DEMOCRATIC POLICY COMMITTEE

News Release

DPC

BYRON L. DORGAN
CHAIRMAN

FOR IMMEDIATE RELEASE
Monday
May 8, 2006

FOR MORE INFORMATION
Contact: Barry E. Piatt
PHONE: 202-224-1101

Senator Byron L. Dorgan
Chairman, Democratic Policy Committee
Opening Remarks

Lessons from Enron:
An Oversight Hearing on Gas Prices and Energy Trading

Monday, May 8, 2006

Today, the Democratic Policy Committee is holding a hearing on the issue of energy trading, and the possibility of market manipulation driving up energy prices.

As Yogi Berra might put it, I fear that this may be an instance of "déjà vu, all over again."

In 2002, I chaired a series of Commerce Committee hearings on the subject of Enron's collapse.

Those hearings demonstrated Enron and other energy firms were engaging in a massive market-rigging scheme. The manipulation strategies had evocative names, like "Fat Boy" and "Get Shorty."

The strategies were complex, but had a clear purpose: to artificially choke off energy supply and raise prices. It was part of a culture of corruption that resulted in the fleecing of millions of consumers on the West Coast.

Ken Lay, who is now under trial for charges of fraud and conspiracy, once took great umbrage when I said that Enron had a "culture of corruption." When Mr. Lay finally came before the Senate, under subpoena, he took the Fifth Amendment, and refused to answer any questions about his company's deceptions. But the truth nonetheless emerged, as his company's own documents revealed a number of price-fixing schemes.

-- more --

For example, according to internal Enron memoranda, the company had a “Death Star” scheme to create the appearance of congestion on California's power grid, in order to force the state’s energy managers to pay Enron to “relieve” the congestion.
This was a con game, pure and simple. Enron lawyers, discussing one such maneuver, wrote that, "Enron gets paid for moving energy to relieve congestion without actually moving any energy or relieving any congestion."

The mounting criminal and civil charges against Enron officials – which initially focused on accounting schemes – also included energy price-fixing. Former Enron traders Jeffrey Richter and Timothy Belden pleaded guilty to fraud and making false statements to the FBI in connection with the federal investigation into Enron's manipulation of the California energy market. In his plea agreement, Richter confessed that he and others at Enron “agreed to devise and implement fraudulent schemes.”

What’s more, on March 13, the Commodities Futures Trading Commission charged Hunter Shively, the former vice president of Enron, with manipulating natural gas prices. Enron ended up paying a fine of $35 million for that market manipulation.

The fact is, however, that this corporate culture of corruption at Enron operated right under the noses of federal regulators for years, and had far too many apologists in the Administration and the media.

- Energy Secretary Spencer Abraham dismissed claims of price conspiracies as “myths.”

- Vice President Cheney decried “politicians who want to go out and blame somebody and allege that there is some kind of conspiracy.”

- In the Washington Post, columnist Charles Krauthammer suggested that only “silly” Californians “think that the rolling blackouts are a conspiracy by the power companies to raise rates.” In fact, Krauthammer said that “politicians are thundering, fingers are wagging, and complicated theories are being hatched” – while the problem is simply that “demand is up and supply is down.”

- In the New York Times, columnist William Safire warned against “populist interference” with the energy market’s “self correction.”

Those who so loudly dismissed allegations of conspiracy should, with equal vigor, have stepped forward and admitted they were wrong.

Instead, today we are again facing skyrocketing energy prices. Consumers are now paying over $3 a gallon at the pump. Major oil companies are announcing record, multi-billion dollar profits. The CEO of Exxon-Mobil leaves the company with a $400 million retirement package. Electricity prices are surging. But the Administration and some in the media are once again quick to dismiss any suggestion of price fixing.

Did we learn nothing from the Enron debacle?

When you confront CEOs of energy companies about this, they shake their heads and say that it's all supply and demand. They say that energy trading is complex, and that they have little control over ultimate prices.

Well, many Americans consumers may not understand the intricacies of futures trading, derivatives, and other complex instruments. But they have a pretty good sense of when they are being taken advantage of. And all around the country, American consumers are saying that they have seen this movie played out before, and they don't want to see the sequel.

Today we will hear from witnesses who will shed light on the forces responsible for the surging energy prices we are facing today.

Robert McCullough is the head of McCullough Research in Portland, Oregon. Mr. McCullough testified before the Senate Energy Committee in January 2002 in the aftermath of Enron's collapse.

Michael Greenberger was head of enforcement at the CFTC during the Clinton Administration.

Dan Berkovitz is Counsel for Sen. Levin at the Permanent Subcommittee on Investigations (PSI).

Eric Christiansen is an attorney representing Snohomish County Public Utility District (PUD) in Washington State. Snohomish PUD released the now infamous "Enron tapes" and is a plaintiff in the ongoing trial against Enron before the Federal Energy Regulatory Commission.

Don Olsen is a representative of Huntsman International, one of the nation's largest chemical companies, and supports increasing transparency in natural gas markets.

Finally, Erik Saltmarsh is the Executive Director and Chief Counsel of California Electricity Oversight Board.

I thank the witnesses for appearing today, and look forward to their testimony.

-- END --