

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

In re Coral Energy Resources, L.P.                    )  
  )  
  )                    Docket No. IN05-5-000

**STIPULATION AND CONSENT AGREEMENT**

**I. INTRODUCTION**

The Staff of the Division of Enforcement, Office of Market Oversight and Investigations (“OMOI”) of the Federal Energy Regulatory Commission (the “Commission”) and Coral Energy Resources, L.P. (“Coral”) enter into this Stipulation and Consent Agreement (“Agreement”) to resolve all outstanding issues of fact and law with respect to Coral’s November 8, 2002 response to Staff’s data requests in *Fact Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices*, Docket No. PA02-2-000, and Coral’s June 13, 2003 response to the Commission’s April 30, 2003 Order in *Coral Energy Resources, L.P.*, Docket No. PA03-3-000 (collectively “Coral’s Responses”).

**II. STIPULATION**

The facts stipulated herein are stipulated solely for the purpose of resolving between Coral and OMOI the matters discussed herein and do not constitute stipulations or admissions for any other purpose. OMOI and Coral hereby stipulate and agree to the following:

1. Coral is a limited partnership organized and existing under the laws of the State of Delaware. Coral is a wholly-owned subsidiary of Coral Energy Holding, L.P. Coral’s principal place of business is 909 Fannin Street, Suite 700, Houston, Texas. During all times relevant herein, Coral marketed natural gas and other energy-related products to a wide range of customers across North America. Specifically, Coral conducted natural gas marketing operations at eastern and western power and gas trading hubs for the Eastern and Western United States.

2. During the relevant time period, natural gas was a commodity that traveled in interstate commerce through a network of pipelines across the United States. Companies such as Coral were in the business of buying and selling natural gas for profit. Traders employed by these companies entered into transactions calling for the physical delivery of natural gas.

3. On February 13, 2002, the Commission directed Staff to commence a fact-finding investigation in Docket No. PA02-2-000 into whether any entity manipulated short-term prices for electric energy or natural gas in the West or otherwise exercised undue influence over these prices between January 1, 2000, and June 21, 2001. As part of this investigation, Staff conducted an investigation of companies engaged in natural gas trading to determine whether any of those companies had reported false information to the reporting firms for purposes of manipulating gas markets.

4. On October 22, 2002, Staff served data requests on a number of industry participants, including Coral. Those requests were designed to elicit information regarding the participants' reporting of gas prices and transactions to the reporting firms.

5. Coral conducted an internal investigation to enable the company to respond to the data requests. On November 8, 2002, Coral timely responded to Staff's data requests, stating among other things, that "[o]n the basis of the investigation that Coral has conducted in order to respond to the Commission staff's data request, Coral believes that the information it provided to the Trade Press [reporting firms] accurately reflected then current market conditions."

6. On April 30, 2003, as a follow-up, the Commission ordered a number of industry participants, including Coral, to submit information regarding their internal procedures for reporting trade data. Coral responded as follows:

On October 22, 2002, the Commission Staff served Coral with certain data requests concerning Coral's practices in reporting gas prices to

the trade press. In order to respond to the data requests, Coral conducted an investigation respecting gas price reporting by Coral's traders. The results of Coral's investigation are detailed in Coral's November 8, 2002 response to the Staff's data requests. As discussed in Coral's response, Coral did not find that any of its employees participated in the manipulation or attempted manipulation of the published gas price indices. Accordingly, based upon its investigation, Coral did not find it necessary to discipline any of its employees respecting these matters.

7. Based upon the foregoing responses, the Commission made no further inquiries of Coral.
8. Based upon information provided by the Commodity Futures Trading Commission ("CFTC"), OMOI opened an investigation on March 18, 2004, to determine the sufficiency of Coral's Responses.
9. On July 28, 2004, the CFTC issued an Administrative Order resolving its investigation of Coral. That order contained the following findings:

[Coral's] employees knowingly delivered reports to NGI and Inside FERC, which sought information concerning [Coral's] fixed price, physical, natural gas transactions, either via facsimile, and/or via the Internet through electronic mail. [Coral] traders reported price and volume data to those reporting firms as if such information was derived from fixed price, physical, natural gas trades [Coral] had actually executed. However, [Coral] never actually executed many of the trades reported. [Coral] traders also reported executed trades with altered price and/or volume data. [Coral] traders also failed to report some actual trades to the reporting firms. [Coral's] employees knew that the reports they delivered to these reporting firms contained false, misleading or knowingly inaccurate information.

