From: Adams, Tim
Sent: Wednesday, April 04, 2001 3:44 PM
To: McHale, Stephen
Cc: Aufhauser, David
Subject: Personal Financial Issues

[(b)(5)]
From: McHale, Stephen  
Sent: Wednesday, April 04, 2001 4:00 PM  
To: Schmatzbach, Kenneth; Granat, Rochelle  
Cc: Adams, Tim  
Subject: FW: Personal Financial Issues

[b](5)

Original Message
From: Adams, Tim  
Sent: Wednesday, April 04, 2001 3:44 PM  
To: McHale, Stephen  
Cc: Aufhauser, David  
Subject: Personal Financial Issues

[b](5)
From: Granat, Rochelle
Sent: Wednesday, April 04, 2001 4:58 PM
To: McHale, Stephen; Schmalzbach, Kenneth
Cc: Adams, Tim; Rahilly, Lyn
Subject: RE: Personal Financial Issues

{(b)(5)}

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Subject: Personal Financial Issues

{(b)(5)}
fyi

---Original Message---
From: Bair, Sheila
Sent: Wednesday, January 09, 2002 12:18 PM
To: O'Neill, Paul; Fisher, Peter; Weinberger, Mark; Aufhauser, David; Duncan, John; Smith, Chris
Cc: Adams, Tim; Davis, Michele; Sweetnam, Bill Jr
Subject: Enron Paper

Attached please find a revised Enron paper with the following changes:

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I will send to memo to Josh as an expression of my personal thoughts. I would like to do so no later than 3:00 this afternoon, so if you have any further suggestions, I'd appreciate receiving them before then.

Thanks
Sheila
To: Josh
From: Sheila
Re: Policy Issues Presented by the Enron Bankruptcy

Per your request, below are some of my personal thoughts on the important policy issues presented by the Enron bankruptcy and some areas that might be ripe for reform.

In sum, possible initiatives include:

[(b)(5)]
CC Secretary O'Neill, Peter Fisher, Dave Aufhauser, Mark Weinberger, John Duncan
okay

-----Original Message-----
From:       Kupfer, Jeffrey
Sent:       Tuesday, January 08, 2002 2:18 PM
To:         Adams, Tim
Subject:    RE: Enron

nope -- why don't you let her know not to send anything over until he signs off.

-----Original Message-----
From:       Adams, Tim
Sent:       Tuesday, January 08, 2002 2:15 PM
To:         Kupfer, Jeffrey
Subject:    FW: Enron
Importance: High

Jeff - has PHON seen this?

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From:       Bair, Sheila
Sent:       Tuesday, January 08, 2002 12:55 PM
To:         Fisher, Peter; Aufhauser, David; Weinberger, Mark; Duncan, John; Smith, Chris
Cc:         Adams, Tim
Subject:    Enron
Importance: High

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Sheila
FYI. I spoke with Eleni and told her the only info we had was that they wanted to talk about California energy crisis. She may be calling you to follow up further.

---Original Message---
From: Constantine, Eleni
Sent: Friday, March 16, 2001 1:48 PM
To: Paulus, Michael; McInerney, Roberta
Subject: RE: Enron Meeting Request

[((b)(5))]

---Original Message---
From: Paulus, Michael
Sent: Thursday, March 15, 2001 6:02 PM
To: McInerney, Roberta; Constantine, Eleni
Subject: FW: Enron Meeting Request

Please see below. Any thoughts?

---Original Message---
From: Ellis, Dina
Sent: Thursday, March 15, 2001 5:59 PM
To: Fisher, Peter; Paulus, Michael; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

[((b)(5))]

---Original Message---
From: Fisher, Peter
Sent: Thursday, March 15, 2001 5:31 PM
To: Paulus, Michael; Ellis, Dina; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

I also see no reason to object.

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Norman,

Thanks. I believe that the netting provisions will be a major agenda item at next week’s Working Group meeting. I think it is very useful to have that discussion before meeting with the Hill staff.

Don

--------Original Message--------
From: Carleton, Norman
Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawrannne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schulteiss, Heidilyonne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]
Meanwhile staffs of the various agencies continue to discuss the BMA/ISDA draft as we continue to study it.

Norman

-----Original Message-----
From: Hammond, Donald
Sent: Thursday, February 15, 2001 8:26 AM
To: DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawrnanne
Cc: Tishuk, Brian; Robbins, Eric
Subject: RE: Bankruptcy Reform Mark-up Hearing

Ed,

Thanks. Are we comfortable with this version of the bill and process wise where do we go from here?

Norman,

How much change needs to be made to the netting provisions in light of the recent futures legislation?

