

## Congress Learns That Enron-Like Market Fraud Still Exists; McCullough Research Uncovers More Enron Trading Schemes

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PORTLAND, Ore. - (BUSINESS WIRE) - May 8, 2006 - McCullough Research will tell a Democratic Policy Committee oversight hearing today that U.S. gas and electricity trading is still vulnerable to the market schemes employed by Enron Corporation during California's 2000-2001 energy crisis.

"Widespread opportunities for fraud and manipulation exist today, even though most experts claim California's crisis ended years ago," says **Robert McCullough**, manager of McCullough Research. The firm provides strategic advice and economic research to industrial clients and utilities throughout the U.S. and Canada.

In McCullough's view, lax federal regulations are to blame. "More than a decade ago, the Commodity Futures Trading Commission determined there was little reason to be the nation's watchdog because Enron, Reliant, and other energy companies convinced Congress to eliminate regulatory oversight."

McCullough will point out that the federal government does not regulate today's complex software and electronic trading platforms in energy.

"During the crisis, California's Independent System Operator issued 125 Stage 1, 2, and 3 System Emergency declarations because energy traders had no regulators looking over their shoulders. No state should ever be victimized by the pricing volatility and fraudulent capacity shortage schemes that shut down manufacturing in California, Oregon, Washington, and Idaho."

McCullough will recommend that transaction reporting on regulated exchanges match the specificity and breadth of reporting in the Electric Quarterly Reports required by the Federal Energy Regulatory Commission.

"Reporting only half of the nation's energy markets is not likely to forestall market manipulation or to enable detection once manipulation has occurred." While the CFTC's Large Trader Reporting Program is a good first step, McCullough will tell the hearing that small market participants can also implement trading schemes.

A transparent marketplace in which all participants are regulated equally is the best insurance against manipulation and fraud. "Secrecy usually works against us," McCullough says.

Regulators must be able to identify schemes early and implement the appropriate enforcement. "Refunds and penalties from the western market crisis are still not forthcoming six years later," McCullough explains. "This is not a good model for efficient trading and equitable treatment of market participants."

Mr. McCullough will point out that substantial market anomalies still exist in energy forward markets. For example, the closely related oil and gas markets diverged sharply last winter with oil futures falling while natural gas futures soared. "Given the ability of 18% of U.S. generating capacity to switch between the two fuels, it is odd that the different fuels would diverge sharply in futures trading."

Last week, Senators Maria Cantwell and Diane Feinstein asked the Department of Justice and the Federal Energy Regulatory Commission to ensure the timely public release of all evidence acquired during the government's Enron investigation, citing implications for ongoing trading activities in highly volatile oil and gasoline markets.

The senators have introduced bipartisan legislation to enhance the transparency of energy commodity trading, up to 80% of which occurs beyond the reach of federal regulators, thanks to the "Enron loophole" in U.S. commodity trading laws. The bill would empower the CFTC to exercise its existing anti-fraud and anti-manipulation authority over energy commodities traded on U.S. exchanges.

**Robert McCullough's** testimony, Democratic Policy Committee oversight hearing, May 8, 2006 <http://www.mresearch.com/pdfs/190.pdf>

McCullough Research report, "Regulation and Forward Markets: Lessons from Enron and the Western Market Crisis of 2000-2001"  
<http://www.mresearch.com/pdfs/191.pdf>

Link to documents, Enron trader tapes, regulatory dockets, etc. cited in McCullough report and testimony: <http://www.mresearch.com/reports.html>

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