U.S. Agency: JPMorgan Manipulated Power Prices

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WASHINGTON (AP) — U.S. energy regulators are accusing JPMorgan Chase & Co. of manipulating electricity prices in 2010 and 2011.

The Federal Energy Regulatory Commission said in an enforcement notice Monday that the bank used improper bidding strategies to squeeze excessive payments from the agencies that run the power grids in California and the Midwest.

JPMorgan has reportedly been in negotiations with the regulator to reach a settlement over the allegations. The agency recently levied a $453 million fine on Barclays, Britain's second-largest bank, for manipulating electricity prices in California and other western states. Barclays is disputing the allegations.

The notice could be a prelude to a settlement with New York-based JPMorgan, which is the largest U.S. bank.

JPMorgan spokesman Brian Marchiony declined to comment.

FERC's enforcement staff said its investigation had found improper trading practices were used at the company's Houston-based subsidiary, JPMorgan Ventures Energy Corp.

The energy unit used five "manipulative bidding strategies" in California between September 2010 and June 2011, and three in the Midwest from October 2010 to May 2011, FERC said. The agency that runs the Midwestern power grid, now called the Midcontinent Independent System Operator, covers all or parts of 15 states and the Canadian province of Manitoba.

JPMorgan Ventures Energy has contracts with power generating companies to trade their electricity. FERC said the JPMorgan traders offered to sell electricity at artificially low prices in a "day-ahead" market, so that companies would put their plants on standby mode to quickly generate energy. That would allow JPMorgan to earn special fees for putting the power plants on standby mode.

Later, the traders would offer to sell electricity from the plants at higher prices in the market for last-minute energy needs, according to FERC.

FERC suggested in court documents a year ago that bidding practices in JPMorgan's commodities trading business "may have been designed to manipulate" the markets.

The alleged conduct was brought to FERC's attention in 2011 by the California Independent System Operator, the agency that runs the state's power grid.

JPMorgan said Friday that is considering selling off part of its physical commodities business, which includes metals as well as energy. The company said the possibility of new regulations was one of the factors behind the decision to look at a potential sale or partnership. Big Wall Street banks like JPMorgan are facing increased scrutiny of their involvement in businesses that store and transport commodities such as oil and aluminum. A Senate committee held a hearing last week into whether banks should be allowed to control power plants, warehouses and oil refineries.

FERC, an independent agency that regulates the interstate transmission of electricity, oil and natural gas, gained expanded authority to monitor possible manipulation of energy markets as a result of the Enron scandal in 2001. Market abuses by Enron and other trading firms resulted in rolling blackouts throughout California during the summer of that year. FERC was empowered to impose fines of as much as $1 million per violation per day, compared with the previous limit of $10,000 per violation.

The states that are served by the Midcontinent Independent System Operator are Michigan, Minnesota, Wisconsin, Iowa, Missouri, Illinois, Indiana, Kentucky, North Dakota, South Dakota, Montana, Texas, Louisiana, Arkansas and Mississippi.