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawrnanne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

-----Original Message-----
From: Robbins, Eric
Sent: Wednesday, February 14, 2001 5:45 PM
To: DeMarco, Edward
Cc: Tishuk, Brian
Subject: Bankruptcy Reform Mark-up Hearing

H.R. 333, the “Bankruptcy Abuse Prevention and Consumer Protection Act 2001” was reported out of the House Judiciary Committee on Wednesday, February 14, 2001. During the mark-up hearing, eighteen amendments were offered with all but one amendment failing to pass. Voting occurred largely along party lines. The only amendment that passed was a technical amendment offered by Chairman Sensenbrenner. Only one Republican crossed party lines to vote for one of the seventeen other amendments that failed.

Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.
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This was sent to me by a former DoE employee who now works for an private-sector energy company in Houston. It's a good, comprehensive background piece. Unfortunately I don't have it in electronic form, and the hardcopy (margin) format is a bit strange.

> December 31, 2000 (SF Chronicle)
> Genesis Of State's Energy Fiasco/String of bad decisions on deregulation
> could end up costing consumers $40 billion
> Christian Berthelsen

> Next month, about 10 million Californians may begin paying as much as
> 30 percent more for electricity, in a maddening coda to one of the most
> costly policy mistakes ever made.
> When the state's leaders started moving the energy system toward
> deregulation six years ago, they envisioned a brand new day in which
> utility companies' long-standing monopoly would be broken and rates would
> decline by as much as 25 percent.
> Instead, when it is over, it may cost customers of the state's
> investor-owned utilities $40 billion, perhaps more. In the coming year, it could
> harm the world's sixth-largest economy and send a ripple effect throughout
> the globe for those dependent on California's continued prosperity.
> This is the story of what went wrong with deregulation, and how
> planning lapses, serious policy blunders -- and warnings that came too late -- set
> California's two main utilities, Pacific Gas & Electric Co. and Southern
> California Edison, toward a train wreck.
> Power plant construction lagged while demand expanded. Leaders
> misjudged how much competition there would be to supply California with juice. And
> flawed deregulation laws left utilities and their customers at the mercy
> of power companies, extracting the highest price for electricity.
> "There was a blind adherence to free-market ideology that couldn't
> possibly work," said Eugene Coyle, a former utility securities analyst,
> economist and early opponent of deregulation. "There were poorly
> thought-out specifics."
> In the early 1990s, businesses were fleeing the state amid the worst
> economic times since the Great Depression. Energy rates were 50 percent
> higher than they were on average across the nation, because of commitments
> to more expensive, environmentally friendly power and cost overruns for
> nuclear power plant construction.
> Large customers such as steel makers, mining concerns and cement
> makers, for which electricity costs make up 25 percent of their overhead, saw that
> independent power producers were offering power much more cheaply. They
> began to insist on change.
> The United States had deregulated long-distance telephone service,
> airlines and a host of other industries, often with resulting competition
> that was a boon to consumers. Why not do the same for electricity?
> So California embarked on a pioneering experiment. In 1993 and 1994,
> the California Public Utilities Commission began to draft such a policy. It
> allowed large users to buy power directly from independent producers and
> froze customer rates at artificially high levels so utilities could
> recover their investments in costly plants.
> The utilities sought to have the terms codified in law, and in early
> 1996, a number of bills were introduced in the Legislature to do so.
> Some observers say that what happened next contributed to the overall
> plan's flaws. Months passed while the discussion meandered and faltered,
and at one point it even appeared that no law would be passed.

That's when state Sen. Steve Peace took the reins and tried to make
something happen.

The San Diego legislator already had won the respect of his colleagues
for his work on another complex piece of legislation, reform of the workers'
compensation system.

During a hurried two-week conference in August -- dubbed the "Steve
Peace death march" for his propensity to keep negotiators at the table late into
the night -- the fine points of the energy law were hashed out.

Legislators entrusted their judgment to Peace and the few colleagues
who worked on the bill. There was an abiding sense by a number of participants
that few members of either house knew what was in the bill or even
understood it. It was passed by both houses of the Legislature unanimously
and signed into law the following month.

"People were grateful to Peace and (former Sen. Diane) Martinez for
taking it on," said Debra Bowen, D-Los Angeles, the current chair of the Senate
energy committee. "Historically, utilities were a pretty boring topic, and
I think term limits factored into it."

The law was to end the monopolistic control that utilities held over
both power production and supply by requiring them to sell off their
generators. It set rates artificially high so they could recover money
from bad investments. And it gave them nearly two years to prepare for
competition.

Moreover, residential customers would be granted an immediate 10
percent rate cut.

The system took effect April 1, 1998, and, at first, things seemed to
work well. Soon, though, there were warning signs.

It turned out the residential rate cut was actually going to be
financed with $7.5 billion in bonds that customers had to pay off. So the reduction
in real terms was closer to only 3 percent, not 10 percent.

