

Samuel Backfield

From: James Owens
Sent: Monday, December 08, 2014 2:18 PM
To: Bryan Hansen
Cc: Samuel Backfield
Subject: Re: Data Request to Bryan Hansen Docket No. IN10-5-000

Thank you Mr. Hansen. Just for our records and so we can put this to bed, I see that you may have misplaced the declaration statement. Would you mind printing that statement ("I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct"), sign and date it, and send us a copy either in hard copy or as a scanned image? We really appreciate it.

Best,
-James

From: Bryan Hansen <bhansen9999@gmail.com>
Sent: Monday, December 8, 2014 12:33 PM
To: James Owens
Subject: Re: Data Request to Bryan Hansen Docket No. IN10-5-000

Dear Mr. Owens,

Below are my responses to the questions you provided me via email on November 19, 2014. I apologize for taking so long in getting this to you.

1. I have been trading power for approximately 7 years. I primarily trade UpToCongestion in PJM, though I have also traded financial power via swaps on ICE, physical power between the ISO's, and inc's and dec's in PJM, MISO and NYISO.
2. I do not believe I have ever been investigated by FERC.
3. Yes, after being laid off by Conectiv Energy in the spring of 2010 the three of us (Steele, Ganjoo, and myself) formed an informal entity to evaluate our options for starting our own power trading company or finding an existing company to hire us as a group. Mr. Ganjoo left the group after we had a falling out over him not being willing to enter into a non-compete with a prospective employer. Mr. Steele and I began working for Round Rock Energy shortly after Mr. Ganjoo left. Mr. Steele is both a personal and professional friend. My relationship with Mr. Ganjoo was mostly professional in nature and I have not spoken with him since we had the falling out. I do not have any contact information for Mr. Ganjoo.
4. I am currently employed by Dufossat Capital Management where I trade UpTo Congestion in PJM.
5. During the relevant period I had not heard the name Powhatan. I knew the organization as TFS Capital. The only direct electronic communication I recall having with anyone at TFS Capital was on 7/19/2010 when I emailed Kevin Gates to schedule an interview. He responded latter that day. We must have communicated further since the emails do not conclude with us deciding on a date and time of the interview, however I do not recall how we communicated on the final date and time. I

have copies of the email I sent on 7/16/10 to Mr. Gates and his response. I am not aware of any other communication between myself and Powhatan.

6. My memory from the summer of 2010 is not great. Steele, Ganjoo, and I met with several potential employers/financers that summer, some of whom we met with on multiple occasion. I believe I met with individuals from TFS Capital on two occasions. I believe the first meeting was on 7/7/2010 at the TFS Capital office in West Chester, PA. I think Steele, Ganjoo and myself met with Kevin Gates and possibly one or two other individuals from TFS. The second meeting was a more formal interview. I do not know the exact date, but it was sometime between 7/16 and 8/6. I believe I met with both the Gates brothers, one individual from the accounting/finance side of the organization, and one from the operational/trading side. I do not have any recording or notes from my meetings.

7. I do not recall many specifics from the meetings. I do remember some mention that they already had an individual trading Up-To Congestion. I do not recall them mentioning anything at all about their employee's power trading strategy. I do remember one person from the trading/operational side of the business speaking briefly about their equities trading strategy. At some point during that summer I became aware of the issues surrounding the Marginal Loss Surplus allocation, and that the trader from TFS was involved.

8. I do not recall any mention of their specific Up-To Congestion trading strategy

9. No

10. No

11.

a. What I meant was that in the upcoming meeting there was going to be a presentation about some recent problems in the Up-To congestion Market. I was concerned that whatever rule change was adopted to solve the "problem" would significantly change how Up-To Congestion trades worked. The "problem" stemmed from recent rule changes that made transmission reservations associated with Up-To Congestion transactions eligible for a portion of Marginal Loss Surplus. Then in the spring/summer of 2010 the per megawatt dollar amount of the Marginal Loss Surplus that was allocated to transmission reservations associated with an Up-To Congestion transaction was more than what it cost to purchase the transmission reservation in the first place. This created an incentive for market participants to purchase as many MW's of transmission reservations as possible, and associate it with very low risk (or no risk) Up-To Congestion transactions. I thought the upcoming meeting was going to address the behavior that this situation incited market participants to engage in.

b. WPC = Willing to Pay Congestion. The most common transmission reservation for Up-To Congestion transactions was Point-to-Point, Hourly, Non-Firm, Willing To Pay Congestion reservations.

c. I did not word that sentence well. All market participants received a Marginal Loss Surplus allocation for transmission reservations associated with Up-To Congestion transactions. However it was clear that "some Up-To Congestion players" were making Up-To Congestion transactions just to collect the surplus allocation. I do not recall where I first learned about this. The situation unfolded over several months and I believe I figured it out from a combination of my own observations of the publicly available transmission reservations database (OASIS) and through conversations with any number of other individuals who worked in the industry.

