More companies charged with manipulating California energy market

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Coming on the heels of accusations that JPMorgan was gaming the California energy market, the California Independent Systems Operator (ISO) has accused additional companies of manipulating the state's electricity market. One company is accused of taking in $10.5 million in "excessive gains" since April. Federal rules prevent the ISO from identifying the company.

An ISO is created on the direction of Federal Energy Regulatory Commission (FERC) to oversee the operation of electric power grids across a state or region.

Allegations that JPMorgan manipulated California's energy market were made public on July 2 in court filings by the FERC. The federal agency is investigating whether the bank's venture arm, JPMorgan Ventures Energy Corp. (located in Enron's former home, Houston, Texas), took advantage of the California ISO's "bid cost recovery" program. Although it does not own any power plants, JPMorgan does hold power contracts allowing it to deal on energy trading markets.

Last April, the FERC also alleged that Barclays PLC manipulated California energy prices between November 2006 and December 2008. Moreover, in March, the FERC fined Constellation Energy $245 million on charges of energy market manipulation.

As a measure of the pervasive and international character of the fraudulent financial schemes, this week Deutsche Bank AG's energy trading unit faces a $1.5 million fine from the FERC for manipulating and submitting false information in relation to the Silver Peak line connecting California and Nevada.

The ISO provides a guaranteed minimum payment to power providers to encourage them to keep their power plants online in case more energy is required. The FERC alleges that JPMorgan gamed the system by placing extremely low bids for providing energy on the day-ahead markets—making it eligible for the bid cost recovery payments—but then charging such high electricity prices on the real-time market that the ISO would never purchase the energy.

In the new case filed by the ISO, it alleges that the unnamed company manipulated the market through the "economic withholding" of power. That is, by deliberately withdrawing energy from the market, the company could then charge excessively high prices.

As this latest allegation came to light, regulators were quick to emphasize that these are isolated cases. "It is not indicative of a broader trend," argued Jeff McDonald, the ISO's manager of market analysis and mitigation. "This is really an isolated circumstance." This is far from the case.

The FERC has conducted 11 probes of alleged manipulation since January 2011. It recently reached a record $245 million settlement with Constellation Energy Commodities Group for allegedly manipulating energy markets in New York, New England, and Ontario. The agency is also investigating Deutsche Bank AG.

In January, the FERC charged three Maine companies—Lincoln Paper & Tissue, the Rumford Paper Co., Competitive Energy Services, and energy consultant Richard Silkman—with defrauding a regional program intended to promote energy conservation to the tune of $3.4 million.

The Day-Ahead Load Reduction Program of the ISO-New England was designed to promote energy conservation. When demand on the grid is high, the ISO has an agreement with particular end-users that they will decrease their energy consumption in exchange for a fee. These "demand-response" participants pledge a day ahead to reduce wattage if needed.

To determine whether demand-response participants have actually reduced their power consumption, the ISO examines the energy records of the company over the course of a week to establish an energy baseline. The Maine companies allegedly increased their power consumption during the week that the ISO identified the baseline, then shifted back to their regular energy use making it appear to the ISO that they had cut back their energy and were therefore eligible for demand-response payments.

Constellation NewEnergy, whose parent company is Constellation Energy, acted as the middleman between the ISO and the Maine firms during the period of alleged fraud, although the FERC denies that the company was aware of the fraudulent practices.

At a recent meeting this summer at the Platts Energy Podium in Washington, FERC chairman Jon Wellinghoff emphasized the non-partisan nature of the body. “I think most of us leave any partisan affiliation at the door. Any change in administration is not going to have any impact. Both Republicans and Democrats agree, I think, that markets are good…and they are better when they are more efficient.”

Indeed, whether Republicans or Democrats are elected next November, energy production will remain driven by corporate profits rather than the social needs of the working class. Such a motive is at the root of decades of privatizations, a policy pursued unequivocally by both big business parties in every sector of the economy with catastrophic consequences for the vast majority of the working population.