



## **Bush's Enron Lies**

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Four years ago, when the taboo against calling George W. Bush a liar was even stronger than it is today, the national news media bought into the Bush administration's spin that the President did nothing to bail out his Enron benefactors, including Kenneth Lay.

Bush supposedly refused to intervene, despite the hundreds of thousands of dollars that Enron had poured into his political coffers. That refusal purportedly showed the high ethical standards that set Bush apart from lesser politicians.

Bush's defenders will probably reprise that storyline now that former Enron Chairman Lay and former Chief Executive Officer Jeffrey Skilling stand convicted of conspiracy and fraud in the plundering of the onetime energy-trading giant. But the reality is that the Bush-can't-be-bought spin was never true.

For instance, the documentary evidence is now clear that in summer 2001 -- at the same time Bush's National Security Council was ignoring warnings about an impending al-Qaeda terrorist attack -- NSC adviser Condoleezza Rice was personally overseeing a government-wide task force to pressure India to give Enron as much as \$2.3 billion.

Then, even after the Sept. 11, 2001, attacks, when India's cooperation in the "war on terror" was crucial, the Bush administration kept up its full-court press to get India to pay Enron for a white-elephant power plant that the company had built in Dabhol, India.

The pressure on India went up the chain of command to Vice President Dick Cheney, who personally pushed Enron's case, and to Bush himself, who planned to lodge a complaint with India's prime minister. Post-9/11, one senior U.S. bureaucrat warned India that failure to give in to Enron's demands would put into doubt the future functioning of American agencies in India.

The NSC-led Dabhol campaign didn't end until Nov. 8, 2001, when the Securities and Exchange Commission raided Enron's offices -- and protection of Lay's interests stopped being politically tenable. That afternoon, Bush was sent an e-mail advising him not to raise his planned Dabhol protest with India's prime minister who was

visiting Washington.

Contrary to the official story, the Bush administration did almost whatever it could to help Enron as the company desperately sought cash to cover mounting losses from its off-the-books partnerships, a bookkeeping black hole that was sucking Enron toward bankruptcy and scandal.

As Enron's crisis worsened through the first nine months of Bush's presidency, Lay secured Bush's help in three key ways:

- Bush personally joined the fight against imposing caps on the soaring price of electricity in California at a time when Enron was artificially driving up the price of electricity by manipulating supply. Bush's resistance to price caps bought Enron extra time to gouge hundreds of millions of dollars from California's consumers.
- Bush granted Lay broad influence over the development of the administration's energy policies, including the choice of key regulators to oversee Enron's businesses. The chairman of the Federal Energy Regulatory Commission was replaced in 2001 after he began to delve into Enron's complex derivative-financing schemes.
- Bush had his NSC staff organize that administration-wide task force to pressure India to accommodate Enron's interests in selling the Dabhol generating plant for as much as \$2.3 billion.

## **Bankruptcy**

As Enron's corporate house of cards collapsed anyway in fall 2001, the toll was devastating. Investors lost tens of billions of dollars; some retirees were financially wiped out; 5,000 Enron employees were laid off. Enron's accounting tricks also discredited its accounting firm, Arthur Andersen LLP, which was soon closed by government regulators.

But Bush was fortunate that the Enron scandal broke while he was still wrapped in the glow of favorable poll ratings that followed the 9/11 attacks. The Washington news media generally acquiesced to Bush's insistence that he really wasn't that close to Enron or Lay, though Lay had earned a Bush nickname: "Kenny Boy."

The facts, however, suggest a political intimacy between Bush and Enron, especially with the now convicted swindler Ken Lay, dating back at least to Bush's first campaign for Texas governor in 1994.

By the 2000 presidential campaign, Lay was a Pioneer for Bush, raising \$100,000.

Enron also gave the Republicans \$250,000 for the convention in Philadelphia and contributed \$1.1 million in soft money to the Republican Party. Not only was Lay a top fund-raiser for the campaign, but he helped out during the recount battle in Florida in November 2000.

