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Enron No Lesson to Traders as EU Probes Oil-Price Manipulation

By Ben Moshinsky, Lynn Doan and Jim Brunsten - May 19, 2013

Enron Corp.'s 2001 collapse revealed the extent of its manipulation of spot gas prices. Twelve years later, European Union regulators may discover energy traders never learned the lessons of the scandal.

[BP Plc \(BP/\)](#), [Royal Dutch Shell Plc \(RDSA\)](#) and Platts were visited by EU inspectors last week over allegations they “colluded in reporting distorted prices” to manipulate the published prices of oil and biofuel products, the European Commission in Brussels said after the raids.

Shell, London-based BP and [Statoil ASA \(STL\)](#), three of [Europe](#)'s biggest oil explorers, are under investigation for potential manipulation of prices in the \$3.4 trillion-a-year global crude market. The involvement of [McGraw Hill Financial Inc. \(MHFI\)](#)'s Platts, which publishes pricing data, hearkens back to other pricing scandals including Enron, and more recently, Libor.

“We’re making exactly the same mistakes we did with Enron, just with a different commodity,” Robert McCullough, an energy consultant, said by telephone from [Portland, Oregon](#). “The same manipulation we saw in electricity and gas pricing is what we’re seeing in oil.”

The Enron scandal started in 2001 as traders used trading strategies called “Fat Boy” and “Get Shorty” to create phantom congestion in the [California](#) energy markets. Electricity prices rose 10-fold on average and California consumers endured days of rolling blackouts.

Rapid Fire

Large-volume, rapid-fire trades between Enron and a Reliant Energy Inc. unit's gas trader through an Enron-run electronic platform triggered price moves that all traders could see without knowing the cause, the [Federal Energy Regulatory Commission](#) found in a 2003 report. The transactions made through EnronOnline influenced daily price indexes used in physical gas contracts and for settling financial derivatives such as swaps.

Unlike spot power trades, regulators have “very little understanding” of how oil trades are reported to the trade press, and the practice lacks any real oversight, said McCullough, who after the California

crisis helped regulators obtain tapes of Enron traders discussing how they drove up power prices.

Price fixing in energy markets has the potential to inflate production costs and consumer prices for everything from gasoline to airline tickets to cosmetics

Enron Parallels

[Arlene McCarthy](#), the European Parliament lawmaker in charge of draft market abuse legislation, said she sees parallels between the energy scandals of a decade ago and the one triggered by the EU antitrust raids last week.

“We were seeing manipulation already 12 years ago and now we need to decide what we’re going to do about it,” McCarthy said in an interview in Brussels.

Statoil said May 14 the EU allegations are related to the Platts Market-On-Close assessment process, or so-called window, and may have been ongoing since 2002. An official at Stavanger, Norway-based Statoil couldn’t be immediately reached to comment further.

Kathleen Tanzy, a spokeswoman for Platts in [New York](#), said gas markets operate very differently than they did 12 years ago and bids, offers and trades must be transparent on the company’s price assessment process.

“The oil and gas markets trade very differently and Platts tailors its rigorous methodologies to each market,” Tanzy said in an e-mailed statement. “Platts oil price assessments are fully grounded in market fact and enhancing transparency and reflecting true market value have been central to Platts editorial objectives over the past decade.”

Officials at BP and Shell said they were cooperating with EU investigators and declined to comment on Enron.

MOC Window

Platts determines daily prices in the over-the-counter energy markets in one of two ways, the first being transactions made online during prescribed times, known as the MOC window, a process in place since 1992 and used only for selected products that have industry-agreed specifications. The second method involves Platts employees discussing prices with market participants each day, many of them anonymous, and then determining the daily settlement.

As much as 80 percent of all crude and oil-product deals are linked to reference prices including those published by Platts, according to estimates by [Total SA \(FP\)](#), Europe’s third biggest producer.

Total's Chief Executive Officer, Christophe De Margerie, told reporters in Paris on May 17 that he would be surprised if the EU probe turned up evidence of price fixing.

No Scandal

“Knowing the companies that are named, I would be very surprised if they contributed to manipulation of prices,” he said.

“I know Statoil and I can't imagine that company manipulating prices,” de Margerie said. “I know their ethics. I don't see a big scandal.”

[Pannonia Ethanol](#), a Hungarian producer of ethanol fuel, lodged a complaint late last year with EU antitrust regulators after Platts denied it the opportunity to contribute to the price assessments.

The influence of price reporters stretches beyond oil. The assessments published by Platts and its competitors including [Argus Media Ltd.](#) and ICIS, a unit of Reed Business Information, are used to value the raw materials used in the \$2.2 trillion global base-chemical industry as well as coal, power, metals, emissions, liquefied natural gas and shipping rates.

Libor Fixing

In the wake of the Libor scandal, where three banks have been fined for traders manipulating the benchmark London interbank offered rate, global regulators have been concerned that energy benchmarks could also be fixed.

The International Organization of Securities Commissions is checking if the industry has met standards designed to counter the threat of market abuse, said the group's Secretary General [David Wright](#). Madrid-based Iosco drew up the rules last year, saying they were needed to wipe out “[vulnerabilities](#)” that leave the door open for market abuse.

“Iosco has worked intensively on looking at oil price reporting,” Wright said in an interview in Brussels. “We are in a process of reviewing the implementation of these principles, to what degree they've been implemented, and to what degree they have been effective.”

Enron eventually collapsed in 2001 under the weight of an accounting scandal that used off-the-book partnerships to manipulate the Houston-based company's share price.

The fallout of the accounting and energy trading scandals is still being sorted out a dozen years later.

An administrative law judge at the U.S. Federal Energy Regulatory Commission on Feb. 15 determined that companies including Powerex Corp. and a unit of Shell violated market rules in 2000,

when California's electricity prices reached their peak.

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