MONT BELVIEU

Fire rages at gas plant

BILLY SMITH II : CHRONICLE

A POLICE officer helps divert traffic away from a blaze Tuesday at the Enterprise Products natural gas plant in Mont Belvieu. A pipeline exploded, causing no known injuries, but setting off a large fire. The company is uncertain how long the blaze will continue. **STORY ON PAGE B1**

Street-repair crew backs into v

A CITY work crew sent to repair a damaged street saw its dump truck f Tuesday in southwest Houston. A Public Works Department spokesm eroded the soil under the street, which collapsed as the 7-ton truck ca

We're still in the dark on blackouts

LAST week's blackouts, it seems, didn't end with the cold snap. Texans still remain in the dark about the cause of the power outages, and state regulators so far are content to hide behind market rules that shield generators from public scrutiny.

LOREN STEFFY

As I wrote last week, the Electric Reliability Council of Texas, which operates the grid for the state's deregulated market, found itself about 4,000 megawatts short early last Wednesday as bitter cold settled over the state, resulting in the rolling blackouts.

ERCOT has said that some 50 generating units were unexpectedly off line because the extreme cold froze pipes, valves or other equipment.

Winterizing a power plant is, of course, much more complicated than wrapping your pipes at home. But under our deregulated system, "market forces" — the threat of losing millions of dollars — should have been a motivator.

So was this a failure of the market, or something else?

To answer that question,

Please see **STEFFY,** *Page A8*

ANOTHER COLD SPELL
Texans are asked to conserve power again: **PAGE B1**

JOHNNY HANSON : CHRONICLE

A NONPOWER LUNCH: Ostioneria Michoacan Seafood Oyster Bar was just one of many Houston restaurants that had to cope last Wednesday with feeding customers during rolling blackouts.

STEFFY: We deserve clear answers

CONTINUED FROM PAGE A1
we'd have to know a couple of things, starting with a list of which plants went down because of the weather. That information, though, isn't available. Under Public Utility Commission rules, ERCOT is prohibited from releasing details about generation status for 60 days to protect the competitive integrity of the market, a spokeswoman for the grid operator said.

The PUC has some discretion to bend the rules to ensure reliability, but it's still discussing whether to waive the confidentiality protection in this case, spokesman Terry Hadley said.

Some answers emerge

Calls to two of the state's biggest generators provided some answers. NRG's primary, or "base load," coal-fired units and the South Texas nuclear plant were all running at capacity Thursday morning, company spokesman David Knox said. Some of the company's smaller plants did have some weather-related issues, he said.

Luminant, the Dallas-based generator, was hit harder. Four generating units at two of its base load coal plants went down, but three other coal plants and its nuclear plant remained operational, spokeswoman Ashley Barrie said. All of the units crippled by cold had been in service less than two years, meaning they had never been through a cold-weather shakedown like they experienced last week.

The market opacity grows, though, as we begin to look at the issue of who *did* sell power as the crisis unfolded.

Did some profit mightily?

Wholesale prices shot up Thursday morning to as much as $3,000 a megawatt hour just before the blackouts from $125 or less earlier in the morning, according to ERCOT data. That means at least some companies were supplying power at peak prices, potentially making a huge profit.

A complete list of companies and the prices they received, however, also falls under the PUC's confidentiality rules. For its part, the PUC has asked the state's independent market monitor, who's supposed to oversee market integrity, to investigate the cause of the blackouts and determine if market rules were broken.

That's a concern because the outages and the price spikes raise some troubling questions: For example, what if one or several of the companies that sold at peak prices also owned plants that allegedly froze and faked their outage?

