



Consumer Federation of America



October 16, 2003

Dear Senator:

We are writing to urge you to support the bipartisan **Energy Market Oversight Amendment**, which will be offered during consideration of the Fiscal Year 2004 Agriculture Appropriations bill. This amendment, being offered by Senators Feinstein, Lugar, Levin and others, would go a long way towards addressing the serious problems plaguing the nation's energy markets.

Unfortunately, we have been bombarded with a steady stream of news reports about how electricity traders have unscrupulously manipulated the market to unfairly inflate their profits, costing consumers billions of dollars. More than one trader has admitted to engaging in "round trip trading" to artificially inflate prices. Some created transmission congestion in order to be paid to relieve that congestion. Supplies were withheld to drive prices up, resulting in a series of rolling blackouts in California. We are still learning the full extent of the misconduct, and only now are we coming to understand the nature of these schemes.

Today, the loss of trust and confidence in the integrity and creditworthiness of energy and energy derivatives markets has left trading in oil, gas and electricity suffering from a lack of liquidity. If markets are going to be the terrain for setting the price for our key energy products, then it is crucial that they be orderly and efficient. Towards that end this amendment seeks to put an end to this plague of fraud and market manipulation. It will help improve market oversight and surveillance. It will enable the Commodity Futures Trading Commission (CFTC) to detect and deter manipulation. Its disclosure rules will make the marketplace more transparent for all producers and consumers, and the result will be a more sound and efficient market.

Given all this, we believe that it would be irresponsible to weaken consumer protections and cut federal oversight of the electric industry, as both the Senate and House-passed versions of the energy bill would do. That is why the Energy Market Oversight Amendment is so timely. This amendment would:

- **Improve price transparency** in wholesale electricity markets by directing the Federal Energy Regulatory Commission (FERC) to establish an electronic system to provide information about the price and availability of wholesale electricity to buyers, sellers and the general public;
- **Prohibit round trip trading;**

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- **Increase penalties** for violations of the Federal Power Act and the Natural Gas Act from \$5,000 to \$1,000,000;
- **Prohibit manipulation of the electricity markets**, including giving FERC the authority to revoke market-based rates for companies that are found to have engaged in market manipulation;
- **Repeal the “Enron exemption”** in the Commodities Future Modernization Act for large traders in energy commodities and apply the anti-fraud provisions of the Commodity Exchange Act to all over the counter trades in energy derivatives; and
- **Provide the CFTC tools to monitor energy markets**, including requiring traders to keep records and report large trades to the CFTC, focusing on transactions that perform a significant price discovery function, while limiting the CFTC to seeking only information necessary to detect and prevent price manipulation in the futures and over the counter markets for energy.

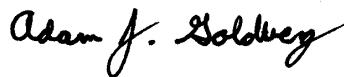
In addition, the amendment would have no effect on futures markets, financial derivatives, metals, swaps or electronic trading of non-energy commodities.

Energy production is a major sector of the economy, but energy's importance is greater than that measured by its size. One of the hard learned lessons from the Western electricity meltdown of 2000 and 2001 is that when energy companies manipulate the electricity markets, devastating consequences result. Billions of dollars were lost and millions of lives were adversely affected. The toll on businesses both large and small was enormous. The impact of the Northeast-Midwest blackout was also immense. Congress should do everything within its power to ensure that such devastation never occurs again, and, if it does, that those responsible are punished severely.

**Please protect the nation's electricity markets from further Enron-style manipulations – support the Energy Market Oversight Amendment.**

Thank you.

Sincerely,



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