



argusmedia.com

Argus News & Analysis

PJM trader, FERC battle over \$30mn fine

Washington, 18 December (Argus) — The outcome of an investigation that accuses a power trader of making millions of dollars from allegedly fraudulent trades intended to capture rebates from the PJM Interconnection could provide needed clarity on Federal Energy Regulatory Commission (FERC) enforcement authority.

FERC yesterday ordered trader Alan Chen and three funds he worked for to rebut the allegations or face nearly \$30mn in fines. The order was based on a staff report that found Chen made \$10.1mn in rebates from “round trip trades” that were allegedly made in circular loops to cancel out the risks of losses.

The report accuses Chen, along with investors at Powhatan Energy Fund, of pursuing “sham” up-to congestion trades — bets on where power congestion will occur — to maximize trading volume to boost rebate payments. At the time the trades occurred, they could receive rebates for power line losses that could make a trade profitable even if an offsetting trade was made.

The long-running investigation has sparked a debate about whether FERC has overstepped its authority. Powhatan has launched a public fight against the probe, saying the trades fully adhered to PJM’s rules at the time. Chen and Powhatan deny the transactions were “sham” trades and argue they faced legitimate risks.

Powhatan principal Kevin Gates told Argus today that the investigation might not necessarily end up in court because the commission could still drop it. He defended Chen and his trades, saying Chen was “in the middle of a political war that is destroying his life.” Chen did not respond to comment.

FERC member Philip Moeller at the commission’s open meeting in Washington, DC, today noted that the order did not mean FERC endorsed the staff report’s findings. Moeller said FERC would consider the full record to determine if penalties are appropriate.

Send comments to feedback@argusmedia.com

Power

illuminating the markets

Trademark notice:

ARGUS, ARGUS MEDIA, the ARGUS logo, DEWITT, FMB, FUNDALYTICS, METAL-PAGES, JIM JORDAN & ASSOCIATES, JJ&A, ARGUS publication titles and ARGUS index names are trademarks of Argus Media Limited. Recipients are free to redistribute or photocopy this document as needed. © Copyright 2014. Argus Media Ltd.