Chairman Dingell at the Subcommittee on Oversight and Investigations Hearing entitled, "Energy Speculation: Is Greater Regulation Needed to Stop Price Manipulation?"

Statement of Congressman John D. Dingell, Chairman
Committee on Energy and Commerce

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
HEARING ENTITLED, â€œENERGY SPECULATION: IS GREATER REGULATION NEEDED TO STOP PRICE MANIPULATION?â€•
December 12, 2007

Mr. Chairman, thank you for holding this important hearing. The cost of energy is becoming an ever-larger component of the average citizenâ€™s household budgetâ€”for electricity, gasoline, and heating. Energy costs are rising rapidly for industrial users, as well. This, in turn, raises the price of products and services in virtually every sector of our economy.

The collapse of Enron in late 2001 confirmed what many had suspected: not all increases in energy prices are the result of supply and demand. Much of Enronâ€™s business consisted of speculative trading in an electronic â€œover-the-counterâ€• market, exempt from regulation. It was virtually impossible for anyone, including government regulators, to know what Enron was doing or how it was affecting the broader market.

We now know that Enron engaged in fraud on a massive scale and manipulated California electric power markets, to the tune of millions of dollars out of consumersâ€™ pockets.

Unfortunately, Enron was not alone. Over the past six years, the rise in energy prices has been outpaced only by the rise in speculation. In short, energy speculation is a growth industry, and it has gone global.

A case in point is Amaranth. Over several months in 2006, Amaranth, a $9 billion hedge fund, dominated trading in U.S. natural gas contracts and intentionally drove down the price of natural gas futures on NYMEX so that it could make tens of millions of dollars on its undisclosed holdings in the so-called â€œdark marketsâ€•â€” the unregulated over-the-counter marke

This was not a victimless crime. In summer 2006, Amaranth took enormous positions, which appear to have inflated the price of natural gas for delivery the following winter. Businesses, utilities, schools, and hospitals, as well as individual consumers, wound up paying abnormally high rates as a result.

According to a recent Senate report, speculation of this nature may have added $20 to $25 per barrel to the price of crude oil in 2006. The Industrial Energy Consumers of America estimates that Amaranthâ€™s speculation alone cost consumers of natural gas as much as $9 billion from April to August of last year.

At a time when people everywhere in this country are paying record prices for gasoline and record prices to heat their homes, government has a responsibility to put an end to this speculative excess.

This raises the interesting question of what the Federal Energy Regulatory Commission (FERC) and the Commodity Futures Trading Commission (CFTC) â€” two agencies that share jurisdiction over these mattersâ€—have done to address this problem.

I understand that the FERC has made considerable progress over the past two years in improving its market surveillance capabilities and exercising its enforcement authorities. On the other hand, there are indications that the CFTC may have been more enthusiastic in granting exemptions from regulation, than it has been in rooting out possible energy market manipulation. I look forward to exploring this matter further with the CFTC.

I am also disappointed to see that the CFTC has challenged FERCâ€™s authority to investigate and pursue energy market manipulators, despite the explicit grant of such authority to FERC by Congress in the Energy Policy Act of 2005. I would hope that by the time we conclude this hearing, CFTC will have rethought its views on this issue.

Mr. Chairman, speculative excess in the energy markets has cost consumers billions of dollars in unnecessary energy costs. It is time to close the loopholes that have allowed this unscrupulous consumer exploitation.

Prepared by the Committee on Energy and Commerce
2125 Rayburn House Office Building, Washington, DC 20515