



Federal Energy Regulatory Commission

# Case Study: Cross Product Manipulation

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- any individual Commissioner



# Case Study: Cross Product Manipulation

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- Uneconomic trading, transport, or asset management in physical markets...
  - Physical gas transactions
  - Gas pipeline transportation
  - Gas storage injections/withdrawals
  - Physical power transactions
- To increase value of financial derivative position



# Case Study: Cross Product Manipulation

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- Hurricane Ike makes landfall in Texas on September 13, 2008
- Demand and prices at Houston Ship Channel decline
- Market participant sees its short financial derivative position increase in value
- Market participant devises a scheme to keep prices depressed



# Case Study: Cross Product Manipulation

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- Increased sales volume at Houston Ship Channel (HSC)
- Increased pipeline transport to HSC
- Short financial position made \$3.5 million in profit in September
- Increased short financial positions for October and November 2008



# Case Study: Cross Product Manipulation

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- Tool: Physical gas sales and pipeline transport to HSC
- Target: HSC daily indexes
- Incentive: Short financial positions which settle off HSC daily index



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# U.S. Electricity Markets

## Case Study: False Information

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# Case Study: False Information

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- **Pair of generators received relatively high out-of-market payments.**
  - Observed by Market Monitor and Surveillance
  
- **FERC OE opened an investigation**



# Case Study: False Information

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- **Dual Fuel Generators**
- **Gas caused operational problems**
- **Repairs - Run on oil (more expensive)**
  - Asked ISO for higher reference levels (prices)



# Case Study: False Information

Federal Energy Regulatory Commission

- **Reference levels**
  - ISO's estimate of generator's production cost
  - heat rate and fuel cost
  - relevant if the generator runs out of market
  - "made whole" to reference level



# Case Study: False Information

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- **Findings:**

- Repairs completed; ISO not notified
- Ran on gas; paid on oil
  - several years
  - misleading, inaccurate, or incomplete communications



# Case Study: False Information

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- **Violation: FERC's regulation 35.41(a)**
  - ISO tariff compliance
    - timely notify ISO to adjust reference level, based on changes of fuel types and fuel prices
  
- **Violation: FERC's regulation 35.41(b)**
  - accurate information
  - not omit material information



# Case Study: False Information

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- **Remedy:**
  - Settlements with ISO and FERC
  - \$400k penalty from ISO
  - \$400k penalty from FERC
  - \$450k unjust profits disgorged



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# U.S. Electric Markets

## Abusive Practices: Case Studies

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# Hypothetical Settlement Games

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**Stream of dollars that flows from a source other than being paid the competitive the price for the product you offer.**

**Inappropriate to try to adjust your strategy - ignoring fundamental criteria – to capture funds from this stream of dollars.**



# Hypothetical Settlement Games

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## Market Status v. Self Commit Status

- **Market Status**
  - submit an offer
  - If you clear, unit is dispatched at the clearing price
- **Self Commit Status**
  - You agree to be dispatched at whatever the clearing price may be

## Make Whole Payments

- Market status only
- If the market price doesn't allow the unit to cover its costs, the market will award a make whole payment to the unit



# Hypothetical Settlement Games

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Hour 1: Self

Hour 2: Self

Hour 3: Self

Hour 4: Self

Hour 5: Self

Hour 6: Self

Hour 7: Self

Hour 8: Self

Hour 9: Market

Hour 10: Market

Hour 11: Market

Hour 12: Market

Hour 13: Market

Hour 14: Market

Hour 15: Market

Hour 16: Market

Hour 17: Market

Hour 18: Market

Hour 19: Market

Hour 20: Market

Hour 21: Self

Hour 22: Self

Hour 23: Self

Hour 24: Self



# Hypothetical Settlement Games

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Hour 9: Market (+€500)  
Hour 10: Market (+€400)  
Hour 11: Market (-€250)  
Hour 12: Market (+€100)  
Hour 13: Market (-€200)  
Hour 14: Market (+€400)  
Hour 15: Market (-€100)  
Hour 16: Market (-€350)  
Hour 17: Market (-€200)  
Hour 18: Market (-€300)  
Hour 19: Market (-€200)  
Hour 20: Market (-€100)

**-€300**

Qualify for a MWP

€300

Net: -€300+€300

= €0



# Hypothetical Settlement Games

Federal Energy Regulatory Commission

Hour 9: Market (+€500)  
Hour 10: Market (+€400)  
Hour 11: Market (+€50)  
Hour 12: Market (+€100)  
Hour 13: Market (+€100)  
Hour 14: Market (+€400)  
Hour 15: Market (+€50)  
Hour 16: Market (-€350)  
Hour 17: Market (-€200)  
Hour 18: Market (-€300)  
Hour 19: Market (-€200)  
Hour 20: Market (-€100)

**+€450**

No MWP

Net: +€450+€0

= +€450



# Hypothetical Settlement Games

Federal Energy Regulatory Commission

Hour 9: Self (+€500)  
Hour 10: Self (+€400)  
Hour 11: Self (+€50)  
Hour 12: Self (+€100)  
Hour 13: Self (+€100)  
Hour 14: Self (+€400)  
Hour 15: Self (+€50)

+ €1600

Hour 16: Market (-€350)  
Hour 17: Market (-€200)  
Hour 18: Market (-€300)  
Hour 19: Market (-€200)  
Hour 20: Market (-€100)

- €1150

Qualify for a MWP

€1150

Net: -€1150+€1150

= €0