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CORPORATE GOVERNANCE

FERC Finds Widespread Energy Manipulation in 2000 Energy Crisis

By
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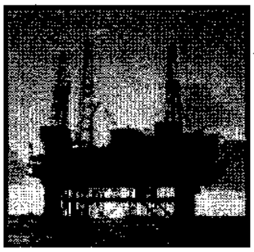


Natural Gas giant El Paso agrred on Friday to pay more than US$1.7 billion to settle a California State lawsuit which alleged that the company manipulated energy prices duringan the state's energy crisis in 2001.

Two years after Californians faced soaring power prices and rolling blackouts, the Federal Energy Regulatory Commission [FERC] has found that six US energy companies of took advantage of California's 2000-2001 energy crisis to price gouge and receive unfair profits.

At the end of its 13-month investigation, FERC said that "many trading strategies employed by Enron and other companies violated the anti-gaming provisions of marketing rules." But a key to the West's astronomical electricity prices was manipulation of natural-gas prices through false price reporting and other steps that misled traders. Gas is used to fuel many of the power generating facilities in the region.

The finding means that California will get more than the nearly $2 billion in refunds; an amount recommended by a Californian judge in December. [Also see Energy Companies Overcharged California by US $7.5 billion]

This amount is still paltry in comparison with other estimates of the true cost of California's midsummer nightmare two years ago. At the beginning of March 2003, evidence to be put before the FERC estimated that the energy companies had over charged the state and its residents by US$ 7.5 billion.

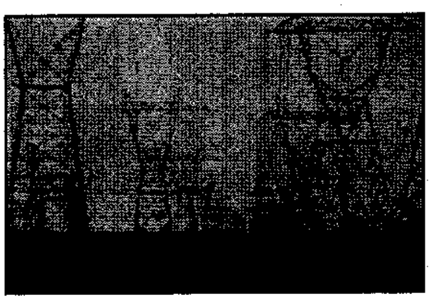
Moreover the Public Policy Institute of California has estimated that higher electricity costs, lost business due to blackouts and a slowdown in economic growth cost the state government and California consumers as much as $45 billion over the past two years.

Power trading caused much of California's problems as "Wash" or "swap" trades were used to inflate energy prices

During its investigation FERC was shown evidence, from internal power company memos, that several companies including Enron, developed complicated power trading schemes to create the appearance of network congestion, and therefore higher demand on the western power grids.

Enron, whose new management were the whistleblowers for these schemes used lively names such as like "Death Star", "Ricochet", "Fat Boy" and "Get Shorty". By creating the appearance of high demand and struggling supply, the power companies could name their price and made astronomical profits. Some of these strategies involved taking power that was produced in California and making it look like it had been especially bought in from another state. At the height of the crisis, consumers were paying exactly twice the fair market value for their power. Two former Enron traders have pleaded guilty to federal charges stemming from the trading strategies.

FERC's new stance is in contrast to its position in December 2002 when a FERC judge ruled that California actually owed about US $ 3 billion to generators from bills resulting from the crisis.



Without offering a formal order yesterday, commissioners encouraged the parties involved to reach a settlement and are considering sending the issue back to an administrative law judge.

"I don't think anyone was on the side of the angels," Commissioner Nora Mead Brownell said of the tumultuous energy markets.

In June 2001, FERC reluctantly capped wholesale power prices across the West and made other changes to end the power crunch.

The commissioners will go before a Senate Energy and Natural Resources Committee hearing today, where they are expected to face questions on the Western energy crisis as the committee considers proposals to revamp federal electricity policy.