THE ENERGY CRISIS; Energy Execs Gain Millions in Stock Sales; Power: Some say they have profited from the state's crisis. Others say the practice is standard.; [Home Edition]

JERRY HIRSCH. **Los Angeles Times**. Los Angeles, Calif.: Jun 13, 2001. pg. A.1

Full Text (1711 words)

Top executives and directors at many of the large power companies that California officials accuse of profiteering from the energy crisis have collected tens and even hundreds of millions of dollars through stock sales.

Beginning early last year, these executives exercised options and sold stock for huge gains at two, three and even 10 times the level of prior years, according to a study by The Times of trading data supplied by First Call/Thomson Financial and federal regulatory filings.

Most of the energy companies would not discuss specific trades by executives, but said that granting stock options is a standard practice used to compensate top managers and other key players.

In selling in the last year, the executives have demonstrated a knack for timing the transactions near the top of the market, a logical strategy, executive-pay experts said. Indeed, many of these companies' shares have fallen since the bulk of the stock sales.

But critics say it is the energy crisis in California and the West that has driven up corporate profits at these companies-- including AES Corp. of Virginia, Duke Energy Corp. of North Carolina and Houston-based energy concerns Enron Corp. and El Paso Corp. The crisis created a bull market for publicly traded power companies-- and made the shares held by the executives especially lucrative.

Enron Chairman Kenneth L. Lay netted $123 million in option transactions last year, according to a filing with the Securities and Exchange Commission. That was nearly three times his gains the previous year and nearly 10 times what he made in 1998.

Lay has made additional gains this year. He has cashed in options and sold shares to net nearly $23 million since November, while holding on to 50,000 additional shares with a market value of $2.5 million, according to First Call/Thomson Financial data.

Meanwhile, Jeffrey K. Skilling, Enron's chief executive, netted more than $62 million last year in options gains.

Other executives are exercising options for huge gains but then holding on to the shares. Roger W. Sant, chairman of AES, bought 436,500 shares in the Arlington, Va.-based company Oct. 26, paying $1.62 a share and producing a paper gain of more than $21.5 million at the time of the transaction.

But some also cashed out large holdings acquired over years. For example, Robert Hemphill Jr., a longtime AES executive who now serves on its board of directors, has sold $50 million of the company's stock in the last 13 months.

David Arledge, a director of El Paso Corp. and former executive at a company acquired by the Houston natural gas firm, has sold nearly $27 million in stock since Nov. 1.

Cashing in when an industry is hot is typical of corporate executives in the U.S., said Graef Crystal, a Las Vegas-based expert on executive compensation. But when an individual's transactions approach or cross the hundred-million-dollar level, he said, the gains become unusual.

California officeholders and policymakers expressed outrage but not surprise at the transactions.

"It is part of a pattern of smart trading by these guys," said state Sen. Debra Bowen (D-Marina del Rey), who chairs the Senate Energy, Utilities and Communications Committee. "The mentality is to get everything that you can and then ride out the bust.

"I think they are figuring that by this time next year the party will be over and they will be left sitting in a room with plastic cups half-filled with stale beer," Bowen said.

Said Loretta Lynch, president of the California Public Utilities Commission: "It stands to reason that if the companies are making exorbitant profits, then the individuals who run the companies are also making exorbitant profits."

Government Agencies Investigating Firms

Indeed, the stock sales have taken place against a backdrop of acrimony between state officials and the power companies.

Last month, Lynch told The Times that state investigators have uncovered evidence that a "cartel" of power companies shut down plants for unnecessary maintenance to create shortages and thus increase prices and profits. Lynch did not name the companies.

State and federal agencies are investigating the actions of several of the big energy companies, seeking to verify charges that they have conspired to boost prices by limiting construction of power plants, in one case, or by limiting the amount of natural gas available in the power-hungry California market.

Executives at firms not accused of price gouging also have cashed in.

Ann B. Curtis, chief financial officer of Calpine Corp., a San Jose-based power plant builder and generator, has netted more than $10 million in option transactions in the last year. That compares with a total of $5 million in the four previous years.

Some analysts say the transactions are to be expected, considering the changing nature of the power industry.

"Unlike at the old-line utilities where insiders rarely sell, we've grown accustomed to insider sales at the diversified power producers," said Paul Elliott, a First Call/Thomson Financial analyst. "I'm not convinced that these sales raise any red flags at this point."

Although no one is saying that any of the stock trades were illegal, critics link the value of the transactions to the profits streaming out of California.