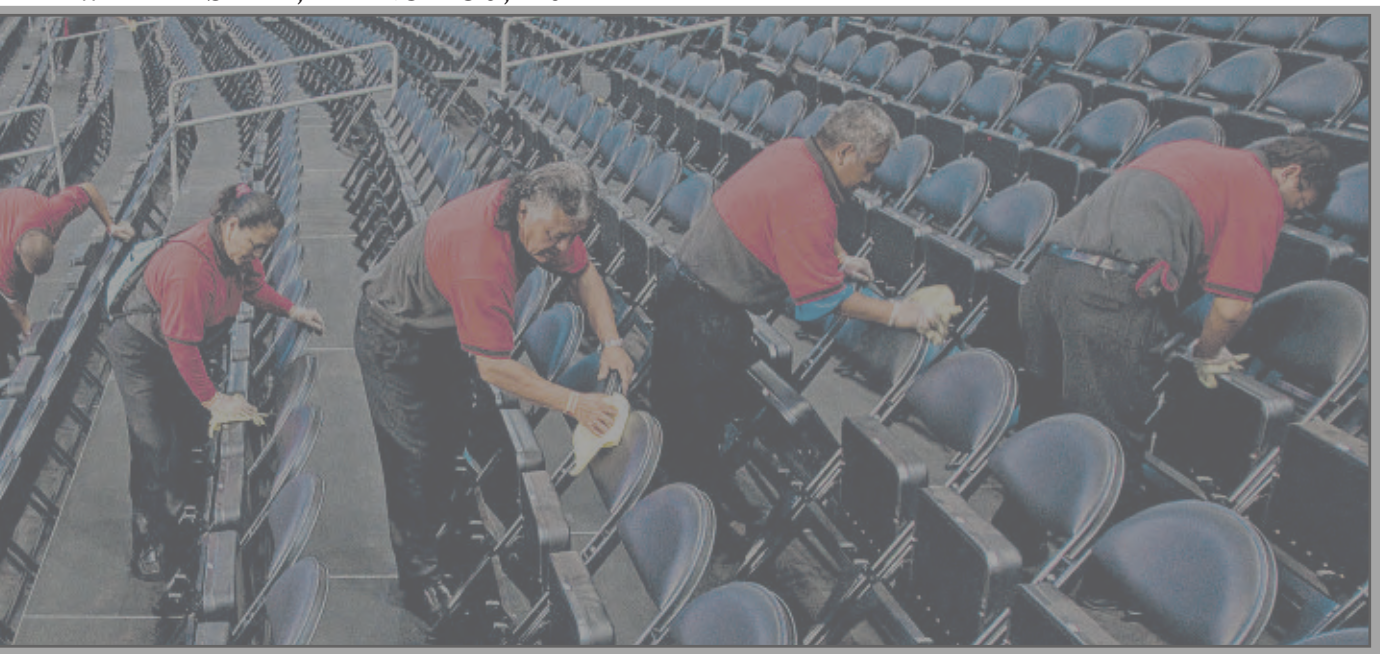
That may be unlikely, but it needs to be examined. This is, after all, Enron's home state, and such a maneuver would be similar to some of the tricks the failed energy trader pulled to game the California electric market a decade ago.

You'll note I said the plants "allegedly" froze. That's because neither ERCOT nor the PUC knows for sure. ERCOT was simply notified by the generators that they were unable to supply power that ERCOT had counted on.

As the temperature begins to creep down again this week, the public deserves clear answers, and its right to those answers overrides the rules designed to protect the profits of generators.

Let's get all the information out in the open. Only when we get a better explanation of what happened can we figure out how to keep the lights on the next time.

Loren Steffy is the Chronicle's business columnist. His commentary appears Sundays, Wednesdays and Fridays. Contact him at loren.steffy@chron.com. His blog is at blogs.chron.com/lorensteffy.



BRETT COOMER : CHRONICLE

y in the lower section of Reliant Stadium in preparation for the NCAA Final Four this weekend.

D
NT

MORE COVERAGE IN SPORTS, PAGE C1

, or skip, the fun

won't be a run on strip clubs (we think) or a wardrobe malfunction at halftime (what are the odds?).

