California began to experience rolling blackouts. Tapes of conversations between energy traders for Enron obtained in litigation about the 2001 energy crisis have since revealed that Enron was causing the shortages in order to drive the price up.

George W. Bush was inaugurated as the 43rd President of the United States on January 20. On January 29, Vice-president Dick Cheney was named to head the taskforce which would formulate the nation's energy policy.

In February 2001, Johnny Rowland was named vice-chairman of the RGA, another feather in the cap of a politician who was going places.

In March 2001, Rowland attended an RGA meeting in Denver, along with fellow Republican governors Tom Ridge of Pennsylvania (then-Chair of the RGA), Bill Owens of Colorado, and Jim Geringer of Wyoming. And Ken Lay. According to an internal e-mail sent from Susan Landwehr, Enron governmental affairs specialist, she accompanied Ken Lay to a meeting at the Colorado governor's mansion where the four governors mentioned above were in attendance, as was an executive from Exelon, another energy services company like Enron.

"It turned out that just about the entire discussion centered around energy, and they strongly stated that the RGA is going to be very active in the western energy issues," Landwehr writes. "Strategically, this is good for us," she added. "... It is now clear that the leadership of the RGA (Ridge, Rowland) will be helping 'steer the ship.'"

Also in March 2001, Ken Lay flew to Portland to have dinner with Tim Belden, the head of the Enron Western trading desk, to congratulate him on the Western trading desk pulling in 80% of Enron's profits at the time. Belden later pled guilty to manipulating the market in California.

Despite soaring prices and energy shortages in California, the Federal Energy Regulatory Commission (FERC) still holds off on instituting price caps.

Vice-president Cheney's energy taskforce was meeting throughout the spring to discuss and formulate the nation's energy policy. Lay met with the Cheney taskforce on six separate occasions, on at least one occasion, in April, meeting with Cheney personally. The taskforce would end up calling for deregulation of energy markets and the increase of power plants.

Again, from December 1999 to October 2001, Enron and its executives gave $1 million to the campaign coffers of the RGA and Rowland.

On May 24, 2001, Ken Lay met with Arnold Schwarzenegger, Michael Milken, and Los Angeles mayor Richard Riordan to discuss California's energy crisis. According to one report, Lay's solution to the crisis is to have government play even less of a role in regulating the energy markets. Five days later, on May 29, President Bush meets with California Governor Grey Davis. Bush turns down Davis' request for price caps. Bush tells the Los Angeles World Affair Council: "For too long – and too often – too many have wasted energy pointing fingers and laying blame. Energy is a problem that requires action: Not politics, not excuses, but action. And blame-shifting is not action – it is distraction."

Also on May 24, Senator James Jeffords quits the Republican Party, upsetting the balance of power in the Senate and destroying the Republican's ability to thwart Democratic subpoenas.

Also in May, Cheney's energy taskforce releases its report. It offers no assistance to California.

Filings in a case in Washington suggest that in the 18 month period which ended in June 2001, Enron manipulated the market on 474 of the 537 days.

In June 2001, Nora Brownell and Patrick Wood were appointed to the FERC. Both are ardent supporters of the free market and deregulation; both were suggested by Ken Lay in a list of eight possible nominees to FERC.

In August 2001, Enron vice president Sherron Watkins sent an anonymous letter to the Chief Executive Officer of Enron, Kenneth Lay, describing accounting methods that she felt could lead Enron to "implode in a wave of accounting scandals."

On August 31, 2001 FERC Chairman Curtis Hebert Jr. resigns. He had told the New York Times in May that Ken Lay had pressured him on several occasions to support deregulation, going so far as to offer Hebert a deal: agree with Enron's view on electricity deregulation and the firm would support him. Lay denies the allegation.

Back in Connecticut, deregulation is still a nonstarter. Despite a series of ethical investigations, Governor Rowland still enjoys widespread support in Connecticut, a good sign for his upcoming 2002 re-election campaign.

