



Senators Feinstein, Cantwell Call on CFTC to
Help Prevent Energy Market Manipulation
June 28, 2004

Washington, DC – U.S. Senators Dianne Feinstein (D-Calif.) and Maria Cantwell (D-Wash.) today called on the Commodity Futures Trading Commission to take immediate action to put in place mechanisms that would prevent manipulation and fraud in the energy markets.

In a letter to Commodity Futures Trading Commission Chairman James Newsome, Senators Feinstein and Cantwell cited the most recent evidence of Enron's blatant abuse of Western energy markets and its long-term impact on energy prices.

Following is the text of the letter:

June 25, 2004

The Honorable James Newsome
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Chairman Newsome:

We are writing to urge the Commodity Futures Trading Commission's (CFTC) to take immediate action pursuant to its authority to prevent manipulation and fraud in the energy markets.

The CFTC has maintained that it has the authority to prevent fraud and manipulation in the over-the-counter energy markets. Yet, while more and more evidence is released that further proves that energy companies, especially Enron, intentionally gamed the Western energy markets, it appears that the CFTC either did not use its authority, or it did not have the authority, to prevent the manipulation from occurring in the first place. Furthermore, the CFTC has done very little to penalize the energy companies that manipulated the Western energy markets.

The most recent evidence is from the Enron audiotapes that demonstrate that the company recognized that it was manipulating the California market, and that those actions would impact the entire Western Interconnection. Time and again, Enron traders are heard moving power out of California to other points across the West, then moving it back into California. Similarly, Enron traders stated that long-term power prices are the direct result of prices in the dysfunctional California spot

markets. This leaves little doubt that Enron's schemes affected short- and long-term markets all across the West.

The new evidence also suggests the existence of a handful of previously-unidentified Enron schemes; points to the fact Enron maintained up to five different sets of books in order to account for variances resulting from these manipulative practices; and provides the first snapshot of the magnitude of Enron's unjust profits—conservatively estimated as at least \$1.1 billion on days in which the company was engaged in manipulation schemes.

We believe that the CFTC must actively prevent manipulation and fraud in order to prevent a repeat of the Western Energy Crisis. As you know, consumers and businesses that paid higher prices as a result of the gaming of the energy market have recovered only a small fraction of their losses. In fact, many of our customers are stuck paying for long-term, over-priced energy for the next ten years. We believe that it is better to prevent the manipulation and losses from recurring than to try to make up for losses after the fact.

The CFTC has continuously opposed legislation that we have introduced to close the Enron loophole in order to provide the Commission with authority to regulate over-the-counter trading in energy markets. Yet it is obvious that these trading mechanisms have been used to exploit our constituents. We urge the CFTC to take immediate action to put in place mechanisms that would prevent fraud and manipulation in the over-the-counter trading, and to work with us if you do not have the adequate authority to prevent additional gaming of the energy markets.

Thank you for your consideration of our request. We look forward to your response.

Sincerely,

Dianne Feinstein
United States Senator

Maria Cantwell
United States Senator

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