

Globe Talk: Enron's broadband debacle

June 2 2006

Enron was nothing if not flamboyant and eager to pursue the latest business trends. While its focus was on energy trading, it had expanded into telecommunications among other industries as executives cooked the books and the company's finances spun out of control.

While a Houston jury last week found both its Chief Executive Jeffrey Skilling and former Chairman Kenneth Lay guilty on a multitude of accounts including fraud, jurors this week convicted the fallen company's former broadband executive on conspiracy, wire fraud and falsification of books and records worth \$11 million.

The Enron Broadband Services group had established a deal in April 2000 with video-rental chain Blockbuster to provide video-on-demand, which should have made use of the energy giant's infrastructure network. Like most projects that require hefty investments upfront, the deal was not expected to rake in a profit until a few years' time, but EBS's former Chief Financial Officer Kevin Howard had created a financial transaction that made it appear, at least on paper, that the project would be in the black almost immediately. Indeed, Enron had reported that the deal reaped in revenues of \$53 million in the fourth quarter of 2000, which rose to \$58 million by the first quarter of the following year, thus allowing the unit to meet its projected earnings. Yet in actual fact, the deal known as Braveheart had made no profit whatsoever, and Blockbuster had terminated the deal by March 2001 as a result.

The jury, however, acquitted former in-house accountant of EBS, Michael Krautz, who was tried on similar charges after a monthlong

trial. Three other executives from the unit will be tried later this year.

The irony, of course, is that Enron had its eyes on a sound business plan, and with sufficient investment and of course, patience, the proposal to go beyond energy trading may well have taken off.

Since the company signed the deal with Blockbuster six years ago, hopes for video-on-demand have continued to increase, and for both cable providers and Internet giants alike, being able to provide a greater selection of films and clips in a matter of seconds has become one of the top priorities for the home entertainment industry. Indeed, while the idea of Internet television seemed unlikely only a few years ago, IPTV today is now very much at the forefront of many companies including software giant Microsoft. In fact, the company had signed on a deal with Deutsche Telekom earlier this year to help the German telecommunications group to provide IPTV across Germany.

Meanwhile, energy companies too are getting into the game of offering broadband over their pipelines. For instance, San Diego-based Nethercomm is developing a way to use wideband wireless signals to transmit broadband data through natural-gas pipelines. The idea is that most homes already have gas lines, and by using the existing infrastructure, the company will be able to offer high-speed connectivity while keeping the cost of setting up a network low, thereby making broadband connection more affordable.

Granted, the broadband-from-gasline project is still not a reality, but more and more industry analysts are becoming enthusiastic about the possibility of the idea bearing fruit.

So much the pity, then, that Enron had put its greed ahead of trying to follow through on its promises of delivery. But then again, had the company played an honest game in the industry it had set itself in, it

could have made huge profits amid ever-climbing energy prices of recent months.

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