On October 5, Rowland is named Chairman of the Republican Governors Association (RGA). Three days earlier, on October 2, a California subsidiary of Enron gives the RGA $20,000. On October 12, Rowland phones Ken Lay to express his thanks for Ken Lay's prior giving to the RGA and to sign him up again for 2002 at the $100,000 level. Four days later, Enron gives $60,000 to the RGA.

Rowland's schedule for October 12 shows time slotted to call Ken Lay. Phone records from Rowland's office show there was a 21-minute call placed from Rowland's office to Ken Lay's Enron phone number. Until January 2004, when Johnny Rowland admitted in secret testimony that he "probably" had talked with Ken Lay at some point, Rowland denied ever having spoken with Ken Lay – not at the March 2001 RGA meeting in Denver, not in the phone call placed from Rowland's office to Lay's office on October 12, not in other RGA fundraising circumstances nor in any other capacity as the RGA chairman. Never.

Also in October, Enron declares a $638 million loss in the third quarter.

In November, Enron said that it had overstated earnings for the past four years and it now owed over $6 billion. It also makes its last capacity payment to the CRRA

On December 2, 2001, Enron files for bankruptcy.

The CRRA and people of Connecticut are out over $200 million. Enron stock plummets from its high of around $80 to less than a dollar. The pension funds of 25 states suffer from Enron's collapse. 21,000 Enron employees are suddenly and unceremoniously out of work.

Governor John Rowland is miles ahead in the polls.

In May 2002, Rowland holds a 2:1 lead over challenger Bill Curry. By July, that lead has slipped to 51% to 34%. Part of Curry's campaign is trying to raise awareness about Rowland's ethical problems and his possible role in the CRRA-Enron deal that proved so disastrous for Connecticut. Very few media outlets grant significant coverage to Curry's allegations. Rowland's popularity slips, but nowhere near enough to cost him his lead in the polls. In the 2002 elections, Rowland defeats Curry 56% to 44%.

In 2002, Bill Curry raised $2,392,920 overall. Of that, $4,950 came from manufacturing interests; $10,385 from the energy and natural resources sector.

In 2002, John Rowland raised $6,582,070 overall. Of that, $82,370 came from manufacturing interests; $101,320 from the energy and natural resources sector.

New England electricity rates have risen as much as 400% under deregulation. In Connecticut, in June 2003, Rowland signed into law Public Act 03-135, which raised electricity rates for nearly all Connecticut's residential consumers. The rising wholesale price of electricity, not forecasted by proponents of deregulation, has forced Rowland to increase retail prices in the hope that the higher prices entice competitors to enter the Connecticut market. The standard offer cap has been extended through 2006 with increases in the standard offer price, and will likely be extended through 2007.

Shortly after his re-election in 2002, Rowland began to face increasing pressure about the CRRA deal that had been orchestrated by his Chief of Staff and cost the people of Connecticut so much money. Connecticut Attorney General Richard Blumenthal has since called the deal an illegal loan, and has filed suit to recover the millions of dollars lost. His former deputy Chief of Staff, Lawrence Alibozek, pled guilty to giving away state contracts in exchange for money and gold. His former Chief of Staff, Peter Ellef, has been notified that he will be indicted this summer by the federal authorities. Ethical violations, allegations of pay-to-play corruption within the Administration, state and federal corruption investigations, and a Connecticut House impeachment investigation into lies and questionable activities by Governor Rowland led to his eventual resignation in June

2004.

Big bucks were the enabling mechanism by which wealthy interests like Ken Lay and the energy industry were able to buy policies favorable to them all around the country, almost always at the expense of the people as a whole. In Connecticut, money from the energy industry helped to enable John Rowland to outspend his opponents in the 1998 and 2002 elections by nearly 3:1, stifling his opponents' message. Big bucks distorted the process by which we as a democracy separate ourselves from all manner of autocratic and despotic governments. Big money may have bought our elections.