

**CALIFORNIA STATE SENATE  
BEFORE THE  
SELECT COMMITTEE TO INVESTIGATE PRICE MANIPULATION OF THE  
WHOLESALE ENERGY MARKET**

**RESPONSE OF PG&E NATIONAL ENERGY GROUP, INC. TO THE COMMITTEE'S  
MAY 30, 2002 DATA REQUEST LETTER TO PACIFIC GAS AND ELECTRIC  
COMPANY**

PG&E National Energy Group, Inc. ("NEG") on behalf of its subsidiary, PG&E Energy Trading – Power, L.P. ("ET"), its former subsidiary, PG&E Energy Services Corporation ("Energy Services"), prior to the sale of Energy Services in June of 2000, and its current subsidiary, PG&E Energy Services Ventures, Inc. (which assumed the few remaining contracts that were not conveyed with the sale of Energy Services), respectfully submits its response to the Select Committee to Investigate Price Manipulation of the Wholesale Energy Market ("Committee") data request letter issued May 30, 2002 to Pacific Gas and Electric Company ("May 30 Letter").

ET and Energy Services are the only subsidiaries of NEG that offered electricity to the California Independent System Operator ("CAISO") or the California Power Exchange during 2000-2001. NEG is a subsidiary of PG&E Corporation, which also owns Pacific Gas and Electric Company. NEG and its subsidiaries operate separately from Pacific Gas and Electric Company, which will submit a separate response to the May 30 Letter. NEG has no knowledge of the trading activities of affiliates of PG&E Corporation that are not subsidiaries of NEG.

Understanding that all page and paragraph references are to the December 6, 2000 memorandum from Christian Yoder and Stephen Hall of Stoel Rives to Richard Sanders of Enron, entitled Trader's Strategies in the California Wholesale Power Markets/CAISO Sanctions ("Memorandum"), NEG provides its response below regarding the trading activities of its

subsidiaries in the wholesale power market of the U.S. portion of the Western Systems Coordinating Council (“WSCC”) during the years 2000 and 2001. Although the questions are directed to PG&E, NEG’s response reflects only the actions and knowledge of NEG and its subsidiaries. NEG and its subsidiaries became aware of other Market Participants’ actions through publicly available materials in the media, through the pending Fact-Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices proceeding at the Federal Energy Regulatory Commission (“FERC”) in Docket Number PA02-2-000, from this Committee, from Congressional inquiries and from public statements issued by other entities including the CAISO. NEG interprets this Committee’s request for information about NEG’s knowledge of other Market Participants’ actions to exclude information NEG and its subsidiaries obtained through the above-mentioned public sources.

## **I. RESPONSES TO QUESTIONS**

1(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in A. The Big Picture, 1. “Inc-ing” Load into The Real Time Market, Pages 1-3 of the Memorandum?

Although not specifically requested, NEG states that ET engaged in a variant of “inc-ing load” following ET’s consultation with CAISO representatives and with the full knowledge of the CAISO, in order for ET to offer energy into the CAISO’s Real-Time market.

As previously discussed with the CAISO in early 2000, ET offered energy into the CAISO’s Real-Time market during the period 2000 and 2001. In order to participate in the Real-Time market, the CAISO Tariff required the submission of a schedule showing supply equal to load. At that time, ET did not serve load. During a meeting with CAISO and ET personnel, CAISO’s representative explained to ET that other Market Participants that did not serve load (like ET) were able to offer energy directly into the CAISO's Real-Time market by

submitting a balanced schedule showing: (i) the amount of energy such participant had available for the Real-Time market; and (ii) an equal amount of load. Forty-five days after the end of each month, such participants would submit data showing actual load (which would be zero), and the CAISO would settle with such participants based on the “decremental” clearing price for the energy.

