TESTIMONY

TESTIMONY OF WILLIAM D. MILLER, JR.

BEFORE THE
U.S. SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
"RETIREMENT INSECURITY: 401(k) CRISIS AT ENRON"

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Good morning Mr. Chairman and members of the committee. My name is William (Bill) D. Miller Jr. I am the Business Manager and Financial Secretary of IBEW Local 125 of the International Brotherhood of Electrical Workers located in Portland, Oregon. I have been elected to serve in this position since 1983. Our local union represents approximately 3,700 members in five states, including Oregon, Washington, Montana, Idaho and Nevada. Ninety percent of our membership works for 35 distinct electric utility employers, ranging from investor-owned utilities, municipalities, rural electric cooperatives and the Bonneville Power Administration. The remainder of our local union membership is made up of outside line construction workers that perform distribution work on utility properties and build the major steel transmission lines that you see throughout the United States and Canada. The IBEW International office chartered our local union in October of 1900.

We currently represent 911 active employees and 550 retirees of Portland General Electric Company (PGE), a subsidiary of Enron Corporation. We have had a collective bargaining agreement with Portland General Electric or its three predecessor companies since 1900. Additionally, there are approximately 2,200 non-union employees at the company.

The public hears very little about our local union because we are not front page-seekers. We simply work hard to ensure that our customers are taken care of and the lights stay on. Our members are the individuals that you see in the rain, ice and snow doing the hazardous work maintaining and repairing electricity systems ranging from 120 volts to 650,000 volts. We are the people who generate, transmit, and distribute electricity for the public good.

For generations, our industry was one of very stable employment with good wages and a fair benefit package. We worked hard, and in exchange, we enjoyed a secure career with a safe future. This security is what has drawn some very talented people to our industry.

The collapse of Enron has been devastating to our members. When Enron filed for bankruptcy, it took with it many people's dreams, hopes and plans. I have met with and consoled many members as they come to terms with their losses. For example, Tim Ramsey, a 57 year-old lineman from PGE's Western Division. He has worked for the company for approximately 35 years and was planning to retire next year. He lost over $985,000 and his plans for starting the next chapter of his life are on hold. He may never recover from the devastating effect the Enron bankruptcy had on his hard-earned retirement savings. This is just one story out of hundreds I have heard over the last few months. To give you an idea of the magnitude of the overall losses, a handful of our members at PGE have agreed to allow me to give you their names, ages, years of service with PGE, and losses in Enron stock. Keep in mind that the losses I am about to list represent only the lost stock value since employees were locked out of their accounts in mid-September:

1. Roy Rinard, age 53, 22 years with PGE: $472,000 loss.
2. Al Kaseweter, age 43, 21 years with PGE: $318,000 loss.
3. Joe and Diane Rinard, age 47, 12 years with PGE: $300,000-plus loss.
4. Dave Covington, age 42, 22 years with PGE: $300,000 loss.

5. Tom Klein, age 55, 30 years with PGE: $188,000 loss.
6. Mike Schlenker, age 41, 10 years with PGE: $177,000 loss.
7. Patti Klein, age 47, 24 years with PGE: $132,000 loss.

Just these eight employees – including Mr. Ramsey – have together invested 188 years with PGE and lost $2,882,000.

We have been able to go back and piece together a fairly comprehensive course of events that took place at PGE. I am here today to bring you a perspective from labor that you may not have heard before. As you may know, we have had several IBEW members and retirees come before congressional committees, give interviews to the press and be guests on TV news shows. I believe these perspectives were good and gave a point of view from the impacted worker. However, I want to tell you what really happened to Enron, and what is continuing to happen in the utility industry, as we know it.

Before I detail the chronology of events at PGE/Enron, I must give you a little background information. Enron's meteoric rise in the utility business was founded upon the concept of deregulation in the electricity industry. Enron was the engineer and the driver behind this theory, and its business success depended upon its ability to sell state and federal regulators and lawmakers on the idea of mandating deregulation in legislation. When electric deregulation began its flight in the late 80s and early 90s, the selling point was lower rates and "customer choice." Innocent people had no idea what deregulation meant and what the ramifications could be on electricity prices. They soon found out in California when "choice" meant skyrocketing rates and rolling blackouts. Enron continued to push for deregulation, and focused its resources on building political muscle in the states. I attended meetings where Enron Executives flew in the face of utility management and told them they were going to take over their operations. At that time in history very few people believed that the historic utility as we knew it could soon be up for grabs.