Lay and his wife donated \$10,000 to Bush's Florida recount fund that helped pay for Republican lawyers and other expenses. Lay even let Bush operatives use Enron's corporate jet to fly in reinforcements. After Bush secured his victory, another \$300,000 poured in from Enron circles - including \$100,000 from Lay and \$100,000 from Skilling - for the Bush-Cheney Inaugural Fund.

Yet, after the Enron scandal broke, Bush acted as if he barely knew Lay. On Jan. 11, 2002, Bush told reporters that Lay "was a supporter of Ann Richards in my run in 1994" for Texas governor, implying that he had gotten to know Lay as Gov. Richards' holdover appointee to a Texas business council.

The administration also claimed that it turned down Enron's bail-out pleas in late October 2001 when Lay sounded out senior Bush officials about overt financial help. By then, however, Enron's troubles were too advanced -- and the public spotlight too intense -- for the administration to launch a full-scale rescue mission out in the open.

Yet, before Enron went into its death spiral, the Bush administration did what it could, behind the scenes.

### **Gathering storm**

The Houston-based energy trader's financial crisis can be traced back to 2000 when the long-running stock market boom ended. During the boom, Enron had risen through the ranks of Fortune 500 companies to a perch at No. 7.

A leader of the so-called New Economy, Enron expanded beyond its core business interests in natural gas pipelines, branching out into complex commodity trading, which included electricity, broadband capacity and other ethereal items, such as weather futures.

The bursting of the dot-com bubble in March 2000 put pressure on Enron as it did many other companies. Even though Enron's stock held strong, hitting an all-time high of \$90 a share on Aug. 17, 2000, the tumbling market and some risky overseas energy projects left Enron with many poor-performing assets.

To protect its image as a darling of Wall Street -- and to prop up its stock value -- Enron began shifting more of its losing operations into off-the-books partnerships given names like Raptor and Chewco. Hedges were set up to limit Enron's potential losses from equity investments, but some hedges were themselves backed by Enron stock, creating the possibility of a spiraling decline if investors lost faith in Enron.

Still, Enron saw a silver lining in the darkening economic clouds of 2000. A prospective George W. Bush victory could speed up Enron's deregulatory plans for the energy markets. Through energy trading in California alone, Enron stood to earn tens of billions of dollars.

Meanwhile, in summer 2000, the first signs of suspicions arose that Enron was trying to manipulate the California energy market.

An employee with Southern California Edison sent the Federal Energy Regulatory Commission (FERC) a memo expressing concerns that Enron and other electricity providers to California's deregulated energy market were gaming the system by cutting off supply and creating phony congestion in the electricity grid to run up energy prices. [See Energy Daily, May 16, 2002]

By December 2000, Enron was implementing plans dubbed "Fat Boy," "Death Star" and "Get Shorty" to siphon electricity away from areas that needed it most and getting paid for phantom transfers of energy supposedly to relieve transmission-line congestion. [Washington Post, May 7, 2002]

That same month, after a 35-day battle over Florida's vote count, Bush nailed down his presidential victory by getting five Republicans on the U.S. Supreme Court to stop a statewide recount.

## **Grateful Bush**

Once in the White House, a grateful Bush gave Lay a major voice in shaping energy policy and picking personnel. Starting in late February 2001, Lay and other Enron officials took part in at least a half dozen secret meetings to develop Bush's energy plan.

After one of the Enron meetings, Vice President Cheney's energy task force changed a draft energy proposal to include a provision to boost oil and natural gas production in India. The amendment was so narrow that it apparently was targeted only to help Enron's troubled Dabhol power plant in India.

Other parts of the Bush energy plan also echoed Enron's views. Seventeen of the energy plan's proposals were sought by and benefited Enron, according to Rep. Henry Waxman, D-Calif. One proposal called for repeal of the Public Utility Holding Company Act of 1935, which hindered Enron's potential for acquisitions.

