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## Possible Energy Market Manipulation Leads to DOJ Probing (/full-blog/2013/01/possible-energy-market-manipulation.html)

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By: Samuel Jones, Staff Member

Last November, several U.S. Senators called upon the Department of Justice to investigate a possible case of market manipulation performed by several California oil refineries reporting false production information, causing gasoline prices to rise to all-time high levels.[1] Essentially, several oil refineries

reported routine factory shutdowns for maintenance and safety protocols, but reviews of production output showed that production continued at regular levels, creating the illusion that supply was down when it really was not, leading to artificial spikes in fuel prices.[2]

Several other state senators, all Democrats, have joined the cause and petitioned the DOJ to investigate possible manipulations in their states, particularly Oregon and Washington.[3] The senators called for a "refinery-by-refinery" probe to analyze the public reports of some of the states' largest oil refineries, including the Valero Energy Corporation and Tesoro Corporation.[4] A letter was sent to Attorney General Eric Holder, and the DOJ responded by saying that they would respond accordingly.[5]

Not only is this the second time this year that some members of Congress have called for a market investigation of this like, but it is also yet again another profitable period for oil and fuel producers. [6] Remarkably, oil producers have seen their profits double since the beginning of 2011, even though refiners have used only 81.7% of their total capital capacity, 7% less capital used from 2010 numbers.[7] Oil companies have blamed the reductions in production and increase in prices on the weak economy and the greater ethanol use for lower demand for oil.[8] Nevertheless, the FTC has compelled oil refineries to turn over records detailing production levels.[9] The Federal Trade Commission (FTC) has legal authority to impose penalties on companies that manipulate their oil prices.[10]

Other Democratic senators have praised the FTC involvement. Sen. Blumenthal from Connecticut stated that such an investigation in possible illegal activity in the energy market "must be aggressive and hard-hitting." [11] "Federal officials are finally recognizing that where there's smoke, there may be fire." [12]

Although I cannot say that I have been personally affected by the alleged manipulation, I agree that a probe should be performed, whether by the Department of Justice or the Federal Trade Commission, if only to send a rippling message through the oil and gas market that such manipulative actions will not be tolerated and to flex some federal muscle control over market practices. Oil prices have risen to almost \$115 per barrel this year, a 47% increase from oil prices in June of last year at \$78 per barrel.[13] Considering the fact that the national average price for a gallon of gas rose to \$3.60 in 2012, up 9 cents from the previous record high of \$3.51 set in 2011, sneaky practices that drain revenues from the expanding middle class during a national economic recovery period should not be tolerated with the least degree of allowance.[14] Given these recent events, agency control over the oil and gas markets seems to be lacking; an assertion of more control and possible legal action will likely cause oil producers to think before resorting to unbecoming behavior. I only hope that such federal action will come with more effect and power than that of simply ringing a whistle or blowing a bell.

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[1] Roberta Rampton, *Senators ask U.S. to probe California gasoline prices*, CHICAGO TRIBUNE (Nov. 27, 2012) [http://articles.chicagotribune.com/2012-11-27/news/sns-rt-us-california-gasoline-senatorsshreSaql6h-20121127\\_1\\_california-gasoline-prices-los-angeles-area-refinery](http://articles.chicagotribune.com/2012-11-27/news/sns-rt-us-california-gasoline-senatorsshreSaql6h-20121127_1_california-gasoline-prices-los-angeles-area-refinery).

[2] *Id.*

[3] *Id.*

[4] *Id.*

[5] *Id.*

[6] Bonnie Kavoussi, *Oil Companies, Refiners Investigated for Possible Market Manipulation*, THE HUFFINGTON POST (June 21, 2011)

[http://www.huffingtonpost.com/2011/06/21/federal-regulators-launch\\_n\\_881150.html](http://www.huffingtonpost.com/2011/06/21/federal-regulators-launch_n_881150.html).

[7] *Id.*

[8] *Id.*

[9] *Id.*

[10] *Id.*

[11] *Id.*

[12] *Id.*

[13] *Id.*

[14] Steve Hargreaves, *Gas prices hit highest average ever in 2012*, CNN MONEY (Dec. 31, 2012) [http://money.cnn.com/2012/12/31/news/economy/gas-prices/index.html?](http://money.cnn.com/2012/12/31/news/economy/gas-prices/index.html?hpe=hp_12)

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