There will, however, be plenty of opportunities for fun — and cheap fun — this weekend, whether it's related to basketball, or not. More than 400,000 people are expected to participate in the NCAA's series of events.

Free concerts at Discovery Green and open team practices at Reliant Stadium are among the Final Four-related events around town.

And don't worry, if you'd rather avoid the hoopla altogether, we've got some simple tips.

Please see **GUIDE,** *Page A15*

HURSDAY

II SLAMA JAMA

's place in Final Four lore

HOME VALUES DECLINING FOR 1 IN 5

■ Slide continues in Harris County, putting sellers and local tax coffers in a bind

By MIKE MORRIS
HOUSTON CHRONICLE

One in five Harris County homeowners saw the market value of their property fall last year, continuing a slide that has put residents wanting to sell — and the local governments that rely on property taxes — in a crunch.

Across the county, about 19.3 percent of single-family homes declined in value from the start of 2010 to Jan. 1 of this year, according to preliminary data from the Harris County Appraisal District. About 73.1 percent of homes showed no change.

Just 7.6 percent of residences gained market value, though HCAD Chief Appraiser Jim Robinson said that figure includes new construction and home additions. From 2009 to 2010, 30 percent of Harris County homes declined in market value.

"The county's residential appraised value is only down about (0.1) percent, but that's going to vary dramatically by school district, depending on the particular market in that school district and even more so in individual neighborhoods of comparable properties within a school district," Robinson said.

Areas in the east and north of the county showed the

Please see **APPRAISAL,** *Page A15*

'Bring the shuttle home,' spouses of the fallen say

■ Pair send out a heartfelt appeal to land a retired orbiter for JSC

By STEWART M. POWELL
HOUSTON CHRONICLE

HUSBAND-THOMPSON

CLARK

WASHINGTON — Texas' uphill bid to win a retired NASA space shuttle for public display got an emotional boost Tuesday when the spouses of two lost Columbia astronauts urged the Obama administration to "bring the shuttle home" to Houston for a return their loved ones tragically never made.

Evelyn Husband-Thompson, wife of Columbia commander Rick Husband, and Dr. Jonathan Clark, husband of astronaut Laurel Clark, joined members of the Houston-area congressional delegation to build pressure on NASA Administrator Charles Bolden to award a mothballed orbiter to Space Center Houston, adjacent to NASA's Johnson Space Center.

"I represent the legacy of those who were lost and those who are retiring," said Husband-Thompson, whose husband died in Columbia's fiery disintegration during re-entry on Feb. 1, 2003.

"Now that the shuttles are being retired, it is time to bring the shuttle home," she said. "One of the shuttles belongs in Houston, where

Please see **SHUTTLE,** *Page A15*

Saudis' oil secrecy is double-edged sword

LOREN STEFFY

DAMMAM, Saudi Arabia — This is Saudi Arabia's Spindletop.

It was here, in 1938, that Standard Oil of California hit the prolific Dammam 7 well that would begin Saudi Arabia's ascent to the top of the world oil market. Gift shops in hotels around town that attract foreign businessmen — almost all of them involved in the oil business — sell glass vials of Dammam crude, denoting the significance of the find.

HC Exclusively in your print edition

The surrounding eastern province produces the oil that the world counts on for maintaining stability in prices. As political unrest washes over other Arab countries, concern has mounted about Saudi Arabia's ability to calm global market's jitters as it has in the past.

As my plane prepared to land here last week, a massive sandstorm blew from the northwest, blotting out the city and forcing my plane to divert back to Dubai. Even when we finally landed hours later, the sand hung in the air, creating a haze that made it difficult to see.

It was an apt analogy for

Please see **STEFFY,** *Page A15*

STEFFY: Detailed Saudi oil data hard to find

CONTINUED FROM PAGE A1

the role that this area plays in the global markets. Though it is vital to the world's economic balance, much about the oil production here remains shrouded in secrecy.

