

Big Bucks for Bad Actors



El Paso Corp. is under increased scrutiny for allegedly engaging in “round trip” energy trading. Instead of cracking down on corporate abuse, will Congress reward El Paso Corp. with new tax breaks and subsidies in its final energy legislation?



Corporate Irresponsibility

Manipulating the Market: The California Public Utility Commission claims that El Paso Corp. and its affiliates intentionally held back capacity on four natural gas pipelines into California from November 2000 through March 2001, contributing to a sharp rise in electricity prices and costing Californians an extra \$3.3 billion.¹

Sham Energy Trades: El Paso is among several energy traders that have received subpoenas from the U.S. Attorney's office in Houston concerning so-called round-trip trades. The trades, essentially mirror-image swaps between two trading companies for the purpose of artificially inflating volumes or manipulating price, are the focus of a federal grand-jury investigation.²

Cooking the Books: Analysts and investors have grown skeptical of El Paso Corp.'s complicated business structure and numerous off balance sheet affiliates, which have doubled in the last two years. Some have speculated that many of these off balance sheet partnerships serve the sole function of hiding debt and discounting future earnings to report current earnings.³ Shareholders have filed several class action lawsuits against El Paso Corp., charging that the company issued false and misleading statements concerning its business and financial condition that led to artificial inflation of the company's stock price.



Energy Legislation: Throwing Good Money After Bad Actors

Big Money for Big Oil

El Paso Corp. is the largest leaseholder in the shallow-water area of the Gulf of Mexico and the fifth largest producer of natural gas in the country. El Paso Corp. also is an active coalbed methane operator in Alabama, New Mexico, and Colorado via its subsidiary, Colorado Interstate Gas.⁴

The company thus stands to benefit from the House bill's \$23.7 billion in tax breaks and subsidies for the oil and gas industry and the Senate bill's \$5.6 billion in tax breaks. Specific provisions include:

Having Their Cake and Eating It Too. The House bill suspends the payment of royalties for certain offshore oil and gas leases. Royalties are the price that large companies pay the federal government—and taxpayers—for the extraction of public resources. Estimated cost to taxpayers: \$7.4 billion.

Researching Technology that Already Exists. The House bill establishes a fund to research ultra-deepwater drilling technology. But the oil and gas industry has already developed and begun to apply deepwater technology. Estimated cost to taxpayers: \$4 billion.

Giving Oil Companies a Discount. Oil and gas companies are required to make royalty payments to the federal government for the oil they obtain under

federal leases. The House bill would allow oil and gas companies drilling on public lands to pay for the royalties owed to taxpayers in barrels of oil, rather than cash. A recent study found that a federal royalty-in-kind program is neither efficient nor feasible.⁵ Estimated cost to taxpayers: \$1.4 billion.

Subsidizing Dirty Drilling. The House and Senate bills extend and modify the tax credit for non-conventional fuels, which in recent years has gone largely to coalbed methane development. Coalbed methane operations use and discharge huge amounts of water, depleting aquifers and causing soil erosion, stream sedimentation, vegetation loss and water pollution. Estimated cost to taxpayers: \$2.7 billion (House); \$1.9 billion (Senate).

Handouts for Dirty Power

In June 2001, El Paso Corp. purchased equity interest in five "clean coal" technology power plants in California and Pennsylvania.⁶ El Paso also owns Coastal Coal, which has coal mining operations in Kentucky, Virginia and West Virginia.

Both the House and Senate energy bills include tax breaks and subsidies for so-called "clean" coal technology. There is no such thing as "clean" coal, as coal pollutes air, land and water from the point of mining to combustion. The Senate bill contains \$1.9 billion in tax breaks for "clean" coal; the House bill contains \$3 billion in tax breaks and an additional \$2.5 billion in subsidies for research and development.

El Paso Corp.'s Political Influence

El Paso Corp. won these concessions in the House and Senate energy bills by helping to elect industry-friendly Members of Congress, buying access with campaign contributions and lobbyists, and tapping into its high level of access with the Bush administration.

El Paso Corp.'s Lobbying Expenses and Contributions to Federal Candidates

	Total
PAC \$ (2000-2002 cycles)	\$1,046,750
Hard \$ to Energy Bill Conferees* (2000-2002 cycles)	\$230,500
Soft \$ (2000-2002 cycles)	\$1,277,786
Lobbying 2001	\$1,100,000

Data collected from www.opensecrets.org and Senate Office of Public Records at <http://sopr.senate.gov/>.

* Includes PAC money and individual hard money contributions

Access to the Bush Administration

- El Paso CEO William Wise was one of the oil industry executives who helped Vice President Cheney raise more than \$8 million for the National Republican Senatorial Committee in September 2000.⁷ Wise personally wrote a check for \$50,000.⁸
- Vice President Cheney's energy task force met with William Wise during the spring of 2001;⁹ El Paso Corp. had contact with the task force twice, according to documents obtained by NRDC.

Company Background

El Paso Corp. is engaged in the interstate and intrastate transportation, gathering and processing of natural gas; the marketing of natural gas, power and other commodities, and the development and operation of energy infrastructure.

Headquarters: Houston, Texas

Revenue (first 6 months of 2002): \$6.74 billion¹⁰

CEO Salary (2001): \$10.4 million, plus \$11 million in exercised options¹¹

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¹ "FERC judge aims to issue El Paso decision by end-Aug." Reuters Company News. August 6, 2002.

² "El Paso Corp Reiterates Its Position On Wash Trades." *Dow Jones Business News*. July 17, 2002.

³ Melissa Davis, "El Paso's Utility Deal Raises Eyebrows." *TheStreet.com*. July 26, 2002. "El Paso Investors Question Booking of Power Contracts." *Dow Jones Business News*. July 23, 2002.

⁴ El Paso Corporation website. http://www.elpaso.com/portfolio/prod_operation.asp.

⁵ *Federal Oil Valuation: Efforts to Revise Regulations and an Analysis of Royalties in Kind*. (GAO/T-RCED-99-152, May 19, 1999).

⁶ Pennsylvania Department of Environmental Protection, <http://www.dep.state.pa.us/update/default.asp?ID=2078>.

⁷ "Cheney, oil executives raise \$8 million for GOP." *Associated Press*. September 28, 2000.

⁸ Center for Responsive Politics, www.opensecrets.org.

⁹ Jena Heath. "Activists Want More Energy Documents; Data Shows GOP Donors Had Access." *Cox Newspapers*. March 27, 2002.

¹⁰ Yahoo Market Guide, <http://biz.yahoo.com/p/e/ep.html>.

¹¹ Yahoo Market Guide, <http://biz.yahoo.com/p/e/ep.html>.