d. I honestly do not remember. I was more concerned with possible changes to the Tariff and the future of Up-To Congestion

- e. I did not learn about this at one time. As I recall I pieced it together from my own observations and from talking with people who worked in the industry. The situation first came to light because at one point many (most?) traders were not able to enter Up-To Congestion trades at all since a few market participants were reserving ALL the Available Transmission Capacity immediately after it became available.
 - f. I had been talking to essentially everyone I knew in the industry about the issue. This issue first came to everyone's attention because a few market participants were, presumably, using custom software to reserve all the Available Transmission Capacity every day. This essentially locked everyone else out of the market. Many people saw me as a good resource on that issue since my background is in computer programming. I also spoke with these same people about the different proposals that were presented in the various PJM stakeholder meetings and which solutions would be best. I did not particularly speak to people about who was making the problematic transmission reservations; mostly I spoke about technical solutions to the problem, and later about which market changes would be in our best interest. I am aware of a few emails that I exchanged with colleagues about the PJM stakeholder process, but I am not aware of any additional documentation regarding TFS Capital, the Gates brothers, the names of the market participants who were reserving excessive amounts of transmission capacity, or participants who received a "windfall".
 - g. I was not actively trading Up-To Congestion during the relevant period because I was not employed or affiliated with any organization that had FERC market based rate authority.
12. They were proposing amendments to the tariff to solve the disincentives to a properly functioning power market that were created by the marginal loss surplus allocation being larger than the amount required to purchase transmission capacity that was entitled to that allocation.
13. No
14. No,
- a. N/A
 - b. No, I did not attend the meeting, I do not know if Steele or Ganjo attended the meeting.
- 15.
- a. I am not sure the term "game" is appropriate. In my opinion, one of the functions of financial-only market participants is to find issues with both the design of the power the markets, and the day-to-day functioning of the power markets. Taking advantage of the Marginal Loss allocation issue is no different than taking advantage of a persistent mispricing of LMP nodes in the Day Ahead and Real Time markets. These situations are resolved by more and more markets participants taking advantage of the issue until the issue is resolved because it becomes uneconomical, or there are systemic changes made. i.e. changes to physical power grid or changes to the design of the market itself.
 - b. The PJM stakeholder process was trying to find a solution to the problem of the Marginal Loss allocation being larger than the cost of a transmission reservation.
 - c. We were essentially referring to the same thing, but since I was just beginning to fully understand the situation, I may have been confounding two different situations. The first situation was the one I have been talking about here... The activity that resulted from the per Mw marginal loss surplus allocation being larger than the per Mw cost of a transmission. The second situation could more accurately be called a windfall. In the fall of '09 (I believe) FERC ordered that transmission reservations associated with Up-To Congestion transactions should be allocated a portion of the Marginal Loss Surplus. FERC also ruled that this allocation should have been paid since Marginal Losses were introduced into the market. So when PJM issued the back payments in the fall of 2009 many market

participants received a large payment that could be called a windfall. As I mentioned I may have been confusing those two situations initially.

d. When Steele and I worked together at Conectiv, our strategy did not even account for the Marginal Loss Surplus Allocation at all. It appeared that some participant's strategy had been to target just the loss allocation, by engaging in large amounts of very low or zero risk trades solely to receive the allocation. We did not employ this strategy since. 1. The accounting system at Conectiv did not properly attribute that the allocation to our trades. 2. We were not employed (or at least actively trading) during the period when the loss allocation was larger than the cost of transmission.

16. No, I was not aware of this email

a. I agree with the factual information in Steele's summary. I do not agree that these transactions were "no risk" or a "free arb(itage)", since (I believe) one could not know ahead of time that the Marginal Loss Surplus allocation was going to be more than the total fixed cost of the Up-To Congestion transaction.

b. The same thing I've stated several times already. Market participants who submitted Up-To Congestion transactions were allocated a share of the Marginal Surplus, in the spring/summer of 2010 the per MWh Marginal Loss surplus allocation was larger than the fixed cost of an Up-To Congestion Transaction. This created an incentive for participants to submit Up-To Congestion transactions that had very little (or in some cases zero) risk of the Up-To Congestion transaction making or losing money. These low risk Up-To Congestion would normally lose money since the fixed cost of the transaction was \$0.67/Mwh plus ~\$0.05 of other fees. However these transactions were also receiving a credit of up to \$1.80 per Mwh from the Marginal lose surplus; which made them profitable.

c. No. I do not agree that this activity was "rank manipulation". As stated above, it is my opinion that it is not market manipulation to profit from flaws in the design of the energy markets.

d. I do not know.

e. I do not know.

f. No, They were simply taking advantage of poorly designed market rules.

g. I had not heard of Powhatan during this period. I believe I learned that Mr. Chen was one of the individuals that had engaged heavily in this behavior from Bob Steele who I believe was told by Kevin Gates. I never learned of any other market participants having any association with Powhatan or TFS Capital.

Bryan Hansen

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