



Federal Energy Regulatory Commission
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Staff Presentation
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“Good Morning, Mr. Chairman and Commissioners. Today, the Office of Enforcement is releasing its Annual Report on Enforcement. The Report provides the public and the regulated community with information on Enforcement staff activities in fiscal year 2010.

The Report describes the nature of non-public Enforcement activities, such as self-reported violations and investigations that were closed without any public enforcement action or civil penalty assessments. The report also discusses the work of the Division of Audits in conducting various audits and related activities to ensure that jurisdictional companies comply with the Commission statutes, orders, rules, tariffs, and regulations. Finally, the report discusses the oversight and surveillance work performed by the Division of Market Oversight in administering data forms and monitoring compliance filings by industry participants, maintaining daily market intelligence, and examining market anomalies. The priorities of the Office of Enforcement’s three Divisions have not changed since last year. We have focused and will continue to focus on matters involving: (1) fraud and market manipulation, (2) serious violations of the reliability standards, (3) anticompetitive conduct, and (4) conduct that threatens transparency in regulated markets. Fraud and market manipulation present a significant risk to the markets overseen by the Commission and undermine the Commission’s goal of assuring efficient energy services for consumers at a reasonable cost. Similarly, anticompetitive conduct and conduct that interferes with market transparency undermine confidence in the wholesale energy markets upon which the nation’s consumers rely.

Serious violations of the reliability standards compromise the public interest by threatening the reliable and secure operation of the bulk power system. The Office of Enforcement will continue to give high priority to cases involving harm to the public or high risk to the bulk power system.

Turning to last year’s accomplishments, let me begin with the Division of Investigations. Investigations staff has furthered efforts to achieve transparency and clarity relating to its investigative process. For instance, the Commission’s issuance of the Penalty Guidelines provides for more uniform penalties, bringing more certainty and promoting fairness by ensuring similar penalties for similar violations. The Commission also provided for greater fairness in the enforcement program by issuing the Policy Statement on Disclosure of Exculpatory Materials, formalizing Enforcement staff’s practice relating to exculpatory materials and adopting the requirements of *Brady v. Maryland*.

The Division of Investigations entered into six Commission-approved settlement agreements for a total of \$31 million in civil penalties and an additional \$280,000, plus interest, in disgorgement of unjust profits. Investigations staff also assisted in proceedings that resulted in a \$25,000,000 disbursement from a disgorgement fund resulting from the settlement of a manipulation claim against Energy Transfer Partners in fiscal year 2009.

During fiscal year 2010, Investigations staff received 93 self-reports of violations, of which 54 were closed, opened 15 investigations, and closed 16 investigations. The Report includes data on these matters and illustrations of the nature of the self-reports and investigations that have been closed with no action.

Investigations staff continued its efforts to help ensure the reliability of the bulk power system through its review of approximately 1,300 violations in 190 Notices of Penalty filed by NERC pursuant to the Electric Reliability Organization's Compliance Monitoring and Enforcement Program. This year included review of two "Omnibus" filings with a total of 626 violations. Investigations also operates the Enforcement Hotline, which received 301 complaints and inquiries and resolved 298 matters during the past year.

The Division of Audits staff completed 52 audits of public utilities and natural gas pipeline and storage companies last year. These 52 audits included: 25 audits of public utilities, natural gas pipeline and storage companies, and Regional entities; 18 nonfinancial audits; and 7 financial audits. These audits generated 210 recommendations for corrective action and included \$4.1 million in monetary recoveries.

The Division of Audits conducted notable audits of: Florida Reliability Coordinating Council; Texas Regional Entity; Western Electric Coordinating Council; Virginia Electric Power Company; and Entergy Corporation. Audits staff also addressed several significant accounting issues including: the International Financial Reporting Standards and the Capitalization of Interest During Construction.

The Division of Energy Market Oversight continued its monitoring and analysis of the wholesale natural gas and electric power markets. In addition to the annual State of the Markets Report, and Summer and Winter Market Assessments, Market Oversight provided a report summarizing the findings of a 30-month study of the competitive effects of removing the price cap for reassigned electric transmission capacity. In addition, Market Oversight conducted numerous briefings to domestic and foreign delegations of regulators and industry participants. Last year, Market Oversight also accepted data submissions and evaluated compliance with the Commission's filing requirements.

A copy of the Annual Report is now available on the Commission's website.

Thank you. That concludes my presentation. I would be pleased to respond to questions."