Bush also put Enron's allies inside the federal government. Two top administration officials, Lawrence Lindsey, the White House's chief economic adviser, and Robert Zoellick, the U.S. Trade Representative, both worked for Enron, Lindsey as a consultant and Zoellick as a paid member of Enron's advisory board.

At least 14 administration officials owned stock in Enron, with Undersecretary of State Charlotte Beers and chief political adviser Karl Rove each reporting up to \$250,000 worth of Enron stock when they joined the administration.

Lay exerted influence, too, over government regulators already in place. Curtis Hebert Jr., a conservative Republican and ally of Sen. Trent Lott, R-Miss., had been appointed to the FERC during the Clinton administration. Like Bush and Lay, Hebert was a promoter of "free markets," and Bush elevated him to FERC chairman in January 2001.

But Hebert ran into trouble when he broke ranks with Lay on Enron's plan to force consolidation of state utilities into four giant regional transmission organizations, or RTOs. By quickly pushing the states into RTOs, Enron and other big energy traders would have much larger markets for their energy sales.

Hebert, who advocated state rights, told the New York Times that he got a call from Lay with a proposed deal. Lay wanted Hebert to support a faster transition to a national retailing structure for electricity. If he did, Enron would back him to keep his job.

The FERC chairman said he was "offended" by the veiled threat. Lay already had demonstrated sway over selection of administration appointees by supplying Bush aides with a list of preferred candidates and personally interviewing a possible FERC nominee.

Lay offered a different account of the phone call. He said Hebert was the one "requesting" Enron's support, though Lay acknowledged that the pair "very possibly" discussed issues involving FERC's authority over the nation's electricity grids.

Hebert also raised Enron's ire when he started an investigation in early 2001 into how Enron's complex derivative financing instruments worked. "One of our problems is that we do not have the expertise to truly unravel the complex arbitrage activities of a company like Enron," Hebert said.

At the time, those complex -- and deceptive -- derivative schemes were concealing Enron's worsening losses.

## **Energy crisis**

The California energy crisis also was spinning out of control. Rolling blackouts crisscrossed the state, where the partially deregulated energy market, served by Enron and other traders, had seen electricity prices soar 800 percent in one year.

After taking power, Bush turned a deaf ear to appeals from public officials in California to give the state relief from the soaring costs of energy. He also reined in federal

efforts to monitor market manipulations.

As California's electricity prices continued to soar, Democratic Gov. Gray Davis and Sen. Dianne Feinstein voiced suspicions that the "free market" was not at work. Rather they saw corporate price-fixing, gouging consumers and endangering California's economy.

But California's suspicions mostly were mocked in official Washington as examples of finger-pointing and conspiracy theories. The administration blamed the problem on excessive environmental regulation that discouraged the building of new power plants.

Again, Lay was influencing policy behind the scenes. An April 2001 memo from Lay to Cheney advised the administration to resist price caps.

"The administration should reject any attempt to re-regulate wholesale power markets by adopting price caps or returning to archaic methods of determining the cost-base of wholesale power," Lay said.

Cheney and Bush echoed Lay's position in their political exchanges with Davis and other Democrats. On April 18, 2001, Cheney told the *Los Angeles Times* that the Bush administration opposed price caps because they would discourage investment.

In May 2001, Bush traveled to California on a trip choreographed like a President visiting a disaster area. Only this time, Bush wasn't promising federal help to a state in need. He was carrying the same message that Lay had sent to Cheney. In effect, Bush was saying: Read my lips. No price caps.

"Price caps do nothing to reduce demand, and they do nothing to increase supply," Bush said.

After weeks of standoff, as electricity prices stayed high and began spreading to other Western states, the political showdown ended on June 18, 2001. FERC approved limited price caps, a reversal prompted by Republican fears of a political backlash that could cost them seats in Congress.

Still, the administration's rear-guard defense of deregulation had bought Enron and other energy traders precious months to reap hundreds of millions of dollars in trading profits in California.