10. During the course of its investigation, Coral has provided OMOI with additional information as requested and has met several times with OMOI. Coral has cooperated fully with OMOI in the course of its investigation.
11. Wholesale sales are within the exclusive jurisdiction of the Commission over trading in the wholesale gas market undertaken pursuant to a blanket marketing certificate issued by the Commission. 15 U.S.C. §§717, *et seq.* and §§3301 *et seq.*

### III. REPRESENTATIONS

OMOI states:

1. OMOI does not agree that all of the statements contained in Coral's Responses were complete.
2. Based upon its investigation, OMOI has concluded that there is sufficient information to support the conclusion that a Coral trader was, in fact, providing inaccurate information to a price reporting firm. Information about this trader providing inaccurate information to a price reporting firm was not included in Coral's Responses.
3. OMOI believes that this Agreement is an equitable resolution of the outstanding matters at issue with respect to Coral in the investigation regarding Coral's Responses.

Coral states:

1. Coral does not agree that Coral's Responses were insufficient or constituted a violation of any state or federal statute, or of any Commission rule, regulation, or order issued thereunder. Despite Coral's diligent inquiry to gather information responsive to the Commission's Order, Coral was not completely informed about all relevant facts, and as a result, it did not know information about the trader described above at the time of the Coral Responses.
2. Coral has recently supplemented its corporate compliance efforts and will continue to do so as appropriate. It has also put procedures in place to ensure that its voluntary price reporting is consistent with the standards provided in FERC's July 2003 guidelines. All price reporting is done by Coral's Risk Control Group, which operates independently from the company's trading and marketing activities.
3. Coral employees are required to abide by the provisions of the following: (1) "Shell's Statement of General Business Principles"; (2) "The Shell in the United States Code of Conduct";

and (3) “The EPSA Code of Ethics and Sound Training Practices for Electric Power Suppliers.” Additionally, Coral is finalizing a “Code of Trading Practices,” which will specifically address gas and power trading practices, the Commission’s Behavioral Rules and the Safe Harbor Standards for price reporting. When that Code is finalized, it will take the place of the EPSA Code of Ethics.

#### **IV. REMEDIES**

For purposes of settling any and all civil and administrative disputes, and in lieu of any remedy that the Commission might assess or determine concerning any of the matters arising from or related to OMOI’s investigation regarding Coral’s Responses, Coral and OMOI agree that:

1. With respect to the actions of a Coral trader reporting activity described above, Coral has acknowledged that the employee’s reporting activities were inaccurate and has acknowledged the Commission’s concerns concerning the failure to report this conduct to Staff and the Commission.
2. Coral has implemented controls designed to address price reporting practices, and Coral agrees to continue to strengthen and improve its policies and procedures to ensure that it is conducting reporting activities in a manner consistent with the Commission’s regulations and orders.
3. In addition to the foregoing, for as long as Coral continues to report transaction information to reporting firms, Coral agrees to the following:
  - a) Except as provided herein, the Coral Energy Holding, L.P. and Subsidiaries Natural Gas and Power Price Reporting Procedures dated 11/29/04 (“Price Reporting Procedures”), including any modifications contained herein, will remain in effect and will not be terminated or modified in any way without prior notification to the Commission.
  - b) Coral has designated a Compliance Officer, who shall be responsible for assuring that Coral is in compliance with all terms of the Price Reporting Procedures. This

individual and his/her staff shall be the contact for the Commission staff on all compliance matters relating to Coral's Price Reporting Procedures.

- c) Coral has ensured, and will continue to ensure, that the Compliance Officer has all necessary and appropriate independence and authority consistent with carrying out his/her duties.
- d) The Compliance Officer shall ensure that all Coral employees receive training designed to allow that person to effectively and meaningfully comply with the Price Reporting Procedures. Such training shall be provided no less than once each calendar year.
- e) The Compliance Officer will maintain a Hotline telephone number so that infractions of the Price Reporting Procedures, Market Behavior Rules, Standards of Conduct, or any other Commission rule or order can be reported anonymously to the Compliance Officer. The Compliance Officer may combine this Hotline with any Ethics Hotline that Coral may have in place. For a period of one year from the date of this agreement, within 30 days after the end of each calendar quarter, the Compliance Officer will provide a report to OMOI, describing the content and resolution of any calls to the Hotline that quarter that raise issues relating to compliance with any of the foregoing.
- f) Coral will maintain all relevant data related to transactions reported to the pricing agencies for a period of five (5) years.
- g) Coral shall have an independent auditor not affiliated with Coral or any of its parents, affiliates, or subsidiaries conduct an audit of Coral's adherence to the terms of the Price Reporting Procedures for the calendar year 2005, and shall provide the

Commission with a written report of the audit at the same time a report is provided to Coral.