Since the 1970s, Saudi Arabia has been the self-appointed stabilizer for oil prices, thanks to the vast reserves here. It's a role it has filled well. In every crisis during the past three decades, the kingdom was able to ramp up production and restore price stability within a few months.

In recent weeks, as fighting erupted in Libya, disrupting that country's production, Saudi Arabia's Ministry of Petroleum and Mineral Resources began calling major oil companies, seeking to reassure worried customers.

"We told them, 'We have the oil, just let us know the quantity and the quality and the kind you want,'" Ibrahim Al-Muhanna, adviser to the Saudi oil minister in Riyadh, told me. "The spare production capacity of Saudi Arabia is huge."

CHRONICLE

Saudi Arabia says it has 3.5 million barrels a day of spare capacity that it can bring to market if another producer comes up short.

Market overreaction

In the decades since the kingdom became the world's dominant oil producer, it has followed a strategy of balancing supply and demand to achieve a reasonable price.

These days, that's proving more difficult. The oil ministry would like crude prices to stay at $70 to $80 a barrel. That would keep gasoline low enough that countries like the U.S. would continue to depend on imports, yet generate enough revenue to keep Saudi Arabia's economy humming.

Make no mistake, the kingdom benefits from high prices, but the Saudis also know that if prices stay high for too long it will crimp demand — consumers will cut back — and in the extreme case it could cause recessions in the larger industrialized economies.

The problem, as Al-Muhanna sees it, is that too many players in the market overreact to events that could affect prices. Hedge funds, for example, are constantly interpreting news such as the unrest sweeping many oil-producing states and trading on the information.

This, Al-Muhanna said, is unnecessary. Saudi Arabia produced 9.2 million barrels in February, and it can increase that to as much as 12 million. The world, though, doubts some of the numbers. Saudi Arabia has always been secretive about giving production figures: how much oil is being produced from each field, for example. In the 1980s, OPEC adopted a similar posture. Much of the world's most vital production data is, as my son would say, "sketchy."

Lack of verification

Ironically, Saudi Arabia's secrecy may be driving the market speculation and the volatility it struggles to combat. More detailed, verifiable data would reassure global markets.

Most experts I've talked with here in the region agree that for now and perhaps many years to come, Saudi Arabia will continue to be the world's oil price stabilizer. In the next few columns, I'll take a look at the kingdom's changing economy and the challenges it faces in maintaining that role.

Loren Steffy is the Chronicle's business columnist. His commentary appears Sundays, Wednesdays and Fridays. Contact him at loren.steffy@chron.com. His blog is at http://blogs.chron.com/lorensteffy.

SUNDAY
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BUSINESS

COMING MONDAY
■ In the State Your Case c
Ronald Lipman addresses
problems with exes in Tex

AGRICULTURE

The drought is leaving cotton growers with stunted crops, and the losses are expected to reverberate across the state

LOREN STEFFY PHOTOS : CHRONICLE

PUNY: Ropesville cotton farmer Dahlen Hancock shows the results from one of his semi-irrigated fields. The roots, which are supposed to go deep into the ground, are thin and spindly. Few of the plants in this field will be harvested.

PATCHES OF PAIN

ROPESVILLE — A brittle brown stalk of cotton rises against the barren field near here, a tombstone for a harvest that never happened.

LOREN STEFFY

It's a straggler, overlooked by the equipment that plowed the rest of this field back into the parched earth weeks ago.

Across the High Plains, dry land cotton fields resemble pictures sent back from the Mars rover — field after field of lifeless red soil that testify to the state's costliest drought. Its financial impact blows through the High Plains economy like the dust devils that spring from the empty land.

The occasional irrigated swatches of green are the only hope for farmers like Dahlen Hancock, who works more than 5,800 acres of cotton southwest of Lubbock. Even irrigated fields are struggling, but Hancock hopes he can salvage some sort of harvest.

"We're trying to figure out how to limp along with half a crop," Hancock, 52, told me as we sat in his dusty pickup surveying his fields.

