ISO declares FERC-ordered settlement with JPMorgan vindication for California ratepayers

FOLSOM, Calif. – The Federal Energy Regulatory Commission (FERC) today approved a historic $410 million settlement with JPMorgan, resolving an extensive investigation into market manipulation in the California and Michigan markets. Diligent market monitoring by the California Independent System Operator Corporation (ISO) to detect the bidding strategies and assist in the investigation has resulted in $124 million returning to California ratepayers.

The suspicious bidding behavior was first identified by the ISO in January 2011. The ISO gained quick approval by FERC to tighten market rules, limiting the financial exposure to the ISO market. JPMorgan, however, persisted in testing market rules, engaging in exploitative bidding behavior to capture tens of millions of dollars of excessive profits. After the ISO provided necessary evidence, FERC has acted to send every dollar in overcharges back to California ratepayers. With this settlement, FERC has exercised its full enforcement authority authorized by Congress under the Federal Power Act.

"The California ISO is extremely pleased with the FERC-ordered settlement with JPMorgan. This is a vindication for California ratepayers and for market participants who play by the rules and work to support an effective market," said ISO General Counsel Nancy Saracino.

The fact that JPMorgan's conduct was detected, stopped and punished illustrates the effectiveness of ongoing market oversight, which is essential for healthy competition. The California ISO continues to monitor energy trading with the same degree of vigilance the outcome of this case demonstrates.

"Our market safeguards are working," Saracino added. "FERC's office of enforcement acted swiftly when we reported the suspicious bidding behaviors, and this historic settlement demonstrates that FERC has delivered on its promise to protect the integrity of wholesale energy markets."

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In addition to the $68 million in disgorgement the ISO had requested in public filings with FERC since 2011, the settlement sends another $56 million back to California ratepayers associated with additional schemes the ISO market monitor had identified.

The settlement also references JPMorgan waiving all rights to pursue further legal proceedings. This includes a case JPMorgan filed in 2012, challenging the ISO's application of its tariff to mitigate high bids submitted by JPMorgan during times that the power plant units it controlled were needed for reliability purposes. To ensure that suppliers cannot exercise market power under certain conditions, FERC has approved rules requiring that suppliers be paid the market rate, rather than what they bid, when the units are needed for reliability.

The ISO applied those rules and mitigated JPMorgan's bids throughout 2012. The tariff rule worked to mitigate significant excess costs of $227 million in 2012, almost all of which is attributable to JPMorgan units. Those dollars were never paid out to JPMorgan; instead, JPMorgan received the same amount that other generators received for power that was delivered.

The second proceeding where JPMorgan is waiving its right to challenge an ISO action relates to a matter where the ISO had sought FERC's approval to resettle bid cost recovery payments because generators were overpaid due to a misapplication of the market rules. In June of this year, FERC ruled that the ISO could recover $52 million from generators who were overpaid, approximately $35 million of which was paid to JPMorgan. JPMorgan challenged that FERC decision by filing a rehearing request. Under the conditions of the settlement, it will forego the challenge.

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