Then in early 1999, the California Energy Commission, which tracks the
state's supply and demand, was warning of coming supply shortfalls.

Demand was skyrocketing, the agency pointed out in a Senate energy
committee hearing, and no new significant generation had been built in a
decade. Without more power, California was going to run out. But
construction of new power plants takes at least two years from start to
finish, and the state was already running behind in accommodating the
growth.

Back in the early 1990s, however, the energy commission had painted a
far different picture. At that time, California had an oversupply of power,
perhaps as much as 30 percent more than it needed.

There was so much that when the utilities commission set up an auction
for the construction of new facilities in the early 1990s, Edison and San
Diego Gas and Electric Co. appealed to the Federal Energy Regulatory
Commission to halt the auction, arguing there was already too much
generation in California. The FERC obliged.

"If anybody had told us in 1996, or even in 1998, that we would
experience (such) load increases, we would have said, 'You're crazy,' " said D.J.
Smith, a lobbyist for the California Large Energy Consumers Association
and one of the top advocates of deregulation. "Nobody had ever seen load
go up like that in a mature situation."

Still, production figures from Edison Electric Institute, which provide
a crude indicator of demand, show consumption grew by 4 percent in 1996, 3.4
percent in 1997, nearly 5 percent in 1999, and a whopping 10 percent this
year.

And surrounding states, including Arizona, Nevada, Oregon and
Washington, began to experience the same demand growth. Since California imported as
much as 25 percent of its power from those states, the amount available
was suddenly reduced by as much as half.

But considering the long time it takes to build plants, in part because
of public opposition, the warnings were too little, too late. In fact, the
situation remained far off the radar screen of consumers, since most were
still insulated from price spikes by a rate freeze.

Then this summer, things started to spiral out of control.

San Diego was the first region to meet the conditions necessary for
full deregulation, and as hot summer months added to demand, customers' bills
suddenly tripled.
> The debt load of PG&E and Edison began to balloon -- to what will be an
> estimated $1 billion by the end of 2000 -- as they borrowed to pay for
> power while being barred from passing that cost on to consumers.
> Suddenly, the glow of deregulation had lost its luster.
> It immediately became clear that California's failure to build power
> plants as its rapidly growing economy pushed demand upward was a serious
> problem. Increasingly, the state's growing technology economy depended on
> electricity, and new home construction concentrated in hot areas like
> Riverside and San Bernardino counties, where air conditioning is a must.
> And for all the talk of competition, there was a serious flaw that made
> the market singularly uncompetitive.
> In order to encourage generators to create as much power as possible,
> deregulation guaranteed the highest price for wholesale electricity.
> Through a practice known as the "market clearing price," the last bidders
> -- who are invariably the most expensive -- set the price everyone would
> receive. In other words, if the first generator bids $30 for a certain amount of
> megawatts but the last bids $100, those two bidders and everyone in
> between receive $100. As the wholesale price of electricity skyrocketed to
> $1,500 per megawatt hour this month from $30 before the storm, the high
> cost has been compounded by the fact that everyone receives that amount.
> Further, the law had encouraged utilities to sell their generators and
> existing electricity supply without guaranteeing access to affordable
> power.
> Rather than arranging to buy power on long-term contracts that could
> have saved money, they were put in the position of having to buy their power on
> a market where profit was the ultimate goal, and they and their consumers
> had to pay the price.
> Perhaps in the biggest misjudgment, policymakers neglected the huge
> amount of money it takes to run power companies and attract customers. Thus, they
> overestimated how much competition would flourish in the market.
> Running power companies is so costly -- $500 million to build a new
> plant -- that only a handful of companies bought into the market. And once they
> were here, the marketing cost of signing up new customers was
> astronomical.
> Indeed, since choice has become available to California, less than
> 1 percent of residential customers has changed electricity providers.
> The same goes for just 15 percent to 20 percent of industrial customers -- the
> class that advocated deregulation in the first place.
> At the end of the day, this experiment in deregulation has come at a
> staggering cost: $40 billion. That includes the $23 billion already paid
> by customers when rates were frozen at artificially high levels, and the
> $7.5 billion in bonds financing consumers' own rate reduction.
> Now a new tab is running -- whatever share of the $11 billion in debt
> that state utility regulators decide customers should pay.
> The state's leaders are now casting around desperately for solutions to
> put Humpty Dumpty back together again.
> The FERC is encouraging the utilities to enter long-term contracts with
> suppliers, and market clearing pricing is under review. The state's
> utilities commission will decide Jan. 4 how much of a rate increase to
> grant to PG&E and Edison. And a dozen or so power plants are under
> construction.
> Meanwhile, consumer advocates are backing a state ballot measure that
> would not only re-regulate utilities but essentially make energy supply a
> government function. And they are challenging the utilities' efforts to
> pass on their debts to consumers, noting they have also reaped windfall
> profits from selling electricity.
> For example, in the quarter covering the summer months when power costs
> first went haywire, PG&E's profits amounted to $225 million, a 22 percent
> increase over the same period in the previous year.
> In the short term, the state is considering ways to encourage energy
> conservation the same way it did with water. And the question now being
> asked is whether a commodity as central to the well-being of the economy
> should ever have been placed almost entirely under the control of free
> enterprise.
> "There's a discussion on how much we want to rely on market forces
alone when it comes to electricity," Bowen said. "Do we want to subject
ourselves to times when rates are really low and really high?"

