

From: McSwain, William M.
Sent: Tuesday, May 29, 2012 8:52 AM
To: 'Steven Tabackman'
Cc: 'James Owens'
Subject: Notes from Richard Wallace

Steve:

As you requested after Richard Wallace's deposition, attached are bates-stamped copies of Mr. Wallace's notes from the meeting with Alan Chen on September 29, 2011, with redactions. You'll see that the notes verify that Dr. Chen described his spread trading strategy during that meeting. For example, the notes state that:

"He was looking for pairs where one leg would fail"
"If one side is rejected you could lose or make a lot of \$"
"For the fully hedged trades they were often \$35 & less"

5/31/2012

"Some UTC trades were [] as low as \$15"

"Sometimes the paired trades were not exact in terms of volume. This amounts to a directional bet."

Bill

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May Contain Privileged and Confidential Attorney-Client Communication

CF. Alan Chan

9/29/2001

TJM Day ahead market

Dispatch mode.

Settle the price.

Real Time Market

Supply/Demand

RTM - DAM = Settlement
Price

Up to - converge

Evale O'Donnell - White Case

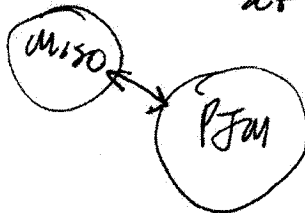
Bill McSwain

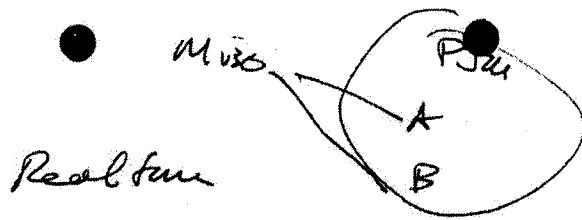
John Scott's TBS

Kevin Gruber -

Dan - White Case

up to 400 to have
at least one node





Real form

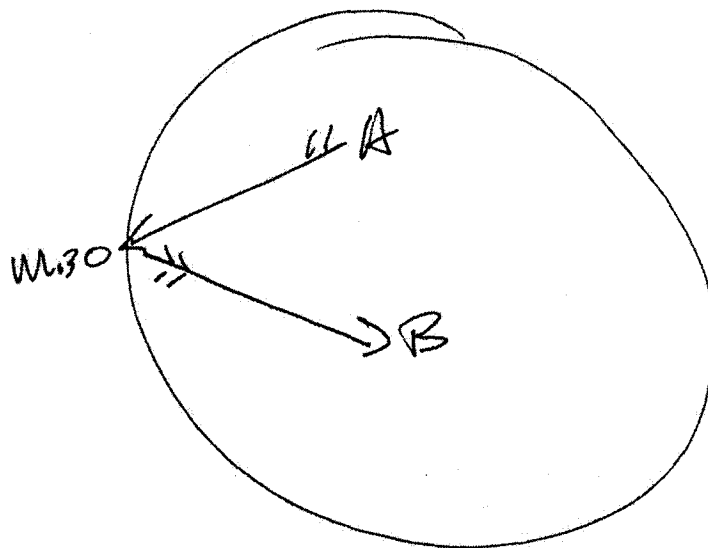
Inputs

$$UTC: PL (RT_A - RT_{Miss}) - (DAA - DA_{Miss})$$

$$(RT_A - DAA) - (RT_{Miss} - DA_{Miss})$$

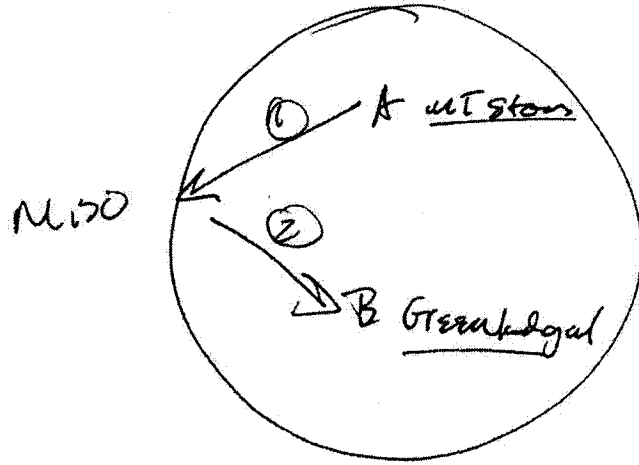
Some nodes are good for export
 some nodes are good for import.

Export PL: $(RT_{Miss} - DA_{Miss}) - (RT_B - DAB)$



in the equation the miss washes out.