PGE was a trustworthy, solid company with which we had a good working relationship. There is a long history of collective bargaining that involves the PGE retirement/savings plan that dates back to 1978. This was the first year employees were allowed to contribute money from their paycheck to a savings plan that was matched with PGE stock. This savings plan evolved into what we now call an Employee Stock Ownership Plan (ESOP) that was designed to supplement our members' defined benefit pension plan and enhance their retirement accounts. At this time, these funds were not pre-tax or 401(k) type accounts – strictly savings accounts. In 1994, these savings accounts evolved into a 401(k) plan and became more sophisticated as the law allowed. We continued to bargain improvements over the next 20-plus years.

Little did I know how different things would be after I received a phone call on Sunday, July 21, 1996. I was invited to meet with PGE officials that afternoon because there was going to be an important announcement Monday morning. This announcement was going to affect the company and all PGE employees, and PGE felt it was "the right thing to do" by giving the union advance notice. That afternoon, I met with PGE's CEO Ken Harrison, President Peggy Fowler, and Enron's CEO Ken Lay. They told me that Enron was purchasing PGE and had agreed to honor all existing agreements.

Our members, and all Oregonians, were very skeptical of this Texas giant taking over our local utility company. PGE was an important pillar of the Portland community. It was run almost like a family business and the culture was very down to earth. PGE employees were extremely nervous but "skeptically interested" because Enron had been touted as one of the "movers and shakers" in the emerging, deregulated part of the electric utility business. By now, utility companies all over the country were running scared as the threat of deregulation had taken hold. Many in the industry thought that

PGE was too small to withstand the pressures that deregulation brought to the marketplace and it could not compete. Enron, however, saw PGE as a cash cow that had the in-house talent and expertise on interconnections to expand their high cash flow and leverage the trading operation. The Oregon Public Utilities Commission (OPUC) was also extremely wary of the deal. It took Enron nearly a year of negotiations and millions of dollars in "community investments" to gain the approval of regulators.

In July of 1997, the takeover of PGE was completed and had been approved by all required regulatory agencies. PGE's stock was approximately $23.00 a share when Enron made the announcement it was purchasing PGE. Enron's stock was at $44.00 per share at that time.

In July of 1997, after the sale was complete, all PGE stock held by employees was converted to Enron stock automatically. There were no other options available to employees. Not only did the stock change in name, but also in nature. It went from a stable, vertically integrated utility stock, to a volatile, high-risk investment. No one told our members that their holdings were now a dramatically different type of investment.

In the summer of 1998, an announcement was made that if the stock did not get to $60.00 a share, Mr. Lay would not get his annual bonus. At this time, we were in contract negotiations with the company, as we are approximately every three years. In a move to dazzle employees, PGE came around handing out $50 bills to all of its workers. They claimed it was a "bonus" for when the stock reached the appropriate level. On August 16, 1999, Enron stock hit approximately $80.00 a share and split.

In April of 2001, Ken Lay told employees that the stock would continue to rise. The company's newsletter ran articles touting their prosperous future, even though Lay was simultaneously selling millions of dollars in company stock. Our members were wondering why the CEO was selling so much stock if the company was doing well?

Also in April, former President and CEO Jeffery Skilling told employees that the stock was undervalued and would go to $120 per share. This was also reported in the Oregonian, the major statewide newspaper in Oregon.

On August 14, 2001, Ken Lay sent an email to employees stating "Enron is one of the finest organizations in business today. Performance has never been stronger." On August 21, 2001 Ken Lay sent another e-mail to employees expressing confidence that stock prices would continue to go up. This was also quoted in the Enron newsletter. On August 27, 2001, Ken Lay announced to employees via e-mail that workers would now have stock options and that Enron stock would be at a "significantly higher price in the future." Our members began to express concern to me and other union officials that they were hearing things in the media and around the shop that made them wonder what was really going on in the company. Every time a question was raised, people were always reassured through an email or some other communication that the company was doing better than expected and would continue to flourish.

