

Statement of Rep. Henry A. Waxman
Subcommittee on Energy Policy, Natural Resources, and Regulatory Affairs
California's Energy Market: The Case of Enron and Perot Systems
July 22, 2002

Mr. Chairman, it is important that we investigate what happened in the Western energy markets in 2000 and 2001.

However, the way this hearing has been set up is very odd. It is more notable for who is not here today instead of who is.

This hearing is entitled "California's Energy Market: The Case of Enron and Perot Systems." Yet today not only don't we have any witnesses from Enron testifying, but Ross Perot, who was supposed to be this afternoon's key witness, isn't here either.

As of Friday, we had been told that former Enron employee Mr. Tim Belden would be testifying today. Mr. Belden would have been a very useful witness to hear from since he headed the Enron office which apparently cooked up the trading schemes that manipulated Western markets.

The odd thing is, Mr. Chairman, that we learned over the weekend from Mr. Belden's lawyer that Mr. Belden never had any intention of testifying today.

I do not think its inappropriate to expect that we should have Enron witnesses at a hearing that focuses on Enron. We should also benefit from other ongoing investigations when its possible to do so.

The one person who has uncovered the most information on Perot Systems is California Senator Joe Dunn. I had hoped he would be here today. But I appreciate that you have offered to have him testify at an additional day of hearings.

It's worth taking a moment to recall how we got here and why this is such an important issue.

In 2000 and 2001, Western families were ruthlessly price gouged by energy companies. The future of families in California and other Western states was in effect mortgaged for the short-term benefit of energy executives like Ken Lay and Jeffrey Skilling.

The economic welfare of the entire West was jeopardized as energy prices skyrocketed out of control. The wholesale cost of electricity for California in 1999 was \$7 billion. In 2000 it was \$27 billion and if not for timely actions taken by the state government, it would easily have surpassed that number in 2001.

At the time, evidence from government, academia, and the private sector showed that energy companies were manipulating markets to increase profits. For example, over 18 months

ago, Enron Chairman Ken Lay publicly discussed his view that “[t]he system invites gaming.” Yet the administration refused to acknowledge the price-gouging. Energy Secretary Spencer Abraham dismissed claims that energy companies were conspiring to drive up prices as a “myth.”

What a difference a year makes. Enron has stunningly collapsed, and industry documents and admissions confirm that market manipulation was an important cause of the energy crisis. This market manipulation cost California consumers billions of dollars. The most serious manipulation involved energy generators exercising market power by selling electricity at exorbitant prices or by holding supply off of the market to drive up prices.

Power marketers also engaged in various trading strategies that increased costs -- and the possibility of rolling blackouts -- for California. These strategies are discussed in internal Enron memos which became public this spring. They include submitting phony power schedules; deliberately overstating load to create the appearance of congestion on transmission lines, which would result in the state paying Enron to cut back on its load; and “megawatt laundering,” or exporting power out of state and then immediately importing it back, in order to evade price caps. The Enron memos gave these ploys names like “Fat Boy,” “Death Star,” and “Get Shorty.”

Perhaps the most cynical ploy was the simplest -- buying price-capped power in California and exporting it to other regions without a price cap. According to one memo, written in December 2000, Enron believed that this strategy “appears not to present any problems, other than a public relations risk arising from the fact that such exports may have contributed to California’s declaration of a Stage 2 Emergency yesterday.”

Recent admissions by at least seven major energy traders that they participated in fake “round-trip” trades have further underscored the extent to which energy markets are subject to manipulation. Those companies, several of which conducted business in California, all conducted trades in which they exchanged the same amount of power at the same price with another company. The trades were apparently intended to exaggerate the companies’ revenues and make it appear that markets were more active than they really were. They may also have contributed to higher energy prices. One energy analyst described the trades as having “enormous potential significance.”

And we have also recently learned that Ross Perot’s company, Perot Systems, may have had a hand in California’s energy crisis. In 1997, Perot Systems gained significant expertise with California’s newly deregulated energy market by contracting with the California independent system operator. Apparently, Perot Systems then turned around and tried to market this expertise to energy companies seeking to increase their profits in the West.

For months, many members of Congress have been calling on the Energy and Commerce Committee to hold hearings about the outrages that occurred in Western energy markets. Unfortunately, the Republican leadership has refused to allow hearings in that committee.

So I am pleased that we are finally holding a hearing on the schemes that traders used to

manipulate the markets in 2000 and 2001.

Unfortunately, I am concerned that this hearing will simply provide Perot Systems the opportunity to provide its un rebutted side of the story. I understand why that is good for Ross Perot, but I don't understand how that will help us understand what happened in California and prevent it from ever happening again.

I want to thank the Chairman for agreeing to a minority day of hearings on this issue. At that hearing we will finally be able to hear from Enron and Senator Dunn. I would like to reach agreement on a date for that hearing before the end of this afternoon's hearing.

I'd also like unanimous consent to introduce into the record a prepared statement from Senator Dunn along with a letter he has written to the Chairman. I'd also like to request that the hearing record be left open so that members can submit relevant materials and written questions to today's witnesses and those witnesses which declined to appear today.