

## **Excerpt from *Stories from the Middle Seat* by R. F. Hemphill**

### **Narrative Overview: Nobody's Perfect**

There are plenty of “business” books around where a successful entrepreneur explains how brilliant he or she is, and if you only follow their simple formula for success, you too can have a billion dollar company and date scrawny fashion models and go to fancy places wearing a hoodie. The only infallible formula to achieve this level of success is actually being born with a billion dollars, and then not screwing it up, drinking it away, or sending it to a deposed prince in Nigeria who promises to send it back pretty soon, just as soon as he sells all the gold he has inherited from his father the chief. This is somewhat difficult to achieve if you have already been born, however. Absent that, you’ll have to try it the hard way.

Our company, AES, was established in 1981 by Roger Sant and Dennis Bakke, two of the finest executives I have ever worked with. We had capital of a million dollars, six people, and offices in Rosslyn, Virginia, in a building that had been seized by the IRS from its original owners. Our business plan was to build power plants costing many millions of dollars, and sell electricity to established utility companies in the US. The companies, institutions like Duke Power and Texas Utilities (now TXU Energy) and Pacific Gas and Electric, would then further distribute the power to their own retail customers. None of us had ever built or run a power plant. Despite this somewhat inauspicious beginning, some people listened to our pitch and signed contracts with us. We prospered and grew. At the end of ten years we had six plants and six hundred people, all in the US, and a tiny office in the UK.

Then the industry began to open up internationally, and we went where the deals were. By the time the first chapter of this book was written, we had grown dramatically to a company with 123 business units, most of them power plants, in 33 companies, employing 30,000 people. My first book, *Dust Tea, Dingoes and Dragons*, is full of stories from that fascinating ten-year period in our history.

Lots of power assets had changed hands from government to private ownership, some at very low prices and with little or no competing bidders. But sometimes there are reasons why things are on sale.

The least successful business venture in our history was the purchase of the electric utility in Tbilisi, the capital of Georgia—the country, not the state—as we frequently reminded ourselves. The company was in the retail business—it owned a power plant, and then distributed that electricity in the capital area.

We bought this woebegone utility in the heyday of privatization, where governments all over the world were embracing the idea that maybe they weren't so good at running industrial activities and perhaps they should sell them to people who thought there were good at it, and would give the government owners some nice hard currency to take over the assets. In January of 1999, we ponied up about \$50 million to the Georgian government to buy Telassi, the distribution business for the capital of Tbilisi and a bit of the surrounding countryside. Georgia at that time was a bit

of a darling in the West, as it was being run by Eduard Shevardnadze, the former foreign minister of the USSR during the glasnost period. He was out of a job when the Soviet Union splintered and Putin took over, so since he was a native Georgian, he went home and got into politics. Not everyone liked him; in February of 1998 he was attacked in Tbilisi by ten or fifteen unpleasant people armed with rifles and RPGs. The latter, an anti-tank rocket, is not a weapon one usually associates with disgruntled loner citizens trying to shoot the president. He survived, and shortly thereafter we bought the utility. Given the unpleasantness, we thought we had gotten a great deal. There were no other bidders, which might have told us something had we paid attention. This was the largest privatization ever done in Georgia, also a clue. To something. But we were in the liberal glorious expansion phase of AES, buying things left and right and just borrowing more money.

We sent an accountant to run the place, a very good accountant who had never run an organization of any size, let alone a big electric distribution company in a country where he didn't speak the language and almost no one in the business spoke English. Even with these obvious handicaps, we immediately began to find problems.

There was a staff of 1,300 and a total of one computer. All the records were kept by hand. And there weren't many records since the meters were mostly shoddy and easy to wire around so that your electricity never went through the meter and it looked like your monthly consumption was zero. But wouldn't a smart meter reader catch this? Well . . . the meter readers also collected the bills. Then they brought back the money and the meter reading to the office, where it was all

entered. In many or even most cases the meter reader read the meter low, then split the difference with the customer. Or maybe he read the meter right, took all the money, then entered a false lower reading in his log and kept the remainder. The records of the utility indicated that of all the electricity sent out, only 18% was actually paid for. Hard to run a good system this way, so suppliers were routinely stiffed. But most suppliers had bribed Telassi to select them in the first place, so maybe it was what they expected. But invoices were on average six months overdue.

This system was so corrupt that the supervisors routinely sold the meter reading jobs to the highest bidder. It should also be noted that once a customer figures out how to bribe the meter reader or to avoid the meter, a culture of nonpayment grows up and breaking this is difficult. And it is especially difficult when the economy is in free fall and unemployment hovers around 30%. And Russian-inspired bad guys keep trying to assassinate the president.

To make matters worse, our deal with the government was that we could spend whatever was needed to upgrade the system, starting with all new meters as well as serious upgrades to transformers and substations, and then just raise the rates enough to recover all the capital in three years. I analyzed what this meant, and the result was to have been rates that were two and a half times higher within a year or two. There was no chance that this was politically doable, and in fact when we tried to raise the rates, the increases were never approved, despite what our carefully negotiated agreements said.

The only smart thing we did was to get the World Bank to give us a nonrecourse loan for about 80% of the purchase price. Why they thought that Telassi, the borrower, could ever pay this back cannot be determined.

So we have a completely broken system that will cost millions to fix, and these funds realistically will never be recovered, never earn a “return on investment” for AES. We have an entirely unprofessional staff with almost no English language capability and no computer or computer systems. We have an entirely corrupt revenue collection system. We have an earnest but completely inexperienced general manager. He has no support staff that he can understand. We slowly supplemented this, but it was difficult to attract expats to the country. I wonder why.

The final straw came when our CFO, a good guy and a qualified expat, was found dead in his office, shot in the back of the head with a .22 caliber weapon. There was no evidence of a struggle, and naturally we had no security guards and no security system in the building. We tried an audit to see if something was awry, and much was, but audits only work when you have reasonable records. We did not. The murder was investigated by the local police, under a lot of pressure from the US Embassy, but no one was ever apprehended.

Finally, we gave up. We told the World Bank we weren't going to pay back the loan, ever, and we then sold the business to a group of Russians for twenty cents on the dollar. The Russians charitably told us at the closing, “We know how to deal with Georgians.” Personally, I believe that they overpaid.

But not everything we did was quite this feckless. We bought a 4,000 Mw coal-fired power plant in Kazakhstan for \$1.7 million dollars, at the request of the Kazakh government. It was located on the northern border of the country, and was really in the middle of nowhere. It certainly didn't look like a bargain the first time I saw it. And none of the workers had been paid in six months.

The plant was physically enormous. The turbine hall was two football fields long—you literally couldn't see the end of it. This was at least partly because the roof had collapsed at the far end.

It was in awful shape; of the sixteen turbines, each identical and sized at 250 Mw, only one actually worked. We didn't have a contract to sell to anyone, but we were the only electricity provider around. At least in this case we could simply stop making power if we didn't get paid. So we got to work on rationalizing the three thousand-person work force (we needed maybe three hundred) and fixing the many, many things that didn't work.

Eventually the government and the country got back on its feet and the president for life, an unattractive man in many ways named Nazarbayev, began to hint that it would be good if we sold the plant to some local organization. And since we had fixed up the plant a bit and it had become a principle power supplier for northern Kazakhstan, there were several legitimately interested parties. We ended up getting a billion dollars for the plant from Kazakhmys, the Kazakh national copper company. That made up for a lot of other places where we weren't as smart or as lucky.