

SEN. CANTWELL HEARING ON ENERGY MARKET TRANSPARENCY EXPOSES ANOMALIES IN OIL AND GAS PRICES

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WASHINGTON, May 8 -- The office of Sen. Maria Cantwell, D-Wash., issued the following press release:

Monday, Sen. Maria Cantwell (D-WA) co-chaired a Democratic Policy Committee oversight hearing on energy trading, gas prices, and the similarities between today's high energy prices and those during the Western energy crisis.

"We learned today that there is evidence of anomalies occurring in our oil and gas markets," said Cantwell, a member of the Senate Commerce and Energy Committees. "That's of grave concern when we've seen gas prices skyrocket over the past year. Of course the forces of supply and demand play a role here, but we have to look deeper. It is more than evident from today's testimony from industry representatives, former regulators and state officials that we need to keep history from repeating itself and make sure oil and gas markets function the way they're supposed to. Consumers have no confidence that the prices they are paying at the pump are in fact valid and borne out by market fundamentals. Today we heard clear bipartisan calls for congressional action and far more vigorous market monitoring and enforcement by federal watchdogs."

Monday's hearing featured testimony from Northwest energy market experts Snohomish Public Utility District attorney Eric Christiansen and Portland-based energy consultant **Robert McCullough**. A new report from McCullough released at the hearing announced that oil and gas market anomalies exist that are consistent with a practice known as "wash trading" where simultaneous transactions are executed in order to deliberately inflate volumes and revenues. This tactic was used by the unregulated Enron subsidiary, EnronOnline, to manipulate energy commodity markets.

At the hearing Michael Greenberger, director of markets and trading at the Commodities Futures Trading Commission (CFTC) during the Clinton Administration, suggested that Congress must immediately pass transparency legislation and further urged a top to bottom review of industry trading practices. He stated that CFTC currently has market oversight powers that it is currently not exercising and further that simply subpoenaing records or mandating greater industry disclosure of information "in itself would drive prices down." Greenberg suggested that if put on notice, the industry would begin abiding by "fundamental

economics." Greenberger called the western energy crisis a "school for scandal" and said that today's "CFTC sadly but truly does not have the courage to look into" the factors driving today's market prices. "Economic fundamentals do not explain this market," Greenberg said.

Don Olsen representing Huntsman International, a major worldwide chemical company, said U.S. oil and gas markets are today operating under "the illusion of appropriate regulation." He also indicated that Congress should immediately consider remedies to stop price volatility and manipulations including Cantwell's CFTC transparency legislation. Olsen also suggested that Congress should consider potential "trading stops," which are more stringent in other regulated commodity markets.

"On the Chicago mercantile exchange beef, for example, can move one and a half percent before trading is suspended for that day or that trading session," said Olsen. "There are many who will say that those trading limits or those stops are what saved US beef market during the most recent mad cow scare. On the other hand, natural gas which is also traded on the futures market, can move \$3 per MMBTU before trading is suspended for five minutes, then it can move another \$3. Theoretically the price of natural gas, Senator, can move \$165 per trading session...we find it incredible that regulators are more concerned with protecting the price of a Big Mac than the manufacturing sector of the American economy."

Sean Cota who testified before the hearing today serves as president for the New England Fuel Institute (NEFI). Cota is also the third generation owner of Cota & Cota, Inc., which markets heating oil, kerosene, propane, gasoline and diesel fuels, and plumbing and heating services in the Southeastern Vermont and Southwestern New Hampshire regions. In questioning from Cantwell, Cota said that "time is of the essence" in these markets and suggested that investigating who owns unregulated energy trading platforms is worthy in itself.