The imposition of FERC's limited price caps -- and the state's aggressive conservation efforts -- brought the energy crisis under control. That may have been good news for California, but not for Enron. By losing control over its ability to keep electricity prices artificially high, Enron faced new economic pressures.

"There are some hints of a connection [between the price caps and Enron's collapse],

including the billions of dollars in cash that flowed in and out of Enron as the crisis waxed and waned," the New York Times reported later.

With the easing of the California energy crisis, Enron's stock price began to decline, slipping from around \$80 early in the year to the high-\$40's. That began to put pressure on the stock hedges tucked inside the off-the-books partnerships.

## **The Dabhol battle**

In June 2001, the White House went to bat for Enron on another touchy issue, the natural gas power plant that Enron had built in Dabhol, India.

The plant had become something of a white elephant. Its cost of electricity was several times higher than what India was paying other providers, which led to an impasse over unpaid bills. Enron wanted India to pay \$250 million for the electricity or buy out Enron's stake in the plant, worth about \$2.3 billion.

These sorts of contract disputes between U.S. companies and foreign governments are normally handled by the Commerce Department or possibly the State Department. But Enron's Dabhol problem became a priority of Bush's National Security Council staff.

That level of interest over a contract dispute was almost unprecedented, according to former NSC officials from both Republican and Democratic administrations. The administration's intervention even involved direct appeals from top U.S. officials.

On June 27, 2001, Cheney personally discussed Enron's problem with Sonia Gandhi, the leader of India's opposition Congress Party. "Good news is that the Veep mentioned Enron in his meeting with Sonia Gandhi yesterday," said one NSC e-mail dated June 28, 2001. (I obtained this and other documents under a Freedom of Information Act request.)

Throughout summer 2001, while intelligence warnings about an expected al-Qaeda terror attack went unheeded, the NSC staff met frequently to coordinate U.S. pressure on India over Enron's plant, drawing in the State Department, the Treasury Department, the Office of U.S. Trade Representative and the Overseas Private Investment Corp., which had committed \$360 million in risk insurance to the Dabhol project.

While the NSC held no follow-up meetings on the Aug. 6, 2001, intelligence warning entitled "Bin Laden Determined To Strike in U.S.," national security adviser Condoleezza Rice organized and led the "Dabhol Working Group."

The working group sought to broker meetings between Lay and senior Indian officials, including Brajesh Mishra, the national security adviser to Indian Prime Minister Atal Bihari Vajpayee. During a trip to India, a senior State Department official delivered a

"demarche" or official warning to the Indian government, but New Delhi still resisted the U.S. pressure. Also in the summer of 2001, Enron was consolidating its influence at FERC.

Nora Mead Brownell, a controversial member of the Pennsylvania Public Utility Commission, was named as a new FERC commissioner. In support of Brownell's appointment, Lay called White House aide Karl Rove to say that Brownell "was a strong force in getting the right outcome" in deregulating Pennsylvania's energy market, according to a July, 17, 2001, letter by Rep. Waxman to the White House counsel.

Then, in August 2001, FERC Chairman Hebert, who had gone along with the California price caps and had ordered the inquiry into Enron's arbitrage schemes, abruptly resigned only six months into his four-year term. He clearly was forced out, explaining lamely that he desired "to seek other opportunities."

Bush replaced Hebert with former Texas Public Utilities commissioner Pat Wood III. Lay had included Wood and Brownell on a list of his preferred FERC candidates. [AP, Jan. 31, 2002]

## **Accounting scandal**

As Lay was flexing his political muscle in Washington, out of public view back in Houston, Enron's accounting house of cards was shaking. On Aug. 15, 2001, Sherron Watkins, an Enron vice president, warned Lay that accounting irregularities, including the hedges tied to Enron stock, were threatening to undo the corporation.

