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US Senate Dems Seek Greater Energy Trading Oversight
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WASHINGTON (Dow Jones)--U.S. Senate Democrats on Monday argued that something more than market forces of supply and demand are driving up oil, natural gas and electricity prices, renewing calls for legislation that would shed more light on energy markets.

At a Democratic Policy Committee hearing on energy trading, lawmakers said skyrocketing energy prices are reminiscent of the soaring electricity prices consumers saw in the West during the 2000-01 energy crisis - a time of high power prices, rolling blackouts, and manipulation by Enron Corp.(ENE).

"Did we learn nothing from the Enron debacle?" asked Senate Democratic Policy Committee Chairman Byron Dorgan, D-N.D. "Today, we are again facing skyrocketing energy prices. Consumers are paying over $3 a gallon at the pump. Major oil companies are announcing record, multi-billion-dollar profits."

Yet, the media and the administration of George W. Bush are "once again quick to dismiss any suggestion of price fixing," Dorgan said.

Republicans in Congress have blamed high energy prices on Democrats' unwillingness to sign off on proposals to open up new areas - such as the Arctic National Wildlife Refuge - to energy exploration and production. Also, GOP lawmakers have argued that more refineries must be built to process more gasoline from crude and satisfy demand. The problem, they say, is that environmental regulations and public backlash against proposals deter oil companies from investing in projects to build new refineries from scratch.

A CFTC Loophole?

Sen. Dianne Feinstein, D-Calif., said high gasoline prices can't be explained by simple economics, because oil and gasoline prices are high despite the fact that crude-oil reserves are higher than average.

What's needed is new policy to provide better oversight of energy markets, she said, highlighting a bill she introduced with Sens. Carl Levin, D-Mich., Maria Cantwell, D-Wash., and others. The bill would require traders on electronic-trading platforms that are exempt from oversight by the Commodity Futures Trading Commission to start keeping records and report large positions being carried. The bill also aims to bring platforms like the InterContinental Exchange, or ICE, under the same rules that apply to traders that do business on the New York Mercantile Exchange.

Under the bill, traders on exempt platforms like ICE would need to provide records to the CFTC or the Justice Department upon request.

"These provisions will give the CFTC the means to effectively exercise its existing anti-fraud and anti-manipulation authority over energy commodities traded on U.S. exchanges," Feinstein said, adding that the Western energy crisis was "a wake-up call" on the extent to which energy traders can drive up prices.

Feinstein said a loophole was added to the Commodity Futures Modernization Act of 2000 allowing for natural gas, electricity, oil and gasoline to be traded outside of the regulated exchange markets, also known as over-the-counter, without CFTC oversight.

"Without a complete picture of our energy markets, we do not know why gas prices are as high as they are," she said.

Similarly, Michigan Democrat Levin said that although Enron no longer wields the market might it once had, the practice of trading energy futures electronically on over-the-counter markets lives on. Plus, "speculators" in the market are adding billions of dollars into energy commodities, said Levin.

"Many analysts believe this souped-up trading activity has pushed up oil prices by $20-$25 per barrel," he said. "It's why we have $70 per barrel oil instead of $50."

Seeking Equal Oversight

Illinois, Iowa, Missouri, and Wisconsin attorneys generals last autumn launched an investigation into natural-gas price spikes but learned there is a lack of transparency in the unregulated financial markets for natural gas, Illinois Attorney General Lisa Madigan said at the hearing.

Madigan said the states also found that "skyrocketing natural-gas prices over the past several years cannot be explained by traditional supply-and-demand factors because demand has been relatively flat."

She told the senators that while more oversight won't necessarily solve the problem of high energy prices, it will help protect the public and energy-intensive companies from manipulation.

Similarly, **Robert McCullough**, manager of McCullough Research, recommended that Congress give the CFTC authority to make sure that electronic trading platforms are registered and regulated.

"Regulating only a few electronic trading platforms is similar to allowing some travelers to skip security checks," he said.

Meanwhile, Don Olsen, senior vice president for chemical manufacturer Huntsman International said his company is being hurt by rising natural-gas prices. He also called on Congress to broaden the CFTC's authority to penalize those found to have engaged in manipulation when conducting transactions in exempt over-the-counter commodities markets.

Michael Greenberger, a professor at the University of Maryland School of Law and a former director at the CFTC, said no one disputes the fact that prices are high on concerns about oil supplies from Iran, Iraq and Nigeria and the market is tight due to growing demand from countries like the U.S., China and India.

"What is troubling, however, is the argument that has been vigorously advanced in many quarters that market manipulation has nothing to do with this price," he said. "It is now established beyond doubt that manipulation of futures and derivatives contracts dramatically increased the market price of electricity in the Western United States during" the electricity crisis.

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