"The generators have no shame," said Steve Maviglio, a spokesman for California Gov. Gray Davis. "It speaks to how there has been a massive transfer of wealth from California and the West to Texas and the Southeast."

In reporting record financial results for the first quarter of this year, Enron said it posted a 281% increase in revenue to $50.1 billion and a 20% increase in net income to $406 million.

The company did not break out numbers for its California business but did note that it sold nearly twice as much electricity in North America compared with a year earlier, and that sales of natural gas had risen by a third.

Lay, the Enron chairman, "has given himself very generous stock options over the years," compensation expert Crystal said.

"You might think of him as a farmer who has planted thousands of acres of stock options. Now he is harvesting a bumper crop. What he is harvesting is the hard-earned paychecks of California workers and taxpayers."

Mark Palmer, an Enron spokesman, declined to talk about executives' stock trading activity.

"All Enron employees are shareholders. How they decide to use that as a form of compensation is completely up to them," Palmer said. "Mr. Lay is not going to talk about his compensation."

A spokesman for AES also declined to talk about stock sales by its employees.

Other companies were more willing to discuss such sales.

"Many of these people have a lot of stock, and this [is] an opportunity to diversify their personal portfolios at an opportune time when Duke's stock is up," said Terry Francisco, a spokesman for Duke Energy.

Francisco said many of the sellers at Duke continue to hold large amounts of the company's stock. That also holds true for executives of the other firms.

Calpine Chief Executive Peter Cartwright, for example, sold nearly $20 million in his company's shares since May 2000, when wholesale electricity prices started rising and the state's energy crisis took root. His remaining holdings have a market value of more than $400 million, according to SEC filings.

'Getting Out While the Getting Is Good'?

El Paso spokeswoman Norma Dunn noted that Arledge, one of the largest sellers, was CEO of Coastal Corp., a company acquired by El Paso, and chose to sell some of his holdings after the merger.

One factor in the heavy sales of energy company shares is that executives at these companies may be reading the changing marketplace and seeing increased political pressure to rein in energy prices, analysts said.

"They may feel that this power game is not going to go on forever, so they are getting out while the getting is good," said David Moreland, a benefits consultant with CMG Consulting Inc. in San Jose.

Much of the executives' gains stem from the common practice of granting low-priced options to management. At Calpine, for example, both Curtis and Cartwright gained millions of dollars selling shares purchased from the company at just 7 cents and $1.07 a share and then sold for more than $40 a share.

Companies grant these options as an incentive for management to increase the investment value of shareholders. They provide for giant payoffs without the company having to fork out cash.

Yet there is a cost to the company, analyst Crystal said. The deals increase the number of shares outstanding, incrementally diminishing the holdings of other investors.

When the option tab hits tens of millions of dollars or more, the company is in essence handing the money to executives rather than using it to expand the company, Crystal said.

"This is not the tooth fairy," he said.

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Executives' Stock Deals

Here are some energy executives who have recently cashed out large numbers of options:

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Kenneth Lay, chairman of Enron, netted $123 million in option transactions in 2000, triple his 1999 level and almost 10 times his 1998 net.

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Jeffrey K. Skilling, chief executive of Enron, filed regulatory documents May 16 announcing his intention to sell 140,000 shares of Enron stock for $7.98 million. In 2000, he netted more than $62 million in similar transactions.

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Robert D. Doty Jr., chief financial officer of Dynegy, exercised options at $1.47 a share to purchase 40,000 shares of the company's stock Oct. 4. He then sold the shares for $54.66 each, netting $2.13 million.

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Lou Pai, chairman and chief executive of Enron Energy Services, filed regulatory documents May 18 and May 29 announcing his intention to sell 390,000 shares of Enron stock for $21.17 million.

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Peter Cartwright, chairman and chief executive of Calpine, from Feb. 22 to March 2 exercised 188,000 options to purchase shares of his company at prices ranging from 7 cents to $1.07. He netted $11.81 million.

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David Arledge, a director of El Paso Corp., sold company stock for $23.28 million March 6 and 7.

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Harvey Padewer, president of Duke Energy Corp.'s Energy Services division, sold Duke stock for $12.26 million in February, netting $2.99 million.

[Illustration]
Caption: PHOTO: Kenneth Lay: Enron; PHOTO: Jeffrey K. Skilling: Enron; PHOTO: Peter Cartwright: Calpine

Credit: TIMES STAFF WRITER

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