

Reproduced with permission from Daily Report for Executives, 152 DER A-14, 8/7/14. Copyright © 2014 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

## Energy

### **FERC Staff Accuses Powhatan Fund Of Violating Market Manipulation Rules**

**T**he Federal Energy Regulatory Commission has issued a staff notice accusing the Powhatan Energy Fund LLC and its chief trader of violating market manipulation rules governing wholesale electricity markets.

FERC's Office of Enforcement issued Aug. 5 a notice of alleged violations that said Powhatan and Houlian "Alan" Chen, who also traded for the HEEP Fund Inc. and CU Fund Inc., engaged in manipulative trading in the regional markets operated by the PJM Interconnection LLC between June 1 and Aug. 3, 2010.

The staff notice said the hedge fund's trading strategy took advantage of a complex PJM financial trading program involving transmission congestion charges and line losses called "up to congestion" transactions.

FERC staff said Chen's trading strategy 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, the staff notice said.

Powhatan didn't respond to a request for comment.

**Fighting Back.** However, the firm's founders, two brothers named Kevin and Richard Gates of Philadelphia, have challenged FERC's allegations with a high-profile publicity campaign.

The Gates brothers launched a website that makes commission documents and confidential correspondence available to the public that typically remain private.

FERC began its investigation four years ago (Docket No. IN10-5-000).

**Bay's Role Targeted.** The Powhatan investigation surfaced as an issue during the confirmation process for Norman Bay, who was confirmed by the Senate July 15 as a commissioner.

Bay was sworn in Aug. 4 and is supposed to take over as chairman in April (150 DER A-3, 8/5/14).

Bay's aggressive style as FERC's market enforcement director over the past four years has created a backlash within the industry and in Congress over perceived ambiguity in FERC's market manipulation standards.

By LYNN GARNER

To contact the reporter on this story: Lynn Garner in Washington at [lgarner@bna.com](mailto:lgarner@bna.com)

To contact the editor responsible for this story: Heather Rothman at [hrothman@bna.com](mailto:hrothman@bna.com)