

Restructuring in the Rearview Mirror – a 10-Year Retrospective of California’s Doomed Experiment with Electric Deregulation. By The Energy Overseer

Enron, All Things to All People

Yesterday, I had an appointment at the Random Corporation, the world-famous conservative think tank located in the heart of infamously liberal Santa Monica. You probably know Random from its history of high-level research into military hardware, death stars and the like. That still goes on, of course--now probably more so than at any time since Jane Fonda lived in the neighborhood--although, like Jane, the think tank’s mission has been infused with a modern sense of entrepreneurialism. Among the conversations I overheard while there was one that had to do with developing new markets for weapons-sensing devices in American high schools.

But that’s not all they do.

Lucky I’d arrived early, because I had a hard time finding parking in the visitors’ lot. After being directed to a second lot somewhere south of the Ballona Wetlands, I checked in at the security desk.

“You here for the study?” asked the guard. “Man, we haven’t had so many test subjects since they tried out that invisibility sun-tanning lotion during the Gulf War.”

I was about to say no, I was there for an interview appointment, but my curiosity got the better of me.

“Well, you’d better hurry. The tests only last until 11 am.” The guard looked at my ID and handed me a security pass. “Just wait over there, an escort will be with you in a minute.”

My cover was blown immediately. My escort, it turned out, was Cesily Condoleeza.

Long-time readers might remember Cesily as the 17-year-old high school student who years ago went door-to-door through my neighborhood earning points for a Cato Institute college scholarship by getting voters to sign petitions to eliminate various federal programs. Bright, attractive and highly persuasive, she was scarily effective. In little more than two weeks, she signed up 45 percent of otherwise politically progressive Bernal Heights residents to support opening the Arctic National Wildlife Refuge for oil drilling and 60 percent to favor privatizing the Bonneville Power Administration. And that was in 1995!

She was so successful, she not only won her scholarship but also took advanced placement at the prestigious Hoover Institution at Stanford, where she eventually earned a degree, with honors, in political science.

It had been six years since we’d last met, but she recognized me immediately and gave me a big smile and a hug.

“Mr. O’Donnell, so good to see you again!” Cesily had always exhibited a strange Ms. Manners-like combination of familiarity and formality.

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“I just knew that you’d find out about this. But that’s OK. Unlike most of the other research here, this is not top secret, and I’m supposed to help publicize the findings. Come with me.”

You’re doing PR for Random? I asked as we passed through the bullet-proofed security doors.

“Not exactly, but around here we all pitch in and do whatever we’re asked. It’s the least I can do for my country during a time of war.”

What exactly is going on? I asked when we entered a small room filled with people in white coats conferring over reams of documents.

“Well, we got a call from the White House this week expressing concern about all the negative publicity being attached to the Enron Corporation’s bankruptcy. I guess you can imagine that George W. has a special interest in all this since he and Ken Lay are practically family. Anyway, we were asked to do some public-perception polling about Enron to find out if there might be support for a government bailout.”

Why Random? Why not hire the Field Poll?

“The request was for public-perception research, not public-opinion surveys,” she corrected me, ever so politely. “We do psychographic research that’s a little beyond the normal realm.”

That didn’t surprise me, knowing that back in the 1950s, Random was the contractor for the CIA’s then-secret experiments into extrasensory perception. Given Enron’s situation, I was going to make a joke about ESPs, but thought better of it.

OK, I said, you’re going to have to explain.

She held up a piece of paper with a big “E” printed on it. At first, I thought it was the Enron trademark logo, but then I recognized it as a version of an optical illusion called “The Magic Fork.” Though it first seems to have three prongs, a closer look reveals there are only two, the middle fork being just an illusion. It was an E but not an E, if you know what I mean.

Also on the sheet was the word Endless followed by a fill-in-the-blank line.

“The study is simple. We tell subjects that this symbol represents a major US corporation in the news and ask them what it means to them. Then they complete the phrase. We were going to use the real logo, but our lawyers told us it’s been frozen in bankruptcy court as part of a creditor’s dispute over Enron’s intellectual property. But this works even better.”

How so?

“What we found is that because of all the news stories, people don’t need prompting to identify the symbol with Enron. Our brains are wired to fill in gaps of understanding--that’s how we make intuitive leaps. The illusion is just an error in perception, a difference in the appearance of some measurable aspect of the world,

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such as size, dimension or shape. Sometimes things are hidden in the picture, or missing, and we make a connection that isn’t there. We get used to the way things are supposed to be, and sometimes our brains get it wrong. We may see in the illusion something we think we’re supposed to see. The illusion of the E makes the brain work a little harder and, it turns out, evokes an emotional response. The interesting thing is that everybody sees something different. But everyone eventually sees through the illusion.”

She continued. “We’re still going through the results, but preliminary analysis indicates a high correlation between the E of Enron and the E associated with electronic commerce rather than energy or the environment. That, of course, is interesting because in many respects Enron is a lot more like an Internet company than a traditional utility, and it doesn’t have any public associations at all with the environment--despite its windpower operations. That tells you something right there.”

Is it a positive correlation or a negative one? I asked.

“Different people see different things. Take this subject, for instance. Female, 45, an investment banker by occupation. It took her a really long time to get the illusion, but then she described a metaphorical connection between the illusory prong and Enron’s alleged accounting practices and the sudden disappearance of profits and value through the recent restatement of earnings. ‘Enron is a grotesque fraud--a financial monstrosity of manipulation and falsification,’ she wrote.”

That doesn’t sound very positive, I suggested.

“Or this male, aged 30, who immediately saw through the trick and entered into a long political diatribe about campaign contributions, pension fund losses and the need for reform of accounting practices. Quite a few other people did make connections to electricity deregulation, suggesting that the Magic E symbolizes the failure of restructuring. That contrasts with the perception of another male, aged 60, identified as an economist, who sees the E floating isolated in space, having no impact on anything around it. ‘It’s the failure of a single competitor,’ he wrote. ‘Not an indictment of competition.’”

That’s really fascinating, I said. What about the second part of the test?

“There was almost universal agreement on that one,” Cesily responded. “You might think people would just parrot the trademark slogan, Endless Possibilities. Instead, do you know what they wrote?”

Let me guess. Endless Litigation.

“You are so smart, Mr. O’Donnell” (Cesily still knew how to flatter). “That’s exactly what 94 percent of the test subjects wrote.”

So, what are you going to tell the White House? It doesn’t sound like there’s much public support for Enron out there. And frankly, Cesily, I’m surprised you’re being so open about all this. It’s going to be a black eye for the Bush administration, don’t you think?

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“Oh, no, just the opposite. We have no intention of recommending government intervention. One of the primary tenets of conservatism is to let the market decide. The market has decided to punish Enron by pushing its stock price below \$1 per share, and it’s up to the bankruptcy court and creditors to figure out whether it survives or not. There are already government programs to help the laid-off employees and litigation options available for those who believe their investments have been fraudulently stolen. The energy market has already adjusted to Enron’s absence, and life goes on. Our recommendation will be: No special favors.”

I could see that, after all these years, Cesily hadn’t changed at all [**Arthur O’Donnell**].

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