Todays Risk eNews

July 6:Energy Risk - Going Private

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In the late 1990s, many cash-starved companies sought to go public. Today, some are reversing that trend and seeking to go private. Most businesses need access to the capital markets where they can obtain the funds to do research and development, buy equipment and hire workers. But the pressures associated with quarterly reporting, new accounting and corporate governance rules, not to mention fidgety shareholders, are often intense. Enter private investors, who if they have deep pockets and a commitment to the business and industry can make a real difference.

That's happening now with the Tucson Electric Power Co., which is owned by UniSource Energy Corp. It has received an offer from Saguaro Utility Group, which includes JP Morgan Partners, Wachovia and Kohlberg Kravis & Roberts. The deal is valued at nearly $3 billion and promises that $1.5 billion would be pumped into the Tucson-based utility and other subsidiaries for operating, maintenance and capital improvements through 2008. The company says that customers would benefit as well as all the subsidiaries of UniSource, although critics are concerned that the buyers are taking on too much debt that will have to be paid down through higher rates.

State regulators are warming to the idea. The utility staff at the Arizona Corporation Commission has revised its view of the buyout from negative to neutral. The reasons are the added investment that would go into the subsidiaries and a promised rate freeze through 2008. Meanwhile, union contracts and employment levels would remain virtually the same while consumers would have identical protections.

Just last fall, Enron said it would sell Portland General Electric for $2.35 billion to a group of private investors called Texas Pacific Group. The proposed buy-out has already been approved by Enron's board of directors and by most creditor committees set up through the bankruptcy court. The deal still has several other hurdles that include getting the blessings from federal and state regulators. Those authorities include the Federal Energy Regulatory Commission, the Securities and Exchange Commission and the Oregon Public Utility Commission.

But, that proposition has hit a snafu. The lead local investor and former state governor, Neil Goidschmidt, has suffered a personal setback and that's prompted the city of Portland to throw its hat back in the ring again. In a letter to state regulators, the city maintains that it can cut rates by 10 percent, although it does not say how it would do so. At the same time, Texas Pacific Group has made no rate savings claims but is under pressure to match such offers.

Enron bought PGE in 1997 for $3 billion. At the time, Enron was flying high and almost no controversy was tied to the acquisition. But now customers want to be freed of the former energy trader's grasp because they are thought to be paying high rates to offset Enron's losses. Some fear a city takeover would produce dismal results while others have said non-local ownership would focus exclusively on profits.

The Long Haul

What are the differences between Tucson Electric and Portland General Electric? One is owned by the scandal-ridden Enron and the other is owned by UniSource that has been fairly inconspicuous. In both cases, however, they need the capital that well-heeled private investors can provide.

"UniSource was undervalued in the market," says Scott Stuart, with Kohlberg Kravis & Roberts, at a hearing before the Arizona Corporation Commission. "Why was it undervalued? Because today's market undervalues small cap companies and only looks at the short term." Stuart adds that the investment firm views UniSource as along-term venture. But critics fear that there is little incremental benefit to private ownership while ratepayers might end up paying higher bills.

The potential PGE sale has been a lot more high profile. Undoubtedly, many have concerns over the proposed deal. Texas Pacific Group is a private equity firm that has bought embattled companies and turned them around. It's best known for helping to make Continental Airlines a robust business. The group says that it generally maintains investments for five to seven years.

The concept, naturally, is unsettling to some. That is, while local owners would be integral to the operations, people are concerned that the employees, customers and the community-at-Large would suffer because of the investment philosophy. Simply, PGE is seen as a company that produces steady cash flows and not one with high growth potential. As such, some investment advisors say that the new owners might want to self their stake outright or to take the entity public in the near term to maximize **thDOCETED**

Finding Answers

Where can observers look for answers? To MidAmerican Energy Holdings, which pulled a surprising move by going private in March 2000 at the height of the utility boom. Like a lot of utilities, MidAmerican considered its stock to be undervalued during the "good" times and it had begun to weigh its options. In an uncommon step, the company entered into discussions with Warren Buffett to go private-an intelligent move if a stock is idling and if the buyer has the capital to invest.

The deal has produced lots of benefits that include the ability to avoid quarterly reporting pressures and the constant scrutiny of each investment decision. Buffett, furthermore, is a hands-off manager who has money to pour into the enterprise. Meanwhile, MidAmerican's management still retains 25 percent ownership of the company.

"It's easier to grow as a private company because unlike public companies, we don't have quarterly reporting issues to worry about," says David Sokol, MidAmerican CEO, in an earlier interview. .

