



# FEDERAL ENERGY REGULATORY COMMISSION

NEWS

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Docket No. ER08-1281-000

NEWS MEDIA CONTACT

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## **FERC Orders NYISO, Neighboring Markets to Develop Loop Flow Solutions**

The Federal Energy Regulatory Commission (FERC) today ordered market operators in New York and neighboring regions to submit to FERC within six months a long-term, comprehensive solution to the Lake Erie "loop flow" issue. The Lake Erie loop flow issue gave rise last year to allegations that market manipulation and tariff violations increased market prices in New York.

The Commission has determined based upon its staff investigation of these allegations that there was no deception or fraudulent concealment and, thus, no market manipulation on the part of any market participants. The Commission also found no tariff violations. The Commission did determine, however, that there is a systemic pricing issue that impinges on customers in the New York Independent System Operator New York ISO as well as PJM and Midwest ISO. This pricing problem may affect customers in those regions either negatively or positively, depending on the direction of the loop flow. The Commission's order will result in correcting the problem for all regions involved, including New York ISO.

Today's Commission order approved the public release of a FERC Office of Enforcement staff report that outlines the nonpublic investigation into the matter.

### **Background**

The investigation stemmed from a referral by the internal market monitor of the New York ISO alleging that the placing of certain circuitous schedules around Lake Erie by market participants constituted market manipulation. In the spring of 2008, market participants noticed a substantial increase in their New York ISO bills. New York ISO ultimately determined that some of this increase was attributable to congestion resulting from the loop flow effects of these schedules. The most prominent of the schedules was a contract path that started in New York ISO, traversed two other markets and ended in PJM. A portion of the actual flows from this schedule did not follow the contract path, instead flowing clockwise around the lake. That exacerbated congestion within New York ISO.

### **Results of the Investigation**

Staff determined that the market participants placing these schedules were openly responding to price signals, were not artificially affecting those signals or deliberately affecting congestion in order to raise prices and therefore did not commit market manipulation.

Staff also determined that the rise in prices experienced by New York ISO customers in the spring of 2008 was attributable to several other causes besides the circuitous schedules. The portion attributable to the schedules substantially resulted from a lack of seams coordination among the regional market operators and



incentives created by New York ISO pricing changes that took effect in 2007. Both actions made the circuitous schedules attractive.

The report also discusses the elements needed to establish market manipulation, and concludes that the market participants did not engage in any activity that would constitute manipulation under the law. Staff determined that the circuitous schedules were openly placed with all legs of the transactions apparent on the scheduling tags, and that the market participants placing the schedules had never been advised to avoid the creation of loop flow or informed that substantial clockwise loop flow would result from their schedules. The report also notes that, in 2007 and historically, the loop flow had been predominantly counterclockwise which benefitted New York ISO by reducing congestion, but harmed PJM and Midwest ISO by increasing congestion.

### **Solutions to the Loop Flow Problem**

In light of the report's conclusions, and in light of the persistent problems arising from the loop flow phenomenon, FERC has ordered the New York ISO and other regional market operators to develop the solutions that address interface pricing and congestion management. New York ISO has 180 days to report the results and submit any associated tariff changes suggested by those solutions.