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Energy

Powhatan Energy Fund Continues Battle With FERC Over Alleged Trading Violations

Powhatan Energy Fund LLC is ramping up its battle with the Federal Energy Regulatory Commission over market manipulation charges with a filing Aug. 27 requesting internal commission documents related to the case.

The filing, known as a Brady request, seeks any materials that would be exculpatory or reduce any penalty that may be assessed against Powhatan.

Powhatan is requesting a wide range of materials such as staff e-mails and notes, witness statements, memoranda of commissioners, internal agency documents, tape recordings and other documents not normally shared in FERC market investigations.

Going Public With Defense. Powhatan, a Philadelphia hedge fund founded by Kevin and Richard Gates, declined to settle the case. They are pursuing a high-profile contest with FERC over its market manipulation rules.

The Gates brothers launched an Internet website that makes commission documents and confidential correspondence available to the public that have historically remained private.

The FERC investigation involves electricity trading in the PJM Interconnection LLC in the summer of 2010 (Docket No. IN10-5-000).

The FERC Office of Enforcement issued a staff notice of alleged violations Aug. 5 (152 DER A-14, 8/7/14).

FERC enforcement staff alleges that the hedge fund's trading strategy took advantage of a complex financial trading program in the PJM Interconnection LLC involving transmission congestion charges and line losses called "up to congestion" transactions.

FERC staff said Powhatan's trader, Houlian "Alan" Chen, implemented a trading strategy that involved placing "millions of megawatt hours" of offsetting trades between the same two trading points in an effort to capture almost \$5 million in payments.

The strategy amounted to "wash trades" that cancel each other out and are prohibited by the commission, FERC staff said. Powhatan denies the charges.

Kevin Gates told Bloomberg BNA Aug. 27 that FERC is looking at several other companies that conducted similar trading strategies in PJM during the same time period.

More violation notices are likely, Gates said.

City Power Receives Notice. City Power Marketing LLC and K. Stephen Tsingas, the principal owner, were issued a FERC notice of alleged violations Aug. 25 in a similar case.

"I'm hopeful we'll reach a resolution in this case," Jeff Ifrah, City Power's attorney told Bloomberg BNA.

City Power violated FERC anti-manipulation rules "by making false statements and omitting material information during the investigation," the FERC staff notice said.

The City Power investigation also involves electricity trading in PJM during the summer of 2010. FERC alleges the company engaged in manipulating transmission congestion trading in order to secure refunds from the grid operator.

The first FERC investigation involved Oceanside Power LLC and Robert Scavo. The firm reached a settlement in February 2013 with disgorgement of \$29,563 and a civil penalty of \$51,000 (IN10-5-000).

By LYNN GARNER

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