Arizona Community Action Association

Barclays Refusal to Admit Electricity Market Manipulation Leaves Thousands of Poorest Americans Stuck with Higher Utility Bills

Broad Coalition Calls For Barclays to Admit Mistakes and Pay Into the Low Income Home Energy Assistance Program in Time for the Winter Heating Season

Federal regulators concluded that Barclays manipulated West Coast electricity markets, and must pay a $435 million civil penalty to the US Treasury and refund $34.9 million in "unjust profits" to the poorest households in California, Arizona, Oregon and Washington. Barclays' refusal to pay leaves thousands of victims of the bank's 2-year long manipulation scheme paying higher utility bills. We demand that Barclays admit to its violations and pay what is owed to some of America's poorest families. Barclays' failure to pay will force the Federal Energy Regulatory Commission (FERC) to sue in court to compel the bank to pay what is owed. The resulting court proceedings could take years to resolve, leaving the West Coast's poorest families suffering as a result.

Millions of working families pay their utility bills on time. The government's case against Barclays is clear and overwhelming, yet the bank refuses to pay what is owed. Barclays must make things right.

FERC issued an 85-page order on July 16 detailing how Barclays engaged in complex, uneconomic trading activities solely to benefit its interests in complex "financial swap" transactions by manipulating West Coast power prices. For two years, the bank manipulated electricity prices by making corresponding bets in both the physical and financial power markets. FERC noted that Barclays' physical trades weren't responding to supply/demand fundamentals, but rather allowing the bank to profit from its related financial swap positions.

FERC released copies of messages written by various Barclays traders involved in the schemes, with one bragging how he price-gouged California ratepayers: "I just started lifting the piss out of the [P]alo [Verde Hub, a key price-point for the state's electricity market]." The trader commented, "was fun. need to do that more often." That was in 2006. The manipulation continued for another two years, with FERC estimating a cost to market participants of $139.3 million.

FERC only ordered Barclays to refund $34.9 million based on its calculation of Barclays' profits on its swap transactions—an amount far less than the $139.3 million the manipulation scheme cost ratepayers. Acknowledging the harm to consumers caused by Barclays' market manipulation, FERC ordered all of the unjust profits to go to the four affected states' Low Income Home Energy Assistance Programs (LIHEAP). LIHEAP provides critical assistance for America's poorest families to help pay utility bills.

Funds for LIHEAP are needed to help struggling families. The $34.9 million from Barclays' unjust profits would be distributed to states to help families who can least afford increases to energy bills due to market manipulation. California's LIHEAP program would receive $21.987 million; Arizona, $6.631 million; Oregon, $3.141 million; and Washington, $3.141 million. LIHEAP assistance helps low-income families pay their heating and cooling bills. This critical health and safety program has suffered severe cuts in federal funding -- 36 percent since FY 2010. National surveys of LIHEAP recipients have documented their extreme need for energy assistance as eligible families report sacrificing food, medical attention and other necessities to heat their homes in the winter, and cool their homes in summer. Barclays should take its medicine and immediately pay into the states' LIHEAP program in time for the upcoming winter heating season.

Sadly, this electricity market manipulation is only the latest in a string of schemes by big banks that created significant financial harm to Americans.

In June 2012, the US Commodity Futures Trading Commission and the US Department of Justice together forced Barclays to pay $360 million for the bank's role in manipulating the London Interbank Offered Rate (LIBOR), with a corresponding £59.5 million fine imposed by Britain's Financial Services Authority. Barclays' LIBOR-rigging distorted the interest rates paid by millions of Americans.

Just this month, Barclays agreed to pay $36.1 million to settle allegations the bank engaged in unfair subprime home mortgage marketing practices in Massachusetts.

Given the multitude of bank manipulation schemes that are occurring in electricity markets (reflected in recent FERC enforcement actions against Barclays, JPMorgan and Deutsche Bank), it is clear that power markets are not automatically producing "just and reasonable" rates at all times, as required by law. So in addition to demanding that Barclays pay $34.9 million into the four states' LIHEAP programs, we ask that FERC undertake an evidentiary hearing to examine whether or not the organized markets deliver "just and reasonable" rates. The public's confidence in organized markets is undermined by repeated and continued market manipulation, and there is nothing in these settlements that addresses whether the inherent structure of the markets is adequately protecting consumers.

In addition, it has become clear that household consumers lack an adequate voice before FERC. We therefore call for the creation of an office of consumer advocate at FERC that would authorize intervenor funding for groups representing household consumers, providing critical assistance for consumers and enhancing the representation of households before FERC.