FEDERAL ENERGY
REGULATORY COMMISSION

NEWS

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Docket Nos. IN09-7-000, IN09-8-000, IN09-11-000, IN09-12-000; IN09-9-000; IN09-10-000

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FERC Fraud Investigations Result in Settlements, Penalties, Show Cause Orders

The Federal Energy Regulatory Commission (FERC) today approved four stipulation and consent agreements, representing more than $8 million in civil penalties and disgorgement of approximately $4 million, and issued two orders to show cause resulting from an 18-month investigation into allegedly fraudulent conduct in open season bidding for natural gas transportation capacity on the Cheyenne Plains Natural Gas Company pipeline. The civil penalties in this case reflect that bidding conduct occurred on a single day and was not continuing in nature.

The settlements resolve investigations by FERC's Office of Enforcement (OE) into whether bidding by Tenaska Marketing Ventures LLC and its affiliates, ONEOK Energy Services Company and its affiliates, Klabzuba Oil & Gas FLP, Jefferson Energy Trading Company LLC (Jetco), Wizco, Inc. and Golden Stone Resources LLC in Cheyenne's March 2007 open season violated FERC's anti-manipulation regulation, 18 C.F.R. § 1c.1. The Tenaska settlement also resolves bidding by Tenaska on two other pipelines, Colorado Interstate Gas Company (CIG), and Northern Natural Gas Company.

Separately, in two orders to show cause, FERC today directed Seminole Energy Services and four of its affiliates, and National Fuel Marketing Company LLC and three of its affiliates, to show why they should not be found to have perpetrated a fraud in violation of 18 C.F.R. § 1c.1 (2008) in connection with their bidding for, and use of, interstate natural gas transportation capacity on Cheyenne, and why they should not pay a civil penalty and be subject to disgorgement of unjust profits.

The Enforcement Hotline received calls from other Cheyenne open season market participants that some marketers submitted bids on behalf of multiple affiliates in order to "game" the *pro rata* allocation method relied upon by Cheyenne to allocate the capacity among multiple bidder in order to increase their share of the capacity at the expense of those not engaging in such alleged "gaming." OE commenced an investigation of the Cheyenne open season and similar open seasons held on CIG and Northern Natural.

FERC's OE investigation found that five different groups of entities accounted for 27 of the 47 winning bids, and obtained 57 percent of capacity. Put another way, 20 percent of the bidders secured more than 50 percent of the capacity awarded by means of their multiple bidding. Based on all of the facts and circumstances of each case, FERC's OE maintains that these entities violated 18 C.F.R. § 1c.1 in connection with their submission of multiple bids with the intent to defeat the *pro rata* allocation method relied upon by Cheyenne to ensure fair allocation of scarce and valuable capacity.

Settlement Cases

Tenaska: Tenaska Marketing Ventures (TMV) submitted bids on behalf of itself and seven affiliates. Tenaska was awarded eight shares of capacity, and pre-arranged releases by its affiliates so that all the awarded capacity was used by TMV. Tenaska also engaged in substantially the same conduct in two other pipeline open

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seasons, CIG and Northern Natural. In each open season, Tenaska affiliates pre-arranged releases of all acquired capacity to TMV.

Civil penalty: $3 million. Disgorgement: $1.97 million. The company also is subject to a compliance reporting requirement. Tenaska agrees with the facts, but neither admits nor denies that they constitute a violation of 18 C.F.R. § 1c.1

ONEOK: ONEOK Energy Services Company submitted bids on behalf of itself and five affiliates. ONEOK was awarded six shares of capacity. Like Tenaska, ONEOK pre-arranged releases by its affiliates so that all the awarded capacity was used by ONEOK Energy Services Company. In addition to the bidding on Cheyenne, the settlement also resolves matters self-reported by ONEOK. ONEOK self-reported that ONEOK Energy Services, ONEOK Energy Marketing, Bear Paw, ONEOK Midstream Gas Supply and ONEOK Field Services participated in numerous transactions that violated "shipper-must-have-title" requirements on seven interstate pipelines. Also, between January 2005 and March 2007, ONEOK Energy Services and ONEOK Field Services participated in buy-sell transactions that resulted in the transport of 2.1 billion cubic feet of gas. Finally, Kansas Gas Service, a ONEOK division that provides gas distribution services in Kansas, separately self-reported that it violated "shipper-must-have-title" requirements during various months in 2005 and 2006.