Powered tractors, but not fully
 hedged.



DA miso \$25

DA Mt. Stora 35

DA Greenhage 36

RT Miso \$40

Mt. Stora \$50

Green \$150 \$150

① ~~RT Mt. Stora - RT Miso~~
~~\$50 - \$35 =~~

② Export P/L
 $(150 - 36) - (40 - 25) = \79
RT Green - DA Miso - (RT Miso - DA Miso)

③ Export P/L
 $(40 - 25) - (50 - 35) = 0$
RT Miso - DA Miso - (RT Mt. Stora - DA Miso)

Profit for ①+② = \$79/mwh.

Costs of Trade

① System control dispatch
PJM - overhead
20¢/MWh

② Transmission
Zero transmission for western
67¢/MWh for eastern

③ \$15¢/MWh MWh - Black start
- reactive supply.

Total fixed cost is 50¢/MWh

Repaid costs is > fixed costs.

Is there any benefit to the trader
from this.

~~Fully Hedged~~

If price between A and Miso
or Bare Miso $\rightarrow > \$50$
you can't do the trade

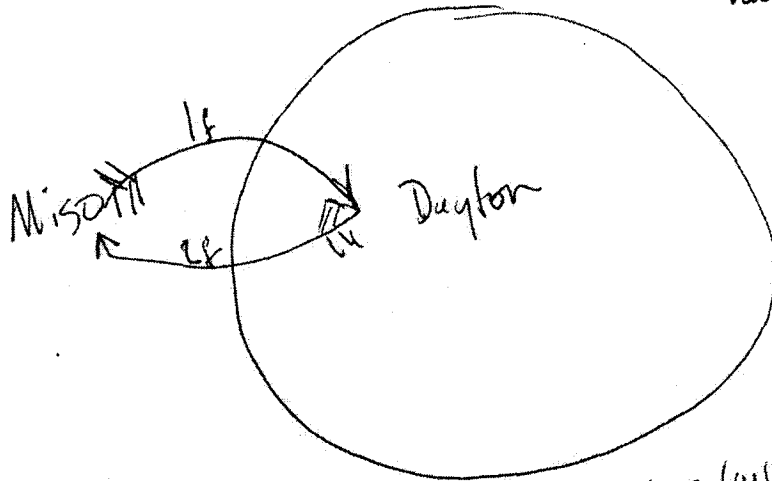
5/29/2010

Miso — Greenleaf
Miso — Miso

Cost \$1,000,000
over two days

6/1/2011 fully hedged

Miso ← A
Miso — A



If Both legs
approved you
have only costs
we require
Cost \$0.50/m
Miso \$0.10 to
\$1.50.

\$50/mw limit on 16 and
28.

Both the costs and the TLC both
varied. TLC tends to be higher
in wet weather.

REDACTED

DA Dayton ~~to~~ Damiso > \$50
transaction is cancelled.

If our side is rejected
you could lose or make a lot
of \$.

Buy put leg is most likely to fail.

For the fly wheel trades
they were offered \$35.00 &
less.

He was looking for pairs when
~~our~~ our leg would fail.

Some UTC trades are
at as low as \$15

After 6/1/2010

TLC was higher
than he expected.

Estimated TLC at \$5/MM

Turns out to be \$0.96/MM.

Ben should see whether
the TLC might not exceed
costs.

What would drive the decision
as to what level to set the
UTC limit ~~to~~ depends.

LUNCH

12:45

Told Main to chop off.
Significant upside.

PJM goal is minimize cost.

Sometimes the paired
trades were not exact
in terms of volume.

This amounts to a directional
bet.

of trades which were directional
may be 50/50

Value of bets is more than in
period.

Most trades by any measure in
less than \$50/UTC.

① OASIS to do the transmission reservation. \$674/MW

② BBS — put in the price.

You can see the OASIS position

You cannot see the BBS information

OASIS shows source and rate and volume.

Reservation can be larger than the bid.

Chen started 9/2007
trading

9/11/2009 first res

TLC send him short letter
refuel 12/3/2007 to point

Had not attempted in discussion

ReWhitten starts trading 5/1/2008

Oct 2009 First month when
he knew there would be a TLC

Retroactive refunds &
active refunds.

By Feb 2010 he has 2 1/2
yrs of TLC refund data.

1st ~~response~~ response was to increase
the volume of the trades.

May 30

REDACTED

5/29 - Start Bunker.

M140 ~~over~~ M+ Star
M140 → Grenade Corp

loses \$400,000 worst day

Went bankrupt

May 31 stopped trading for 1 day

Decided to do the trades B/A and A.

He always saw it as 2 trades.