On September 27, 2001, our local union received the first complaints that some employees could not access their 401(k) accounts to make changes. For the most part, employees' transactions were conducted on-line, from their PCs. Our members said they could see their accounts on the computer, but could not transfer any assets or make changes. We verified this with workers at three different divisions within PGE. It seemed that the access throughout the company was very inconsistent – workers would call the plan administrator and be on hold, or if they did get through, they were told that the system was down temporarily and to try later.

On September 28, 2001, the company notified the union that their 401(k) accounts would be "locked out" beginning on approximately October 19, 2001 lasting for about one month while changing administrators from Northern Trust to Hewitt. Employees were officially notified of the lock down by company email. If you did not have access to a PC, or were retired, you would not have received notification.

On approximately October 20, 2001, during the lock out period, an IBEW member discovered a change in the interpretation of the diversification rules of the 401(k) plan. Up to this point, our plan only allowed employees over the age of 50 to diversify the Enron stock they had received as into their 401(k). After age 50, they could sell 25 percent per year. This employee discovered a discreet change in the employee handbook that stated that, in fact, employees could convert 100 percent of their Enron stock to other investments at age 50. No one knew about this change in the company policy, or when it took place. The union was not informed of this change, as is required by law, and we were not able to inform our members of this change until the savings plan was in the lock out period. Many of our members wanted to sell their Enron stock during the lock out. Instead, all they could do was simply watch, helplessly, as the stock price tumbled dramatically and their life savings disintegrated before their eyes.

To summarize the wild ride we were on with stock prices from the beginning of the year through the end of the lock out period:

- January 25, 2001 stock price $81.38
- September 28, 2001 stock price $27.23
- October 19, 2001 stock price $26.05
- October 30, 2001 stock price $11.16
- November 13, 2001 stock price $9.98

Many individuals have criticized the notion of shifting more toward a defined contribution retirement system, and tried to second-guess why our local union did not attempt to strengthen our defined benefit pension plan in our last round of collective bargaining. The answer is very simple to me, but much more complex to those not familiar with the utility industry. Allow me to illustrate. If one looks at the “big picture” of the region’s utilities, it is a pretty grim reality. The stability of the surrounding companies has a direct impact on our negotiating with PGE. Avista Power in Washington state, once known as the pillar of the northwest utilities for stability, had trouble making payroll for its existing work force; Puget Sound Energy had just concluded their negotiations with IBEW Local 77 in Seattle, Washington, resulting in a majority of their work force being laid off and replaced by contractors; Pacific Power and Light was sold to Scottish Power from the United Kingdom, and was (and still is) in financial trouble having just terminated their CEO; and Pacific Gas and Electric had filed for bankruptcy as had Southern California Edison. We attempted then, and continue to work toward moving our pensions and all other benefits into an arena that is not employer-dependent.

Our local union, in order to protect our members’ futures, is doing whatever possible to get out of employer-controlled health and welfare plans. Almost all utility plans today have what is referred to as a “defined benefit” plan. Nearly all of these plans have a cash-out provision should the employer go out of business (as is occurring with Puget Power described above). Defined benefit plans are good pension plans if an employee makes it to retirement age and the employer is still business when that employee elects retirement. In today’s electric utility business, with its high rate of instability, we do not believe this is prudent for utility workers. This type of plan presents too much of a gamble for the average worker if he or she is less than age 55.

The day of the stable utility employer no longer exists, thanks in large part to Enron. Employees of these once stable entities can no longer trust their employer for a true accounting of what their company’s future holds for them.

In our case with Enron/PGE, thousands of employees trusted their employer to tell them the truth and the employer deceived them. The fall out from this debacle will affect our country for generations to come. Our people played by the rules – they weren't sophisticated investors, just hard-working, honest folks who became victims of Enron's lies. There is much more that needs to be said and done. Our local union is willing to assist in any way we can, to make sure our tragedy can be avoided elsewhere.

In conclusion, thousands of people have been deprived of their futures. In our small part of the world, our best guess is that in excess of $800 million has been stolen by Enron, ruining nearly 3,100 lives and futures. We had members, guided by their faith in a company and its promises, who lost everything.

What can be done? We hope Congress will make changes in the law to address issues surrounding mandatory stock matches, total percentage of company stock in the 401(k) plan, and advance notice and limitations on the duration of lock out periods.

Thank you for the opportunity to speak before your committee today.