



COMMITTEE ON
ENERGY & COMMERCE
DEMOCRATS
RANKING MEMBER FRANK PALLONE, JR.

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Pallone on Financial Trading in Electricity Markets

Washington, D.C. – *Energy and Commerce Committee Ranking Member Frank Pallone, Jr. (D-NJ) delivered the following opening remarks today at a Subcommittee on Energy hearing on “Powering America: Examining the Role of Financial Trading in the Electricity Markets.”*

Today we are examining the role financial trading plays in our nation’s electricity markets. This is a fairly technical, yet important aspect of the management of energy delivery, and it is certainly worthy of greater scrutiny.

Under the Federal Power Act, the Federal Energy Regulatory Commission, known as FERC, oversees electricity markets and the physical and virtual products traded within them. FERC specifically authorizes energy market participants’ physical and virtual trading under tariff-based rules and protocols.

Financial tools, which include things like derivatives and financial transmission rights, can play a positive role in electricity markets. They do this by providing liquidity, by helping participants to hedge risk associated with a volatile commodity and by mitigating market power distortions. This makes for a more efficient market and, ideally, lower prices for consumers.

However, financial instruments can also create opportunities for bad actors to engage in market manipulation –and that is something that has been and continues to be of concern to me. I am particularly concerned about large banks and financial institutions that participate in the market purely to seek profit. Some of the biggest market manipulation cases taken by FERC involve big banks like JP Morgan Chase, which agreed to a \$410 million settlement in 2013. Similarly, Barclays recently settled a market manipulation action brought by FERC for \$105 million, and no longer engages in any trading transactions.

Electricity is a commodity unlike any other, both in physical terms and in terms of its importance to our everyday lives. While I do understand the benefits these financial tools can provide consumers, producers and transmitters of electricity, I remain skeptical of the role that pure traders and big banks play in this market. At a minimum, we must have strong

standards and vigorous enforcement against market manipulation to ensure reasonable rates for consumers.

I want to thank our witnesses for participating today and yield the balance of my time.

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