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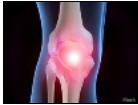
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## Manipulation of California energy market gives consumers a jolt



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The California Independent System Operator estimates that JPMorgan Chase & Co. may have gamed the state's power market for \$57 million in improper payments over six months in 2010 and 2011. (AFP/Getty Images / July 17, 2012)

By Michael Hiltzik  
*July 18, 2012*

The next time your electricity bill prompts you to curse your local utility, here's another target where you should direct your anger: JPMorgan Chase & Co., which has manipulated the California energy market for its own profit and at a cost to residents and businesses in the state that could be \$100 million, \$200 million or much more.

That's the accusation leveled by the [California Independent System Operator](#), which has jurisdiction over 80% of the state's electrical transmission. The ISO, a nonprofit corporation controlled by the state government, estimates that JPMorgan may have gamed the state's power market for \$57 million in improper payments over six months in 2010 and 2011.



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"You set up these rules," says Carl Wood, a former Public Utilities Commissioner who served during the California power crisis of 2000-01, "and you have all these very smart people figuring out how to game them."

Indeed, there are signs that trading scams are rife: FERC in December accused Deutsche Bank of manipulating the California market and in March extracted a \$245-million settlement from Baltimore-based Constellation Energy over charges it made manipulative trades in the New York market. (The Deutsche Bank determination is "preliminary" and subject to further investigation.)

But that could be just the tip of the iceberg: The bank continued its activities past that time frame, according to the ISO. It also says JPMorgan's alleged manipulation could have helped throw the entire energy market out of whack, imposing what could be incalculable costs on ratepayers.

The Federal Energy Regulatory Commission, the regulator of the ISO and its trading markets, has started [a formal investigation](#) into Morgan's allegedly manipulative energy deals in California and with the Midwest ISO, which covers 11 states from Michigan to Montana.

Forget JPMorgan's well-publicized multibillion-dollar trading loss in derivatives; this trade turned a handsome profit, and it came directly out of electric customers' hides. The toll may not have amounted to much for each of the 37 million men, women and children in California. But collectively it's a massive, illegitimate tax on the entire state.

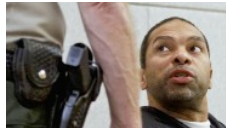
What's worse, it shows that we haven't learned anything from [Enron's bogus energy trading](#), the disclosure of which helped destroy that firm in 2001 and land several of its executives in jail. To the extent it was designed to exploit loopholes in energy trading rules, experts say, the scheme allegedly perpetrated by JPMorgan Ventures Energy Corp. is cut from the same cloth as Enron's infamous "fat boy" swindle, which cost the state's ratepayers an estimated \$1.4 billion in 2000.

"There's nothing really new under the sun," says Robert McCullough, a Portland, Ore., energy expert who reviewed the ISO complaint at my request. "But it's a cost you're paying in your monthly bill."

Asked for a response to the ISO's allegations, a JPMorgan spokeswoman referred me to a court brief the bank filed last week stating that its trading involved no misconduct and pointing out that FERC hasn't found any, to date. FERC says its inquiry is still at an early stage. But given the complexity of the energy market, this may be one of those cases in which the scandal lies not in what's illegal, but in what's legal.

One issue raised by this affair is whether government regulators have adequate tools to enforce trading rules. FERC's investigation could take years, and its maximum penalty is \$1 million per day of violation. If the agency hit JPMorgan for even six months of misbehavior, the \$180-million bill would be a pittance compared with the \$14 billion in revenue collected annually by JPMorgan's investment banking arm, which houses the energy trading.

The incentive remains for outfits like JPMorgan to stretch the rules to the breaking point — if they get caught, the cost is tolerable; if not, the returns are fabulous. This raises again the age-old question: Can Wall Street be trusted? And it suggests an age-old answer: no.



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These are trades that "don't create jobs or economic value," says Tyson Slocum, director of the energy program at the public advocacy organization Public Citizen.

Hints of JPMorgan's behavior leaked out this month, when FERC went to court to demand unedited versions of emails it had subpoenaed from the bank. News reports generally treated FERC's demand as little more than a PR embarrassment for Morgan.

But the email dispute is a sideshow. The center ring should belong to the underlying allegations of manipulation. These involve an energy trading unit the bank set up in 2005 as part of a plan to make money via short-term trading in a broad range of commodities with rapidly changing prices, including electricity. JPMorgan doesn't actually own any plants providing power to California, but holds contracts with generators allowing it to offer their power in trading markets.

The California ISO hasn't been very forthcoming with details of JPMorgan's alleged misdeeds. Its public filings don't even name the bank; it was FERC's court brief that fingered JPMorgan.

The ISO's language describing the scheme is impenetrable to a layman. Here's a piece of [its original filing](#) with FERC, untranslated from the original gibberish:

"The use of a particular bidding practice, in conjunction with the application of the metered energy adjustment factor to the calculation of market revenues used to offset bid costs, resulted in overpayment of bid cost recovery amounts to specific resources."

ISO refused our request to put that in plain English. With the assistance of McCullough and other experts, however, we've unwound what JPMorgan is actually accused of doing in the ISO and FERC filings. Be prepared: It's no less ugly for being diabolically simple.

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[Add / View comments](#) | [Discussion FAQ](#)**Guerro** at 8:39 AM July 19, 2012

As usual, "business" columnist Hiltzik can't see the big picture. While JPM-Chase has its transgressions, the real evil is in Sacramento. We're paying phenomenal taxes on our energy bills, and with AB32, rates are set to rise at least 30-50% in coming years, all to address the myth of global warming, climate change, or what sane people call "weather".

Meanwhile, our president dances a jig. "Under my plan of a cap and trade system, electricity rates would necessarily skyrocket." (1/17/2008, SF Chronicle interview).

I see Hiltzik crying no tears over the pending bankruptcies of Natural Gas producers, who are seeing rates plummet once again so low that there is no point to retrieve and store the product, while our so-called energy policies triple the price of corn to make ethanol.

**Kurfco** at 4:04 PM July 18, 2012

Everyone on here should read this LA Times piece from 2000 that lays out the debacle of the WAY California "deregulated" electricity. We are still living with the fallout from a typical California mess. <http://www.commondreams.org/headlines/120900-01.htm>

Note that the vote to "deregulate" was unanimous and spearheaded by a Democrat. Note also that as early as 2000, when the law was young, the mess it caused was already evident. What have we done about it since? Nada.

So, Hiltzik, turn your ink and aim at the problem, Sacramento.

**antilemning** at 11:02 AM July 18, 2012

The Gramm–Leach–Bliley Act (GLB), also known as the Financial Services Modernization Act of 1999, (Pub.L. 106-102, 113 Stat. 1338, enacted November 12, 1999) is an act of the 106th United States Congress (1999–2001). It repealed part of the Glass–Steagall Act of 1933, removing barriers in the market among banking companies, securities companies and insurance companies that prohibited any one institution from acting as any combination of an investment bank, a commercial bank, and an insurance company. With the passage of the Gramm–Leach–Bliley Act, commercial banks, investment banks, securities firms, and insurance companies were allowed to consolidate. The legislation was signed into law by President Bill Clinton..and thus JP Morgan and company were given the green light to rape and pilage the poor and uninformed.

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