Fact Sheet
Federal Energy Regulatory Commission
Energy Transfer Partners, L.P., *et al* (ETP)
Docket No. IN06-3-002

The Federal Energy Regulatory Commission has given Energy Transfer Partners, L.P. (ETP) 30 days from the date of this order to show cause why the Commission should not find that:

- ETP manipulated wholesale natural gas markets at Houston Ship Channel (HSC) and Waha, Texas on certain dates from December 2003 through December 2005.

- ETP's Oasis Pipeline subsidiary preferred its affiliated shippers and unduly discriminated against non-affiliated shippers, charged rates in excess of the maximum lawful rate for service under section 311 of the Natural Gas Policy Act of 1978, and failed to file an amended operating statement;

The Commission has proposed to order ETP and its subsidiaries to pay civil penalties and to disgorge unjust profits, plus interest, of more than $167 million. The Commission also proposed to revoke ETP's blanket certificate authority to sell natural gas.

Today's show cause order makes *preliminary* findings and *proposes* civil penalties and disgorgement of unjust profits.

Once the Commission receives ETP's response, on or before August 27, 2007, the Commission may issue an order on the merits that dismisses the proceeding or makes findings of fact and conclusions of law against ETP, set the matters for hearing before a FERC administrative law judge, or take other action.

Background and Preliminary Findings

- ETP, on various dates, artificially lowered the price for fixed price gas for next-month delivery at HSC to benefit its physical and financial positions. By lowering this price, ETP suppressed the Platts *Inside FERC* (IFERC) HSC index, which is the basis for the pricing of many physical natural gas contracts and financial derivatives. ETP earned profits of more than $40,000,000 from its manipulation on September 28, 2005 for gas for October 2005 delivery at HSC.

    - The Commission's investigation uncovered voice recordings that show senior managers at ETP were aware of the situation and

directed the company's manipulative strategy to suppress fixed-price gas at the Houston Ship Channel.
    - In one such voice recording from Sept. 26, 2005, Marshall McCrea, the company officer in charge of natural gas trading, told at least one trader that "as long as we sell as much as we can sell, it ought to push Ship down."
    - The phrase "push Ship down" means to suppress the price at the Houston Ship Channel, which would lower the price of its physical gas purchases priced at the IFERC HSC index and widen the price spread between that market and the Henry Hub, thereby increasing the value of its financial derivative positions.

- On December 23 and 28, 2005, ETP suppressed the price of fixed price gas for next-day delivery at Waha, a trading point in West Texas. ETP did this to suppress the *Gas Daily* Waha index. *Gas Daily* compiles and publishes this index based on fixed price transactions reported by market participants. ETP bought back at the *Gas Daily* Waha index almost the same amount of gas that it sold at fixed price at Waha, so it was essentially flat physical gas. However,But ETP had financial derivatives that benefited from a lower *Gas Daily* Waha index price. ETP received revenues for its manipulative trading on these two days of $2,228,550.

- ETP's Oasis Pipeline, L.P. is an intrastate natural gas pipeline that provides interstate transportation service under section 311 of the NGPA. Oasis Pipeline unduly preferred its affiliated shippers and unduly discriminated against non-affiliated shippers, and charged non-affiliates more than the maximum rate approved by the Commission for interstate transportation, for interstate transportation service from Waha to Katy, a point near Houston. It is not possible to estimate ETP's total benefit from these violations.

Commission Authority

- ETP's market manipulations violated the Commission's former anti-manipulation rule (Market Behavior Rule 2), which was in effect at the time of the violations and was promulgated under authority of the Natural Gas Act (NGA).

- The Energy Policy Act of 2005 (EPAct 2005) amended the NGA to provide that any person who violates the NGA "or any rule, regulation, restriction, condition or order made or imposed by the Commission, thereunder, shall be subject to a civil penalty of not more than $1,000,000 per day per violation for as long as the violation continues." Market Behavior Rule 2 was a regulation under the NGA.

- EPAct 2005 also amended the NGPA to increase the maximum civil penalty to $1 million per violation, with each day constituting a separate violation in the case of a continuing violation. Oasis Pipeline committed continuous violations of Commission requirements under the Natural Gas Policy Act of 1978 (NGPA) from January 26, 2004 through June 30, 2006.

Civil Penalties and Disgorgement

Based on all the facts and circumstances and noting the serious nature of the violations and the absence of any material mitigating factors, the Commission's preliminary determination is to assess ETP civil penalties in the amount of $82 million and to disgorge $69.9 of unjust profits, plus interest, resulting from its manipulations.

The Commission also proposes to assess Oasis Pipeline, L.P., which is owned by ETP, to pay civil penalties in the amount of $15.5 million and disgorge $267,122 in unjust profits, plus interest.