Hancock, a fourth-generation farmer, has already lost 3,000 acres of dry land cotton. Much of his remaining acreage, like most fields in the High Plains, uses supplemental water, but without rainfall, it simply isn't enough to beat back the drought.

Exclusively in your print edition

Cotton plants that are supposed to be waist high by this time of the season are just a few inches tall. Their sparse bolls are tinted purple, a sign of stress.

He's counting on the 25 percent or so of his fields with the best irrigation, where the cotton plants are tall and bursting with plump green bolls, to get him through.

The entire region is expected to produce only about 2 million bales by the time the harvest is completed at year's end, according to Plains Cotton Growers, a trade association. That's a big drop from the 5.3 million harvested last year.

Statewide, the drought is expected to cost cotton growers $1.8 billion, about the value of last year's production. In other words, the industry will spend

Please see **STEFFY,** *Page D4*

BEREFT OF MOISTURE: A forgotten stalk of cotton stands against the parched earth of a field that has been plowed under.

North of th
a haven fro

WESTERN EDGE OF THE W
is investing in hot yoga studios,
exercises in warm, humid cond

■ Many Mexican
entrepreneurs
set up shop in
The Woodlands

By JENALIA MORENO
HOUSTON CHRONICLE

THE WOODLANDS —
Most certified public ac-
countants aren't summoned
to the airport late at night to
pick up clients fleeing their

LOREN STEFFY : CHRONICLE

BARELY ALIVE: Near Roosevelt, a crop of semi-irrigated cotton struggles. It's too small and sparse to produce harvestable cotton.

STEFFY: Losses ripple through region

CONTINUED FROM PAGE D1

everything it took in.

"That's a lot of cost to raise a substandard crop," said Shawn Wade, with the growers association.

Agriculture statewide is devastated. The Texas AgriLife Extension Service recently estimated the total economic impact of the drought at a record $5.2 billion.

Like most farmers, Hancock purchases crop insurance that will help offset the losses from a poor harvest, but it won't cover all of them.

Compounded woes

With scientists predicting that the drought could persist through the winter and worsen next summer, farmers are worried. The longer a drought lasts, the more its financial impact compounds, battering rural economies.

Hancock, for example, faces higher costs for things that insurance doesn't cover, like power to run irrigation pumps. Last year, he spent about $35 an acre for energy; this year, he's estimating it will be closer to $65.

Other costs, from seed and fertilizer to insurance premiums, are likely to rise next year, too, adding to his expenses. He's adopted planting techniques that maximize yields and minimize water usage, but it's a feeble weapon against the drought's severity.

"The cost of doing business is going to go up," Hancock said. "I don't know that we've seen the full effects."

He's trying to cut other expenses. He typically hires three or four laborers during the growing season, but this summer, he hasn't.

Less work at gins

Area cotton gins are planning to hire fewer crews, too, and they're buying fewer supplies. Last year, Lubbock Cotton Growers ginned 82,000 bales. This year, operator Jerry Butman is expecting at most 30,000. The entire harvest will be processed in a month, using 12-hour shifts, he said, rather than the usual three months of 24-hour shifts.

"We'll hire half as many people," Butman said.

At the Meadow Co-Op Gin just up the road from here, Dan Jackson is predicting a harvest about a third the size of last year's, and "that gets bleaker almost daily." He's also planning to hire about half his typical crew of 38.

"We're going to operate at a loss because we just won't have the volume," Jackson said.

Eventually, the effects will be felt on the Gulf Coast, too, because gins in the High Plains will be sending fewer exports through the Port of Houston. Cotton futures have fallen as overseas buyers have been cutting orders for U.S. cotton amid fears that the drought will gut production. Canceled orders exceeded sales for nine of the past 10 weeks, Bloomberg News reported.

