



Federal Energy Regulatory Commission
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"Good morning Chairman Bay and Commissioners.

"Today, the Office of Enforcement is releasing its annual Report on Enforcement, which provides the public with information on the activities in fiscal year 2015 of all four OE Divisions: Analytics and Surveillance, Audits and Accounting, Energy Market Oversight, and Investigations. It describes both public and non-public Enforcement activities, including audit reports, market reports, market surveillance and data analysis, Commission-approved settlements, investigations, and self-reports.

"Enforcement staff prepared this report recognizing that a substantial portion of our investigative work is non-public and that the Commission's regulations and sound public policy generally require that we keep information regarding that work confidential. While this makes good sense, and certainly has merit as a policy matter, the lack of complete information may give the public and regulated entities an incomplete view of the Commission's enforcement program. For example, while the public can easily learn about the cases in which staff has found wrong-doing and has recommended further enforcement proceedings, it may not learn about the many others in which staff has found that the evidence justified closing its investigation. Accordingly, the public may not know that Enforcement closes the majority of its cases at a relatively early stage. This is important context to consider when OE decides to pursue a potential violation.

"We have attempted to provide greater transparency regarding the Commission's enforcement activities through these annual reports. As in previous years, staff has provided information regarding the investigations and self-reports that the Division of Investigations (or DOI) decided not to pursue and some of the specific factors that contributed to those decisions. We also have included some examples of factors that led staff to expand an investigation. Every case is different, of course, but we hope that this information is useful for regulated entities and the general public.

"In addition to the information regarding investigations, the annual report also discusses the Division of Audits and Accounting's efforts to ensure that jurisdictional entities comply with applicable laws and tariff provisions and its recommendations to enhance such compliance on a going-forward basis. The report also provides details regarding the Division of Analytics and Surveillance's (or DAS's) ongoing market surveillance programs and its analytical work on investigations. Finally, the report discusses the market analyses that the Division of Energy Market Oversight performed through its assessments of the competitiveness and efficiency of wholesale energy markets.

"As the annual report explains, OE's priorities have not changed over the past few years. We have focused, and will continue to focus, on four distinct areas: (1) fraud and market manipulation; (2) serious violations of the Reliability Standards; (3) anticompetitive conduct; and (4) conduct that threatens transparency in regulated markets.

"Enforcement staff's work in fiscal year 2015 generally addressed those four areas, and its accomplishments reflect that work. I now will turn to those accomplishments, starting with DOI.

"As you know, in recent years, the Commission has assessed civil penalties against a number of companies and individuals for violating its Anti-Manipulation Rule, and DOI staff filed actions in federal district court to enforce those penalty assessment orders. In fiscal year 2015, staff litigated six such actions in federal district court, seeking a total of more than half a billion dollars in civil penalties and disgorgement.

"DOI also continued its investigative work in fiscal year 2015. It opened 19 new investigations and closed

22. The majority of new investigations involved potential violations of the Commission's Anti-Manipulation Rule, and half of the new investigations resulted from referrals from DAS or the RTO/ISOs. Six of the investigations that it closed were closed through settlements.

"The most significant settlements related to investigation by FERC and NERC staff into the 2011 outage in the Southwest that left millions without power. DOI resolved that investigation in fiscal year 2015 by settling with four of the remaining companies and closing the investigation as to the fifth. These settlements, along with the two settlements approved last year, resulted in a total of \$37.9 million in civil penalties, much of which was offset by the companies' agreement to make investments to improve the reliability of the grid. Accordingly, the civil penalties will directly help to ensure reliable operation of the Western Interconnection – a fitting use of the money and a fitting end to the Commissions' investigation.

"Moving to other divisions, the Division of Audits and Accounting completed 22 audits of oil pipeline, public utility, and natural gas companies in fiscal year 2015, generating 360 recommendations for corrective action and directing refunds and recoveries totaling \$26.3 million. This reflects a substantial increase from fiscal year 2014, during which staff conducted 19 such audits and directed \$11.7 million in refunds and recoveries.

"The Division of Market Oversight continued to monitor wholesale natural gas and electric markets in fiscal year 2015 to identify market anomalies and inadequate or flawed market rules. It also presented the Commission's annual State of the Markets Report and seasonal Market and Reliability Assessments, prepared briefings for people inside and outside government, contributed to Commission agenda items and rulemakings, and reviewed compliance with the Commission's filing requirements, including the Electric Quarterly Reports.

"Finally, in fiscal year 2015, DAS analyzed market and other data in more than 30 investigations, and it continued to exercise and enhance its market surveillance capabilities. In particular, using Large Trader Report data from the CFTC, data provided by RTOs and ISOs under Order No. 760, e-Tag data provided under Order No. 771, and other sources, staff performed daily, weekly, and monthly screening of the wholesale natural gas and electricity markets to identify trading anomalies. It then analyzed those anomalies using other tools and information provided directly by the market participants and referred suspicious market conduct to DOI. In addition to this analytic and surveillance work, DAS also developed a Notice of Proposed Rulemaking regarding collection of connected entity data that, if adopted as a final rule, will enhance its screening and investigative activities and will reduce the number of informal inquiries that staff must make based on false surveillance screen trips.

"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."