The CAISO representatives then explained that, to participate, ET would need to execute the CAISO Meter Services Agreement, to be downloaded from the CAISO website. This Agreement established the terms and conditions upon which ET would provide certain settlement data, including its actual load. Since ET had no actual load when it signed this Agreement, the sections in the Agreement requiring specific information to identify meters and describe load profiles were completed with “N/A.” ET and the CAISO executed the Agreement on April 26, 2000. The CAISO filed the Agreement with the FERC on May 8, 2000, and obtained FERC acceptance of that Agreement on June 22, 2000, with an effective date of April 26, 2000. Following the effective date of this Agreement, and as previously discussed with the CAISO, ET complied with CAISO requirements to submit a balanced schedule. Thereafter, ET submitted meter data reflecting a zero load until August 2001. At that time, ET began to serve small loads (between 3 and 26 MW), and these loads were reported in the meter data that was submitted.

Following the issuance of the FERC order of December 15, 2000, *San Diego Gas & Electric Company*, 93 FERC ¶ 61,294 (2000), CAISO representatives confirmed with ET that there were “no penalties” for overscheduling load to offer energy directly into the Real-Time market.

For ET, these practices were the method, based on advice from the CAISO, by which ET could offer energy directly into the CAISO’s Real-Time market.

1(b). NEG responds “No” to the following question:

Is PG&E, aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in A. The Big Picture, 1. “Inc-ing” Load Into The Real Time Market, Pages 1-3 of the Memorandum?

As discussed above in response to Question 1(a), CAISO’s representative explained to ET that other Market Participants that did not serve load (like ET) were able to offer energy directly into the CAISO's Real-Time market by submitting a balanced schedule. Accordingly, NEG was generally aware that other Market Participants may have engaged in variants of “inc-ing” by offering energy directly into the CAISO’s Real-Time market by submitting balanced schedules. In addition, NEG understood that the Automated Power Exchange ("APX") offered a service to customers to allow them to participate in the CAISO’s Real-Time market. However, NEG did not have knowledge of any specific instances in which Market Participants engaged in this conduct.

2(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 1. a. and b. Export of California Power, page 3 of the Memorandum?

2(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 1. a. and b. Export of California Power, page 3 of the Memorandum?

NEG was generally aware that other Market Participants may have engaged the above-referenced conduct. However, NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

3(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B.

Representative Trading Strategies, 2. a., b., c. and d., “Non-firm Export,” pages 3 and 4 of the Memorandum?

3(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 2. a., b., c. and d., “Non-firm Export,” pages 3 and 4 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

4(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 2.[sic] a., b., c., d. and e., “Death Star,” pages 4 and 5 of the Memorandum?

4(b). NEG responds “No” to the following question:

Is PG&E aware of any Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies. 2.[sic] a., b., c., d. and e., “Death Star,” pages 4 and 5 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

5(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, B. a., b., c., d., e. and f. “Load Shift” page 5 of the Memorandum?

5(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 3. a., b., c., d., e. and f., “Load Shift” page 5 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

6(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies 4, a., b., c., d., e, and f., “Get Shorty,” pages 5 and 6 of the Memorandum?

6(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 4. a., b., c., d., e. and f., “Get Shorty,” pages 5 and 6 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

7(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 5. a., b. and c., “Wheel Out,” page 6 of the Memorandum?

7(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 5. a., b. and c, “Wheel Out,” page 6 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

8(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 7. a. and b., “Ricochet” pages 6 and 7 of the Memorandum?

8(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 7. a. and b., “Ricochet,” pages 6 and 7 of the Memorandum?

NEG was generally aware that other Market Participants may have engaged in the referenced conduct. NEG learned from the CAISO in late 2000 that the Los Angeles Department of Water Power (“LADWP”) may have engaged in this conduct, but NEG does not have specific knowledge about this. NEG is providing an internal e-mail discussing the extent of NEG’s knowledge about the LADWP matter. However, NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

9(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 8. a., b. and c., selling Non-firm Energy as Firm Energy, page 7 of the Memorandum?

9(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies 9. a., b. and c., Selling Non-firm Energy as Firm Energy, page 7 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

10(a). NEG responds “No” to the following question:

Did PG&E engage in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 9. a. and b., Scheduling Energy To Collect the Congestion Charge II, page 7 of the Memorandum?

