



Fact Sheet
Federal Energy Regulatory Commission
Amaranth, et al.
Docket No. IN07-26-000

The Federal Energy Regulatory Commission today issued a show cause order after making a preliminary finding of serious manipulation in the natural gas markets. The Commission's preliminary determination is that the Amaranth hedge fund manipulated natural gas markets through trading on the New York Mercantile Exchange (NYMEX) Natural Gas Futures Contract, whose settlement price determines the price for a substantial volume of Commission-jurisdictional natural gas transactions. The Commission is proposing to order disgorgement of unjust profits and civil penalties totaling nearly \$300 million. Respondents have 30 days to answer the show cause order.

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

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

Background and Preliminary Findings

- The case centers on the important nexus between the wholesale interstate natural gas markets under FERC jurisdiction and the NYMEX Natural Gas Futures Contract. In recent years, many market participants in the physical gas markets have explicitly used the settlement price of the NG Futures Contract to determine the price of Commission-jurisdictional physical gas transactions.
- Amaranth Entities* and former Amaranth natural gas traders Brian Hunter and Matthew Donohoe manipulated the price of Commission-jurisdictional transactions by trading in the NG Futures Contract on February 24, March 29 and April 26, 2006. Their trading was designed to produce artificial "settlement" prices for these contracts.
- Amaranth traders manipulated the settlement prices of the NG Futures Contract by selling an extraordinary amount of these contracts during the last 30 minutes of trading before the contracts expired. That drove down the settlement prices. As Amaranth had taken positions several times larger in various financial derivatives whose value increased as a direct result of the decrease in the settlement price of the contracts, Amaranth gained on its derivative financial positions.
- Evidence includes many "instant messages" written by traders. According to one such

IM, the scheme began as “a bit of an experiment (sic)” devised by Hunter on or before Feb. 23, 2006, the day before the first manipulation occurred. The Feb. 24 “experiment” was repeated and refined in March 29 and April 26.

The Effects of Manipulation

- The settlement price that Amaranth drove down explicitly determines the price in a substantial volume of Commission-jurisdictional natural gas transactions. These primarily consist of “physical basis” transactions, in which the price is the settlement price of the NG Futures Contract, plus or minus a fixed amount. Manipulation of this price has the potential to harm all natural gas market participants, including consumers.
- Competition is the way our markets work, but they work only if everyone gets a fair deal. Low prices established through manipulation of markets are as destructive as high prices established through manipulation.
- More than 746 billion cubic feet (Bcf) of bid week transactions in 2006 were physical basis deals that relied directly on the NG Futures Settlement Price.

Commission Authority

The Commission’s anti-manipulation authority was expanded by the Energy Policy Act of 2005. It provides the Commission the authority to prohibit manipulation, not only by direct participants in the physical natural gas markets, but also where, as in this case, any entity commits manipulation directly, or indirectly, in connection with Commission-jurisdictional transactions.

EPAAct 2005 substantially increased the remedies available to the Commission to punish and deter violations of Commission regulations including increased civil penalties of up to \$1,000,000 per violation, per day. The Commission’s anti-manipulation rule, section 1c.1 of the Commission’s regulations, implements section 315 of EPAAct of 2005. This rule, known as the Anti-Manipulation Rule (Order No. 670), clarifies the elements of manipulation and this case is the first exercise of the Commission’s new anti-manipulation authority under EPAAct 2005.

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 civil penalties of \$200 million in the case of the Amaranth Entities, \$30 million in the case of Brian Hunter, the former head natural gas trader for Amaranth and \$2 million in the case of Matthew Donohoe, a former Amaranth trader. In addition, the Commission has made a preliminary determination to order Amaranth to disgorge \$59 million in unjust profits, plus interest.

* The Amaranth Entities include Amaranth Advisors, L.L.C., Amaranth LLC, Amaranth Management Limited Partnership, Amaranth International Limited, Amaranth Partners, LLC, Amaranth Capital Partners LLC, Amaranth Group Inc., and Amaranth Advisors (Calgary) ULC.