Capitalism is all about risk. The pay-off for smart investing can be enormous but any failures can be costly. The MidAmericanBerkshire Hathaway deal appears to be a well-suited match that has brought benefits across the board. It's not known whether other private investors seeking ownership of utilities will have the same success. Certainly, the due diligence has been done and the odds calculated. But, only time will tell if the deals prove beneficial to consumers and investors while resulting in investment in infrastructure and the communities that they serve.

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Source: RiskCenter.com

KINK Considers

City and PGE

July 2, 2004 - Is private always better than public? KINK Considers the City of Portland's possible purchase of Portland General Electric.

The Oregon Public Utilities Commission is considering whether or not to let a Texas-based investment firm take over Portland General Electric. By law, any purchaser of PGE must offer a public benefit, such as a rate decrease or the prospect of stable ownership or both. So far, Texas Pacific Group has offered none. If it gets PUC approval, it is expected to flip PGE to another owner in five to 7 years. Meanwhile the City of Portland has just announced that if it buys PGE, it could offer a ten percent rate reduction as well as stable ownership for the future. We think that offer is reasonable and practical.

Those who believe that private is always better than public point to the City's Water Bureau billing system debacle. But that problem, though serious, in itself resulted in just a one percent. increase in water rates and there was a three percent overall increase in water rates in 2001. In 2001, PGE increased rates for businesses by 52% and by 35% overall. And it's not just because of market conditions. Oregon's other big privately owned electric company, Pacific Power, has had stable rates, PGE did decrease rates by 12-percent last year. But federal investigators also found that some PGE traders helped enable Enron to conduct its deceptive trades and market manipulation. Nothing like that ever happened at the Water Bureau. Finally, guess what happened when PGE turned on its new customer billing system last year? According to the Citizens Utility Board, the result was the misbilling of tens of thousands of customers. No, private isn't always better than public. And the Northwest has a long tradition of public power with relatively low rates and good, service. We only have to look as far as Clark County for an example.

Either way, we think it's important to our economy that whoever buys the local electric company-whether it's the City or another private company-- provide rate relief and, even more importantly, stability.

KINK Considers welcomes your comments.

Posted by Jacob Lewin

KINK welcomes your feedback: kinknews@kink.fm

The Business Journal of Portland - November 24, 2003
http://portland.bizjournals comp/portland/stories/203/11/24/editorals2

The Business Journal
PORTLAND

OPINION
From the November 21, 2003 print edition

Texas Pacific deal raises questions

Rob Smith

It's too early to fathom the long-term implications of the announcement earlier this week that Texas Pacific Group wants to buy Portland General Electric from Enron Corp. for $2.35 billion. On the surface, the move seems positive. PGE will ostensibly remain headquartered in Portland. Trusted Oregon leaders Neil Goldschmidt and Tom Walsh will control the board of directors, ensuring a local decision-making process.

And Enron will, finally, be completely out of the picture.

It's difficult, however, to understand the motivation behind the purchase, which must still pass several regulatory hurdles.

Fort Worth-based Texas Pacific--one of the country's largest private investment firms--has a reputation for acquiring distressed companies, resuscitating them and then selling them off at a tidy profit. Companies it has acquired include Bally Management, J. Crew Group, Del Monte Foods and America West Holdings Corp.

Texas Pacific often takes an active role in the firms it acquires. Though it has never acquired a utility company, it does have a lot of experience with regulatory issues through other investments.

Unless the new company--called Oregon Electric Utility Co., though PGE will keep its name--acquires more assets than just PGE, the return on its investment will be limited. Steady, perhaps, but limited.

Right now, at least, the purchase relieves a lot of speculation about the fate of PGE. If the history of Texas Pacific is any guide, however, in five to seven years the future of PGE as we know it may again be up in the air.

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Enron Deals. Out PGE (UtiliPoint - Nov. 24)

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By Ken Silverstein Director, Energy Industry Analysis

Enron Corp. played its hand. It decided to deal Portland General Electric, its beleaguered subsidiary that has been the subject of takeover speculation for a couple years. If the $2.35 billion transaction that involves some prominent Oregonians goes through, it might placate leaders there who demand local ownership and reasonable rates.

The citizens of Portland and the 740,000 customers that the utility serves are rightly concerned about into whose hands Portland General Electric (PGE) would fall. Enron, after all, lacked business ethics-an issue that didn't just harm its unregulated assets but also hurt its regulated ones like PGE. Its customers there are thought to have paid much higher rates in an effort to subsidize Enron's bad. investments. Local stewardship would undoubtedly play well, although significant issues remain.

