
FEDERAL ENERGY REGULATORY COMMISSION



WASHINGTON, D.C. 20426

NEWS RELEASE

FOR IMMEDIATE RELEASE

June 25, 2003

Docket Nos. EL03-77-000 and
RP03-311-000

NEWS MEDIA CONTACT:

Barbara A. Connors
(202) 502-8680

COMMISSION REVOKES ENRON'S MARKET-BASED RATE AUTHORITY, BLANKET GAS CERTIFICATES TERMINATED

The Federal Energy Regulatory Commission today revoked the electric market-based rate authority of Enron Power Marketing, Inc. and Enron Energy Services, Inc. In addition six Enron-affiliated companies' blanket gas marketing certificates were terminated, marking the first time the Commission has taken such broad action against a company and its affiliates.

Commission Chairman Pat Wood, III said: "Today's unprecedented action should go a long way to reassure the nation's customers and the energy industry that the Commission will not tolerate these market manipulations. The Commission will use the full extent of its authority to prevent this type of behavior, punish the perpetrators and put fair and efficient markets in place."

Today's action stems from an exhaustive Staff Investigative Report (PA02-2-000), released March 26, in which Commission staff alleged that Enron companies gamed western energy markets, severely disrupting the industry in 2000 and 2001. Acting on staff's findings, the Commission launched an enforcement proceeding, issuing a show cause order and directing the Enron companies to explain why they should be allowed to retain their broad authorization to trade in the electric and gas markets at market-based rates.

We now have a sufficient basis to take action, the Commission said. Enron management invented numerous market manipulation schemes and routinely failed to respect the boundaries of its various subsidiaries and affiliates, the Commission found.

R-03-23

(More)

(2)

Enron treated its affiliates essentially as shell corporations under a single corporate umbrella--affiliates used one another to facilitate misconduct, the Commission added.

Enron power marketers' inappropriate trading schemes included such strategies as: false importing of power (sometimes called ricochet or megawatt laundering); related practices such as cutting non-firm energy (sometimes known as non-firm export); ancillary services manipulation such as paper trading; and, selling non-firm energy as firm energy, all designed to disrupt and undermine the functioning of the wholesale power markets.

The Enron gas marketers engaged in wash trading on Enron Online (EOL), the Commission concluded. A "wash trade" is a prearranged pair of trade of the same good between parties, resulting in no net change in ownership. It creates an illusion of a more liquid and active market and it helps bolster false trading revenue figures.

The companies affected by today's action terminating blanket gas marketing certificates are: ENA Upstream Company, L.L.C.; Enron Canada Corp.; Enron Compression Services Company; Enron Energy Services, Inc.; Enron MW, L.L.C.; and, Enron North America Corp.

The Commission determined that two other companies, Bridgeline Gas Marketing, L.L.C. (in which Enron is minority owner) and Citrus Trading Corporation (equally owned by Enron and Southern Natural Gas Company), were different and should be treated differently. Their certificates were not revoked.

Revocation of market-based rate authority does not necessarily halt a company's participation in wholesale power markets or bilateral contracts. However, its returns are limited by set cost-of-service tariffs and rates and it must seek Commission permission any time it wants to change its rates. Revocation of blanket gas marketing certificates has much the same effect.

In Enron's case, since the company is in bankruptcy proceedings and some of the named entities are exiting the trading markets, the Commission set certain restrictions. The Commission noted that it has a statutory mandate to ensure just and reasonable rates, and it retains its traditional control over the rates throughout any bankruptcy proceeding.

The Commission said that it will not immediately terminate the companies' blanket gas marketing certificates, but will allow Enron to unwind its current positions and

R-03-23

(More)

(3)

commitments to existing customers. However, the certificates will be revoked once all those transactions are completed.

In addition, any energy companies that emerge from Enron's bankruptcy must apply for authorization to sell electricity or natural gas at wholesale at market-based rates. This will guarantee that Enron, or its successors, not participate in future wholesale markets at market-based rates without the Commission first scrutinizing the matter.

R-03-23

(30)