Machinery sales to suffer

Meanwhile, High Plains equipment suppliers like Joe Hurst say they expect to sell fewer strippers and other harvest equipment heading into next season. His parts and service business at his five locations around the Lubbock area has already fallen by as much as 75 percent.

In a typical season, Hurst might sell 180 new and used machines, but between the end of the harvest in December and the start of planting in May, he's expecting to sell only about 60.

"That's going to be my biggest killer right there, the harvest equipment," he said. "We're looking at a pretty bleak harvest season."

From the sky, irrigated fields are supposed to grow in lush, green circles around their water pivots. This year, many are spotted with brown, as if nature's brush were running out of paint.

Jackson, though, sees the drought's devastation in a different color: "This thing, economically, is going to be a huge, huge black hole for this part of the world."

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ACROSS THE BOARD

Estimated 2011 drought losses by commodity:

Livestock	$2.1 billion
Cotton	$1.8 billion
Hay production	$750 million
Corn	$327 million
Wheat	$243 million
Sorghum	$63 million
Total	**$5.2 billion***

*Does not include losses for fruits, vegetables, grains, and horticultural and nursery crops.

Source: Texas AgriLife Extension Service CHRONICLE

WORST OF THE WORST

Economic losses from drought since 1998:

1998	$2.4 billion
1999	$233 million
2000	$1.1 billion
2002	$316 million
2006	$4.1 billion
2008	$1.4 billion
2009	$3.6 billion
2011*	$5.2 billion

*Estimated losses so far.

Source: Texas AgriLife Extension Service CHRONICLE

DRASTIC DROP

High Plains cotton production:

2010	5.3 million bales
2011	2 million bales (est.)

Source: Plains Cotton Growers

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BUSIN

Job-loss blame misplaced

MAKE no mistake, the 500 Luminant employees who will lose their jobs later this year are victims, but not of federal over-regulation.

They are pawns in the ongoing charade of Texas' deregulated electricity market, which already has left generators financially weakened and consumers worrying about blackouts.

Luminant, Texas' largest power plant operator, said it will fire the workers and close two large coal-fired power units to comply with stricter air quality standards mandated by the U.S. Environmental Protection Agency.

LOREN STEFFY

Dallas-based Luminant is asking a court to delay the EPA rules, issued in June, so it will have more

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STEFFY: Stuck with coal-fired plants

CONTINUED FROM PAGE D1
time to comply.

Luminant joins a chorus that includes Gov. Rick Perry and that loving lapdog of polluters, the Texas Commission on Environmental Quality, in lambasting the EPA rule changes.

Meanwhile, NRG, the second-biggest generator in the state, said it expects to comply with the EPA regulations without any jobs cuts, plants closing or material financial impact.

Funny how much difference good financing and a little planning can make. After all, power generators knew that, sooner or later, stricter air standards were coming. While it does seem that six months is a short time to enact the sort of pollution controls the EPA is requiring, it's a moot point.

Buyout debt

It's unlikely Luminant has the cash to make the sort of investments it needs to reduce its coal-fired pollution. Its parent company, Energy Future Holdings, is struggling with mountains of high-priced debt from its ill-timed $43 billion buyout by two private equity firms in 2007.

That deal resulted from an unintended consequence of deregulation that made coal a profit machine. Electricity rates are tied to natural gas, and for most of the past decade, coal enabled companies to generate more cheaply, fattening their margins.

That's why we have 19 coal-fired generating units already operating and nine more than have been granted permits by the Texas Commission on Environmental Quality.

Now, with an abundance of shale gas, prices have fallen below $4 per million British thermal units, making coal a less profitable generating source.

But don't expect generators to switch fuels.

"They couldn't afford to switch," said Ed Hirs, a professor of energy economics at the University of Houston. "A coal plant is a sunk cost."

Hirs and a group of researchers affiliated with Yale University recently studied whether stricter pollution standards would cause generators to change from coal to natural gas. At most, the study found, 20 percent of the coal-generating capacity in the U.S. might convert.