In 2001, Enron used shady transactions to manipulate electricity and natural gas markets throughout the West, overcharging consumers of hundreds of millions of dollars. Today, energy commodities including gasoline, oil, and natural gas are traded by speculators - including former Enron-traders - and big oil companies on the same unregulated markets. Up to 80 percent of commodity trading is currently taking place beyond the reach of federal regulators, thanks to the "Enron loophole" in U.S. commodity trading laws. Senators Cantwell and Dianne Feinstein (D-CA) have introduced bipartisan legislation to close this loophole and enhance the transparency of energy commodity trading by empower the CFTC to effectively exercise its existing anti-fraud and anti-manipulation authority over energy commodities traded on U.S. exchanges. In an earlier panel Illinois Attorney General Lisa Madigan asked Congress to take up this legislation saying that it would help consumers understand what is happening in their markets.

[Cantwell's opening statement, as prepared for delivery, follows below]

"Thank you, Mr. Chairman, for holding this important hearing today. And I want to say a special welcome to our witnesses from the Pacific Northwest, Eric

Christiansen and **Robert McCullough**. It is a pleasure to see you gentleman once again today.

"As some of my colleagues know, Eric and Robert have been on the forefront of the investigation of the Enron Corporation, and each played a crucial role in exposing the Enron audiotapes that, essentially, blew the case wide open as it relates to the bankrupt company's market manipulation schemes in the West.

"I know my colleague from California, Sen. Feinstein, remembers this recent history all too well. For two years or more, she and I would sit in the Senate Energy Committee or stand on the Senate floor, arguing our case that something was horribly amiss with the Western energy markets.

"All we knew at that time was that our economy - the economies of California, Oregon and Washington, which alone account for something like 15 percent of our nations' entire GDP - was being devastated. And we knew that something didn't quite add up, when it came to the claims of the power marketers who blamed the simple laws of supply and demand for the explosion in energy prices.

"People lost their jobs; utilities went bankrupt; workers lost their pensions; as you'll hear from Eric, disconnection rates soared for low-income citizens. I still remember one letter I received quite early on, from a girl whose mother had just purchased their first family home, in Wenatchee, Washington. She was afraid of what was going to happen, because her mother's job at the local aluminum smelter was severely threatened.

"I remember a woman from Okanogan County, living on a fixed income, who wrote in to tell me about the choice between keeping her heat on in the winter or buying prescription drugs. These are the kinds of stories you don't forget.

"And you especially don't forget them when that history starts to repeat itself. And that seems to be exactly where we are heading, this time as it relates to soaring oil and gasoline costs.

"So as policymakers, we need to think about it this way: Fool us once, shame on you. Fool us twice, shame on us.

"Now, Sen. Feinstein and I and a number of our colleagues on the Energy Committee including our Chairman here today fought very hard to include some new market manipulation and consumer protection provisions in the energy bill we passed last year. But we still haven't been able to do one thing we've been working hard on since 2002.

"That is, to close the so-called Enron Loophole in our nation's commodity laws, which I believe is quite possibly contributing to the spectacular volatility we are seeing in the prices of oil and gas today.

"As you'll hear today, there remain significant questions about the thoroughness of the federal government's investigation of Enron - or at least, questions about

whatever happened to the evidence. And at the same time, we know that former Enron traders are back at it, making millions trading in energy commodities.

"The evidence also shows that Enron and others used some of the same unregulated energy exchanges posting profits and increased volumes in oil and gas trading today - to engage in their infamous schemes such as wash trading. Is wash trading going on today, as it relates to oil and gas markets? Unless we close the Enron loophole, the federal government doesn't even have the tools to find out.

"Speaking as a Westerner, we know all too well the cost of dysfunctional energy markets. The Western energy crisis cost us \$35 billion to \$40 billion, by most estimates. But increased volatility in oil and gasoline markets is something that is affecting every consumer in every part of the country.

"As the saying goes, those who fail to learn from history are doomed to repeat it.

"I think the American economy cannot afford to let this history repeat itself - especially, so soon after the Enron debacle, of such historic proportions.

"So, I look forward to the testimony of all our witnesses here today, as we delve into this complicated but crucial issue.

"American consumers deserve to have confidence in the prices they are paying at the pump, and they deserve to know that the federal government is taking the steps necessary to ensure markets are operating in a fair and transparent fashion.

"Once again, thank you Mr. Chairman for holding this important hearing."

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