10(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who engaged in the conduct, acts and strategies set forth in B. Representative Trading Strategies, 9. a. and b., Scheduling Energy To Collect the Congestion Charge II, page 7 of the Memorandum?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

11(a). NEG responds “No” to the following question:

Has CAISO, CERS or any entity ever requested from PG&E the submission of “fictitious load”?

11(b). NEG responds “No” to the following question:

Is PG&E aware of any other market participant who has engaged in the scheduling of resources against a fictitious load?

As discussed above in response to Question 1(a), CAISO’s representative explained to ET that other Market Participants that did not serve load (like ET) were able to offer energy directly into the CAISO's Real-Time market by submitting a balanced schedule. In addition, although not specifically requested, NEG is attaching materials that it received from APX offering to assist sellers in submitting balanced schedules to sell into the CAISO’s Real-Time market. However, NEG did not have knowledge of any specific instances in which particular Market Participants engaged in the above-referenced conduct.

11(c). NEG responds “No” to the following question:

Does PG&E know of any instance in which a similar request has been made of another market participant?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

11(d). NEG explains below the process by which NEG and its subsidiaries submitted load schedules to CAISO. NEG did not submit a load schedule to CERS.

On a daily basis, ET’s traders informed ET’s scheduling coordinator how power for the CAISO should be allocated. Using this information, the scheduling coordinator electronically submitted a schedule showing balanced load and generation to the CAISO, by 1:00 p.m. eastern time, through a secure We-Net platform. Pursuant to the CAISO Meter Services Agreement, the scheduling coordinator electronically transmitted meter data to the CAISO forty-

five days later, in a format compatible with CAISO's MDAS software. The transmitted meter data reflected the actual load served. See the above response to Question 1(a) for an additional description of how ET offered energy directly into the Real-Time market.

12. NEG responds "No" to the following questions:

Has PG&E ever received a request from CAISO, the California Power Exchange ("CalPX"), or a market participant:

- a. To raise or lower the price of a bid that PG&E had already submitted?
- b. To place a bid in a specified market, at specified time, or at a specified price?

13. NEG responds "No" to the following questions:

Is PG&E aware of any market participant who has received a request from, CAISO, CalPX or a market participant:

- a. To raise or lower the price of a bid that has already been submitted?
- b. To place a bid in a specified market, at specified time, or at a specified price?

14(a). NEG responds "No" to the following question:

Has PG&E ever intentionally provided CAISO with inaccurate information regarding its energy resources and loads?

NEG never intentionally provided CAISO with inaccurate information. See the response to Question 1(a), describing how ET offered energy directly into the Real Time market.

14(b). NEG responds "No" to the following question:

Is PG&E aware of any other Market Participant who has intentionally provided CAISO with inaccurate information regarding its energy resources and loads?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct. See NEG's responses to Questions 1(b) and 11(b) above.

15(a). NEG responds "No" to the following question:

Has PG&E ever intentionally reported an inaccurate “net short” position to the CERS?

15(b). NEG responds “No” to the following question:

Is PG&E aware of any other Market Participant who has intentionally reported an inaccurate “net short” position to the CERS?

NEG did not have knowledge of any specific instances in which particular Market Participants engaged in this conduct.

16. NEG responds “No” to the following question:

Has PG&E ever engaged in an alliance, partnership, or profit sharing arrangement with any other market participant?

NEG further states that in 2001, NEG agreed to purchase Ramco, a company with which NEG had jointly developed two peaking sites in California. Although NEG does not believe the arrangement with Ramco falls within a narrow definition of an alliance, partnership or profit-sharing arrangement, NEG is providing copies of its FERC section 203 filing regarding this matter.

## **II. REQUESTS FOR COPIES OF RESPONSES TO FERC’S MAY 21, 2002 AND MAY 22, 2002 DATA REQUESTS**

NEG is providing a hard copy of its submission to the FERC in response to the data requests issued May 21, 2002 and May 22, 2002. All supporting documents contain proprietary information or are otherwise protected from disclosure, and are so marked. NEG requests that the Committee keep these documents private and confidential as provided in the Confidentiality Agreement executed on January 2, 2002 by Greg Schmidt, Executive Officer of the Committee on Rules.