Civil penalty: $4.5 million. Disgorgement: $1.9 million, plus interest. The company also is subject to a compliance reporting requirement. ONEOK agrees with the facts, but neither admits nor denies that they constitute a violation of 18 C.F.R. § 1c.1

Klabzuba: This privately held oil and gas exploration and production company in the Rocky Mountains submitted a bid, together with bids by Jetco, Wizco, and Golden Stone, all of which are natural gas marketers. The bids resulted from TMV's interest in having Golden Stone join with Tenaska in multiple-entity bidding for Cheyenne's capacity and having Golden Stone find other entities to assist. Tenaska initially planned to split profits evenly with Golden Stone and the other entities via an asset management agreement in which Tenaska would act as agent to nominate the capacity as well as buy and sell the gas to be transported on the Cheyenne capacity. Klabzuba initially agreed to join the plan, but neither it nor Jetco, Wizco nor Golden Stone ever consummated the asset management agreement with TMV. Instead, Klabzuba, Wizco and Golden Stone employed Jetco as their agent and to submit bids.

Civil penalty: $300,000, reflecting that OE maintains that this was an attempt to defraud in connection with the Cheyenne open season. The company also will be subject to a compliance reporting requirement. Klabzuba agrees with the facts, but neither admits nor denies that they constitute a violation of 18 C.F.R. § 1c.1

Jetco, Wizco and Golden Stone: Like Klabzuba, these companies initially planned to join Tenaska's plan, but they ultimately did not. Yet Jetco, for itself and on behalf of Klabzuba, Wizco and Golden Stone, did pay Tenaska $150,000 for deal information and bidding assistance after it learned from Cheyenne that it was among the winning bidders.

Civil penalty: $585,000, reflecting that OE maintains that this was an attempt to defraud in connection with the Cheyenne open season. The companies also will be subject to compliance reporting requirements. Jetco, Wizco and Golden Stone agree with the facts, but neither admit nor deny that they constitute a violation of 18 C.F.R. § 1c.1

Show Cause Orders

In the first show cause order, FERC directed Seminole Energy Services LLC and its affiliates Seminole Gas Company LLC, Seminole High Plains LLC, Lakeshore Energy Services LLC and Vanguard Energy Services LLC to show why they should not be found to have: (1) violated 18 C.F.R. § 1c.1; and (2) engaged in prohibited buy-sell transactions to consolidate the capacity they acquired in Seminole Energy Services. The order also requires the Seminole entities to show why they should not be assessed civil penalties of $4.25 million and disgorge $452,194, plus interest, in unjust profits, as well as any payment received from entities settling FERC's OE investigation of bidding on Cheyenne in March 2007.

FERC's OE Staff Report alleges that Seminole Energy Services employed its subsidiary affiliates in a scheme to obtain a larger allocation of interstate transportation on Cheyenne's pipeline than it could have acquired by itself. Staff alleges that the affiliates themselves had no use for the Cheyenne capacity, therefore they engaged in a series of buy-sell transactions to consolidate the value of the capacity for Seminole Energy Services.

In the case of National Fuel Marketing Company LLC and its affiliates NFM Midstream LLC, NFM Texas Pipeline LLC and NFM Texas Gathering LLC, FERC directed them to show why they should not be found to have: (1) violated 18 C.F.R. § 1c.1; and (2) engaged in transactions that violate the Commission's "shipper-must-have-title" requirement. The order also requires the NFM entities to show why they should not be assessed $4.5 million in civil penalties and be required to disgorge any payment received from entities settling FERC's OE investigation of bidding on Cheyenne in March 2007.

FERC's investigation alleges that NFM employed its affiliates in a scheme to obtain a larger allocation of interstate transportation capacity on Cheyenne's pipeline than NFM could have acquired by itself. Staff alleges that the affiliates themselves had no use for the Cheyenne capacity, but instead used what they obtained to transport gas belonging to NFM, thereby violating the FERC's "shipper-must-have-title" requirement.

The Orders to Show Cause direct Seminole and NFM to respond to OE's allegations within 30 days.

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