4. Coral will implement a Task Force to develop and implement a “best in class” model for regulatory compliance. Coral will engage an independent external consultant, to be approved by OMOI, to conduct external benchmarking studies to the extent possible and will implement a thorough review of the effectiveness of Coral’s compliance processes. Prior to the start of the program, Coral will provide OMOI, for its approval, with the plan for conducting such review. At the completion of the program, Coral will report the results of the Task Force, including any and all recommendations, to OMOI. Coral agrees that it will spend whatever funds are necessary to complete this project, and it estimates that the cost to complete this project is approximately \$500,000.

5. Coral will pay \$3.5 million dollars (\$3,500,000) to an organization providing assistance to low-income energy consumers, such organization to be agreed upon and such payment to be made within 30 days of the Effective Date.

6. Upon approval by the Commission, this Agreement terminates OMOI’s investigation regarding the sufficiency of Coral’s Responses. This Agreement does not, however, affect any obligations that Coral may have with respect to any other proceeding before the Commission.

## **V. TERMS**

1. OMOI and Coral state that they enter into this Agreement and its terms voluntarily and that, other than the agreements provided herein, no tender, offer, or promise of any kind whatsoever has been made by any party to this Agreement or by any member, officer, agent, or representative thereof, to induce the other party to enter into this Agreement.

2. OMOI and Coral acknowledge and agree that this Agreement is a settlement of claims investigated by the Commission under its authority over trading in the wholesale natural gas market

undertaken pursuant to a blanket marketing certificate issued by the Commission, and is a compromise and settlement of disputed claims. This Agreement and any Commission order approving this Agreement shall not be deemed or construed as an admission or as evidence of any violation of any law or regulation, or any Commission rule, regulation or order issued thereunder, by Coral.

3. Coral's payment is not a fine or penalty but rather a voluntary payment to facilitate settlement of disputed claims.

4. Unless the Commission issues an Order approving this Agreement in its entirety, including these findings, without modification, this Agreement shall be null and void and of no effect whatsoever, and shall not be used in any proceeding, and neither OMOI nor Coral shall be bound by any of its provisions or terms, unless they agree otherwise in writing.

5. On the Effective Date, this Agreement shall resolve any and all administrative or civil claims the Commission has or may have against Coral, its parents and affiliates, their successors and assigns, and the officers, directors or employees of each, arising from or related to OMOI's investigation of Coral's Responses. This Agreement does not affect any obligations that Coral may have with respect to any other proceeding or to any other party. In addition, this Agreement shall not bar Commission action in the event that the Commission determines that Coral has failed to comply with Part IV of this Agreement or the directives contained in any order approving this Agreement.

6. With respect to the representations by Coral set forth herein, the undersigned representative of Coral represents and warrants that he has read them and knows the contents thereof, that all the statements and matters set forth are true and correct to the best of his knowledge, information and



belief, and that he understands that OMOI enters into this Agreement in express reliance on those representations.

7. The provisions of this Agreement are binding on Coral, its parents and affiliates and their successors and assigns, and the officers, directors or employees of each.


8. The Commission's approval of the Agreement shall not constitute precedent regarding any principle, issue, or methodology underlying its provisions, nor shall this Agreement establish a "settled practice."<sup>1</sup>

9. Each of the undersigned warrants that he or she is an authorized representative of the party designated, is authorized to bind such party, and accepts this Agreement on behalf of that party.

Agreed to and accepted:

\_\_\_\_\_  
William Hederman  
Director, Office of Market Oversight  
and Investigations

\_\_\_\_\_  
Date

  
\_\_\_\_\_  
V. Mark Hanafin  
President and CEO,  
Shell Trading Gas and Power Company  
On behalf of Coral Energy Resources, L.P.

February 18, 2005  
\_\_\_\_\_  
Date

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<sup>1</sup> *Public Service Commission v. Federal Energy Regulatory Commission*, 642 F.2d 1335 (D.C. Cir. 1980).