On Sept. 11, however, the course of George W. Bush's presidency took a sharp turn, as Islamic terrorists seized four U.S. airliners, crashing two into the World Trade towers at the heart of the U.S. financial markets. Another smashed into the Pentagon and the fourth crashed in Pennsylvania when passengers apparently battled for control.

Bush vowed to retaliate for the attacks by waging a "war on terror," finally targeting Osama bin Laden and his protectors in Afghanistan, the Taliban government. On the front lines of that new war were Pakistan and India, traditional enemies who were engaged in a brush war over the disputed territory of Kashmir.

Despite New Delhi's importance in prosecuting the "war on terror," Enron's Dabhol power plant remained at the center of U.S. relations with India.

On Sept. 28, more than two weeks after the 9/11 attacks, the NSC-led Dabhol Working Group prepared "talking points" about the Enron business dispute for Cheney to deliver in a meeting with India's Foreign Minister Jaswant Singh.

On Oct. 7, the U.S.-led invasion of Afghanistan began with aerial assaults against



Taliban targets. Two days later, on Oct. 9, the State Department was again pressing Enron's case with the Indians.

Undersecretary Alan Larson "raised the Dabhol issue with both FM Singh and NSA Mishra and got a commitment to 'try' to get the government energized on this issue prior to the PM's visit to Washington" in November, an Oct. 23 NSC e-mail said. "Pls give me one/two bullets for the President to use during his meeting with Vajpayee."

Meanwhile, Enron's financial situation was collapsing. Its credit rating was cut and its stock was falling. On Oct. 30, 2001, behind closed doors, SEC commissioners approved a formal investigation of Enron's accounting.

The NSC's Dabhol Working Group, however, continued to press for India to make concessions to Enron. On Nov. 1, the White House prepared a memo on Dabhol talking points that Bush could raise in his meeting with Prime Minister Vajpayee.

On Nov. 6, OPIC President Peter Watson sent a stern warning to Vajpayee's national security adviser Mishra. "The acute lack of progress in this matter has forced Dabhol to rise to the highest levels of the United States government," Watson said in a letter. The dispute "could have a negative effect regarding other U.S. agencies and their ability to function in India."

So, almost two months after 9/11 with the war against Afghanistan still being fought, the Bush administration was threatening India, a key regional power, with a pullout of U.S. agencies from India because it was refusing to meet Enron's demands for cash.

The Bush administration's pressure on India over Dabhol did not end until Nov. 8, the day the SEC delivered subpoenas to Enron and the company announced that it was under formal SEC investigation.

That same day, on Nov. 8 at 2:33 p.m., an internal administration e-mail warned that "President Bush can not talk about Dabhol" in his meeting with India's prime minister. As Enron slid into scandal and bankruptcy, White House officials stressed that the administration had rebuffed a couple of last-minute overtures for a bail-out from Lay, including one to Treasury Secretary Paul O'Neill. Those rejections, administration spokesmen claimed, proved the mettle of Bush's integrity, not letting politics influence policy.

In early 2002, when OPIC officials responded to a Freedom of Information Act request by releasing documents on the Dabhol Task Force, Bush's aides dismissed the significance of the evidence. On Jan. 18, 2002, White House spokesman Ari Fleischer called the Dabhol effort "not uncommon."

But the available evidence makes clear that the Dabhol operation -- like other energy-related initiatives -- represented extraordinary efforts to save Enron. Bush even put

Enron's financial interests at the top of the administration's agenda with India, though it threatened to complicate relations with a key South Asian power after 9/11.

The White House also appears to have taken to task OPIC officials who released the internal e-mails in a normal response to a Freedom of Information Act request. When I sought more Enron documents under FOIA, a shaken OPIC bureaucrat told me that his agency had been perhaps too cooperative in releasing the earlier records.

All future Enron-related releases from the Bush administration amounted to boilerplate and documents that were already in the public domain.

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*Robert Parry's new book is [Secrecy & Privilege: Rise of the Bush Dynasty from Watergate to Iraq](#).*

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