"We believe it is a solution that will work for customers, employees and the communities that depend on PGE," says former Oregon Gov. Neil Goldschmidt, who is one of the team that would purchase the utility, at a press conference. Goldschmidt is part of the Oregon Electric Utility Co. that will get about 90 percent of its financing from the Fort Worth-based Texas Pacific Group that buys troubled companies and turns them around.

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The proposed buy-out has already been approved by Enron's board of directors and by most creditor committees set up through the bankruptcy court. The deal still has several other hurdles that include getting the approval of the bankruptcy court that will hear the case in 2004 as well as getting the blessings from federal and state regulators. Those authorities include the Federal Energy Regulatory Commission, the Securities and Exchange Commission and the Oregon Public Utility Commission.

Before any of that occurs, Enron will hold a public auction no later than February 2004. That's where some other entity could outbid the Texas Pacific Group, including the city of Portland that has threatened for some time a takeover of the utility. If no other buyer can trump the offer now on the table, those investors would pay $1.25 billion in equity and assume $1.1 billion in debt. That's 6.5 times PGE's 2002 earnings of $361 million.

Enron bought PGE in 1997 for $3 billion. At the time, Enron was flying high and almost no controversy was tied to the acquisition. But, now things have changed and customers want to be freed of the former energy trader's grasp because they are thought to be paying high rates to offset Enron's losses. A local public power group is on record saying that utility rates must be reduced by 30 percent over current levels.

Many were skeptical of who the new buyers might be: Some feared a city takeover that would be inept and others worried about out-of-state buyers that would conspicuously place profits ahead of customer service. Goldschmidt, who. was also the mayor of Portland, is integral to finalizing any transaction because of his credibility among locals. He has worked hard to defeat proposals to municipalize PGE.

"The time has come to end this too long period of uncertainty, and to declare our independence from the control of an energy conglomerate whose actions have led to that uncertainty," says Goldschmidt.

Key Questions

Enron has long wrestled with whether to sell this crown jewel to raise much-needed cash or whether to include it as part of a new holding company that would issue stock to creditors who are owed $12 billion. While the holding company already includes other prized pipeline and energy assets, creditors made no secret that they preferred the cash. Already, Enron has sold water company Azurix for $777 million, Enron Wind for $325 million and Arcos Project Co. for $329 million.

The credit rating agencies were generally pleased with the announcement to spin off the utility and hinted that it might bode well for PGE's credit quality. Moody's Investor Services said that it had changed the rating from "negative" to "developing" because it would become divorced from Enron. It warned, however, that there could be adverse consequences to its rating if PGE becomes highly leveraged. Meanwhile, Fitch Ratings does not anticipate upgrading its already "positive" outlook until it sees the upcoming financing details.

Undoubtedly, many have concerns over the proposed deal. Texas Pacific Group is a private equity firm that has bought embattled companies and turned them around. It's best known for helping to make Continental Airlines a robust business. The group says that it generally maintains investments for five to seven years, although nothing precludes them from being kept longer.

The concept, naturally, is unsettling to some. That is, while local owners would be integral to the operations, people are concerned that the employees, customers and the community-at-large would suffer because of the investment philosophy. Simply, PGE is seen as a company that produces steady cash flows and not one with high growth potential. As such, some investment advisors say that the new owners might want to sell their stake outright or to take the entity public in the near term to maximize their returns.

The key question then becomes what would happen to the utility after it is sold or taken public? To date, that has not been adequately answered, which is why the city will not yet say whether it is relinquishing its offer to buy the utility-pressure that will continue until more is known. If the utility is turned over in five years, management could certainly remain under local control but that is not assured. After all, such entities are run in the best interest of shareholders and any new entity may want its own team in place.

And, despite Texas Pacific Group's reputation as low-ball bidder, it says this buy is fairly priced. "This is not a steal," says David Bonderman, founder and general partner of the Texas Pacific Group, at a press briefing. "This is going to be, for us, a lowreturn deal:" He adds that his firm would stay out of the day-today management of the utility.

While serious questions remain about the fate of PGE, its destiny does appear to be in better hands with Oregon Electric Utility Co. than under the Enron umbrella. Not only would some of the new owners have deep ties to the Portland community but the principals have proven skills at managing troubled companies. It remains to be seen whether another suitor that can provide more assurances will surface.'

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