> ------
> POWER DEREGULATION CHRONOLOGY --
> April 1994: California Public Utilities Commission indicates it favors deregulation.
> October 1995: Framework of deregulation laid out in memorandums between large users,
energy providers and utilities. --
> January 1996: Bills introduced in legislature to codify
deregulation plan. --
> August 1996: The "Steve Peace death march" hashes out fine points of law. It passes both
houses unanimously. --
> Sept. 23, 1996: Gov. Pete Wilson signs the deregulation bill. --
> April 1, 1998: After a four-month delay, deregulation begins. --
> June 2000: San Diego has satisfied conditions for deregulation, and the rate cap there is
lifted. Shortages drive prices up 300 percent in some cases. --
> September 2000: The utilities begin to warn of billions in mounting debt and seek an end
to the rate cap that has prevented them from passing costs on to customers. --
> November, December 2000: More shortages put energy system in state of perpetual crisis,
despite Fall being a season of traditional low demand; state regulators consider
utilities' requests for rate increases. A decision is expected Jan. 4.

> ------ PLAYERS IN THE DEREGULATION DRAMA --
> Steve Peace:
> Took control of the legislative process while a state senator and drove
deregulation into law. --
> D.J. Smith:
> Lobbyist for large, industrial electricity customers and an early
advocate of deregulation. --
> Diane Martinez:
> As state senator, helped with the deregulation legislation. --
> Greg Conlan:
> Sympathetic to industrial consumers with high bills while serving on
the California Public Utilities Commission. --
> Pete Wilson:
> Saw deregulation as an answer to California's then-ailing economy. --
> Kenneth Lay:
> Noted in 1997, as chief executive of Enron Corp. in Houston, that
little competition had emerged. "It's like California announced a party but
nobody's showing up," he said. --
> Gordon Smith:
> As chief executive of PG&E, supported deregulation, at one point noting
there had been a "ceiling on our profits" under the old system.
> E-mail Christian Berthelsen at cberthelsen@sfchronicle.com.
> 
> Copyright 2000 SF Chronicle
Attached please find a revised Enron paper with the following changes:

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CC Secretary O’Neill, Peter Fisher, Dave Aufhauser, Mark Weinberger, John Duncan
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Attachments:

Original Message  Enron3.doc (35 KB)
From: O'Neill, Paul H.  
Sent: Tuesday, January 08, 2002 2:21 PM  
To: Kuper, Jeffrey; Adams, Tim  
Subject: FW: paper for Josh  
Importance: High  
Categories: Send Directly  

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From: Adams, Tim  
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I will send to memo to Josh as an expression of my personal thoughts. I would like to do so no later than 3:00 this afternoon, so if you have any further suggestions, I'd appreciate receiving them before then.

Thanks
Sheila
To: Josh
From: Sheila
Re: Policy Issues Presented by the Enron Bankruptcy

Per your request, below are some of my personal thoughts on the important policy issues presented by the Enron bankruptcy and some areas that might be ripe for reform.

In sum, possible initiatives include:

[(b)(5)]
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CC Secretary O'Neill, Peter Fisher, Dave Aufhauser, Mark Weinberger, John Duncan
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-----Original Message-----
From: Bair, Sheila
Sent: 01/09/2002 12:18:18 PM
To: O'Neill, Paul; Fisher, Peter; Weinberger, Mark; Aufhauser, David; Duncan, John; Smith, Chris; Adams, Tim; Davis, Michele; Sweetnam, Bill Jr.
Cc: Adams, Tim; Davis, Michele; Sweetnam, Bill Jr

Subject: Enron Paper
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-----Attachments-----

[Attachment: "Original Message  Enron3.doc (35 KB)" ]
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MEMORANDUM FOR JOSHUA BOLTEN
DEPUTY CHIEF OF STAFF
WHITE HOUSE

FROM: Sheila C. Bair
Assistant Secretary for Financial Institutions

SUBJECT: Policy Issues Presented by the Enron Bankruptcy

Per your request, below are some of my preliminary personal thoughts on the important policy issues presented by the Enron bankruptcy and some areas that might be ripe for reform.

In sum, possible initiatives include:

[(b)(5)]
[(b)(5)]
[OUTSIDE SCOPE]