



**Federal Energy Regulatory Commission
November 20, 2014
Open Commission Meeting
Staff Presentation
Item A-3**

"Good morning Madame Chairman and Commissioners.

"Today, the Office of Enforcement is releasing its annual Report on Enforcement. The Report provides the public with information on Enforcement staff activities in fiscal year 2014. It describes both public and non-public Enforcement activities, including Commission-approved settlements, investigations, and self-reports closed without enforcement action or sanctions.

"As in our past annual reports, we've sought to provide transparency about Enforcement's activities to inform regulated entities. This year, the report provides even more detail regarding matters DOI decided not to pursue and why, particularly for those matters involving potential market manipulation. For example, the section discussing self-reports closed with no action provides descriptions of more matters than prior annual reports. Similarly, the section illustrating investigations closed with no action describes all 7 investigations Enforcement closed without action in fiscal year 2014.

"The report also discusses our audits to ensure that jurisdictional entities comply with the Commission's statutes, orders, rules, tariffs, and regulations. Finally, the report discusses the market oversight, surveillance, and analysis we perform to assess the competitiveness and efficiency of wholesale energy markets, and to apply quantitative analysis and technical expertise to market behavior and anomalies.

"The priorities of the Office of Enforcement have not changed in the past few years. We have and will continue to focus on four distinct areas, 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.

Regarding these four priorities:

- 1) Fraud and market manipulation present a significant risk to the markets the Commission oversees, and undermine the Commission's goal of ensuring provision of efficient energy services for consumers at reasonable cost.

- In fiscal year 2014, almost half of the investigations opened involved allegations of market manipulation or false statements.

- 2) Serious Reliability Standards violations compromise the public interest by threatening the reliable and secure operation of the bulk power system.

3-4) Anticompetitive and other conduct that impedes market transparency undermines consumer confidence in the wholesale energy markets.

"Turning to OE's accomplishments in Fiscal Year 2014, let me begin with DOI. DOI entered into 8 Commission-approved settlement agreements, assessing total civil penalties of approximately \$25 million and disgorging \$4 million, plus interest, in unjust profits. The settlements involved electric, gas, and hydro matters. They resolved, among other issues, violations of open access rules, the Commission's Anti-Manipulation Rule, and the Reliability Standards.

"Notably, during this fiscal year the Commission approved a settlement related to a self-reported violation of the Anti-Manipulation Rule by Direct Energy Services, the first self-report of this kind to result in a Commission-approved settlement. Importantly, Direct Energy received a relatively small civil penalty and disgorgement payments due to its self-reporting, strong compliance program, quick action, and full cooperation with Enforcement's investigation.

"Another important matter is the Commission's settlement of reliability investigations of Arizona Public Service Company and Imperial Irrigation District. The investigations arose out of a joint inquiry between the Commission and NERC into the September 2011 outage in Arizona, California, and Mexico, that left about 5 million or more individuals without power. Collectively, the two entities agreed to civil penalties of \$15.25 million, \$10.25 million of which is to be invested in reliability enhancement measures beyond Reliability Standards requirements. Further, in connection with the same outage, the Commission has also issued a Notice of Alleged Violations against four other entities¹.

"Enforcement staff's Division of Audits and Accounting completed 19 audits last year. These audits addressed financial and non-financial issues, generating 162 recommendations for corrective action and directing over \$11.7 million in refunds.

"Enforcement staff's Division of Market Oversight continued to monitor wholesale natural gas and electric markets to identify market anomalies, inadequate or flawed market rules, and potentially improper behavior. Market Oversight also presented the annual State of the Markets Report and seasonal Market and Reliability Assessments and continued ensuring compliance with the Commission's filing requirements such as Electric Quarterly Report filings.

"Finally, in fiscal year 2014, the Division of Analytics and Surveillance (DAS) reviewed instances of potential misconduct and referred matters to DOI for investigation. The Commission also continued to enhance its ability to conduct surveillance of the natural gas and electric markets and to analyze individual market participant behavior by gaining access to the Commodity Futures Trading Commission's (CFTC) Large Trader Report (LTR) data. DAS also led an extensive review of the Polar Vortex events that occurred in January and February of 2014 to determine whether potentially manipulative trading behavior contributed to the high natural gas prices and elevated electricity costs.

"A copy of the Annual Report is now available on the Commission's website. This concludes our presentation, and we are happy to answer any questions."

¹ Four other entities: The Western Electricity Coordinating Counsel, the California ISO, Southern California Edison Company and Western Area Power Authority-Desert Southwest Region.