"You're not going to see a big change over time," he said. "Clearly, there's an issue of inertia in the market."

That will disappoint environmentalists, and it will disappoint natural gas proponents, who have argued that gas is a cleaner, more economical generating fuel.

More of the same

In Texas, though, it means more of the same. Having created a system of misplaced incentives, deregulation has left us with higher prices, lower reliability and, now, more expensive and dirtier coal generation.

It's easy — and politically feasible — to blame the EPA, but the 500 jobs Luminant is cutting aren't being lost to higher air quality standards. They're simply the latest victims of deregulation's failed legacy.

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BUSINESS

INSIDE

■ The federal governme
Houston-based Allied H
Mortgage Corp., one of
largest privately held m
brokers. **PAGE D2**

From Isenberg, one last insult to investors

THE $100 million that Nabors Industries is set to pay its former chief executive shines like a beacon of outrage on all that is wrong with corporate America.

It is the ultimate shareholder shakedown, a parting shot so egregious that it ought to capture the attention of protesters worldwide who decry the inequity embraced by hedge fund managers and Wall Street investment bankers.

In Houston, where Eugene Isenberg has frequently landed atop the annual list of highest-paid executives, it hardly seems a surprise that he would orchestrate one final fleecing of investors who have watched for years as their languishing returns begat his exorbitant pay.

LOREN STEFFY

For their $100 million — plus another $26 million or so worth of stock options — shareholders get Isenberg to give up the chief executive job he's held since 1987, but

Please see **STEFFY,** *Page D9*

STEFFY: Shareholders ignored

CONTINUED FROM PAGE D1
he's not even leaving the company. He will remain its chairman.

Nabors characterizes the $100 million cash payment as a contingent liability — something it *might* have to pay — but no one is fooled.

Under the terms of his contract, if the company forces Isenberg to give up his CEO job, it must retain him as chairman and pay him the money, according to a recent filing with the Securities and Exchange Commission.

"The very idea that the chairman of the board, having held the position for 24 years, has been forced to relinquish the CEO position, thus triggering some kind of constructive dismissal, is absurd," Paul Hodgson, senior research associate with the corporate governance firm GMI, wrote recently. "The decision can only and must have been his decision."

If this is a first step to retirement, then Isenberg shouldn't be entitled to huge handout.

For a decade, Isenberg's reign has been a running insult to his investors. Sure, he brought the company out of bankruptcy way back when, and the stock has soared 50-fold from a base of almost nothing.

That was then. In the past decade, he has failed to deliver for shareholders, even while he was delivering for himself.

Nabors' stock is trading about where it was in late 2001. Its returns since 2006 have trailed those of the Standard & Poor's 500 Index, while Isenberg racked up $174 million in compensation. For the year ended Sept. 30, Nabors' shares fell more than 30 percent, making it the second worst-performing energy stock in the S&P.

A Naborly farewell

Shareholders have rebelled to little avail. They used the new "say on pay" proxy rules to vote against the fat compensation packages. The board ignored them.

Meanwhile, the directors renegotiated Isenberg's severance agreement just two years ago. While they whittled the severance payment to a mere $100 million from $329 million, it still raises the question of why a board would negotiate such an agreement with an executive who even then was well beyond the normal retirement age.

Shareholders can take some solace in knowing that just getting Isenberg off the payroll will save the company about $25 million a year, according to an estimate by Simmons & Co. analyst Jeff Dietert.

But they have little hope that Nabors' backward pay practices will improve. Isenberg's hand-picked successor, Anthony Petrello, has been steeped in the company's gilded largesse since 1991.

Petrello, too, is no stranger to the city's highest-paid executives ranks, and like Isenberg, he has a whopping severance deal — $50 million.

Isenberg deserves some reward for rescuing the company 25 year ago, but his cost exceeded his value long ago.

And still, the company pays on, ladling excess upon unjustified excess. Somewhere, an investment banker turns green with envy.

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