

149 FERC ¶ 61,278  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;  
Philip D. Moeller, and Tony Clark,

MISO Cinergy Hub Transactions  
(Twin Cities Power – Canada, Ltd.,  
Twin Cities Energy, LLC,  
Twin Cities Power, LLC,  
Jason F. Vaccaro,  
Allan Cho,  
Gaurav Sharma)

Docket No. IN12-2-000

ORDER APPROVING STIPULATION AND CONSENT AGREEMENTS

(Issued December 30, 2014)

1. The Commission approves the four attached Stipulation and Consent Agreements (Agreements) between the Office of Enforcement (Enforcement) and Twin Cities Power – Canada, Ltd., Twin Cities Energy, LLC, and Twin Cities Power, LLC (collectively, Twin Cities), and Jason F. Vaccaro, Allan Cho, and Gaurav Sharma (collectively, the Traders). This order is in the public interest because it resolves on fair and equitable terms Enforcement’s investigation under Part 1b of the Commission’s regulations, 18 C.F.R. Part 1b (2014), into whether Twin Cities and the Traders violated the Commission’s Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014) by manipulating electricity prices in the Midcontinent Independent System Operator, Inc. (MISO) from January 2010 through January 2011 in order to benefit their related financial positions.
2. Twin Cities admits to the violations and agrees to pay a civil penalty of \$2,500,000 and disgorgement of \$978,186 plus interest. Twin Cities will also implement measures designed to ensure compliance in the future, including submitting compliance reports for four years.
3. The Traders neither admit nor deny the violations and agree to pay civil penalties as follows: Jason Vaccaro, \$400,000, Allan Cho, \$275,000, Gaurav Sharma, \$75,000. Additionally, the Traders agree to physical trading bans as follows: Jason Vaccaro for five years, Allan Cho for four years, Gaurav Sharma for four years. The Traders will also

implement measures designed to ensure compliance in the future, including submitting compliance reports.

## **I. Background and Investigation**

4. As described in the Agreements, from January 1, 2010 through January 31, 2011 (Relevant Period), Twin Cities was actively engaged in trading and scheduling physical power between MISO, PJM Interconnection, L.L.C. (PJM) and Ontario, Canada's Independent Electricity System Operator (IESO).

5. Twin Cities also traded a number of financial products, including products referencing physical prices at the MISO Cinergy Hub, such as the MISO Cinergy Hub Balance-of-Day Swap (Bal-Day Cin) traded on IntercontinentalExchange, Inc. (ICE).<sup>1</sup>

6. The investigation focused primarily on Twin Cities' physical power flows and their relationship with Twin Cities' financial positions, including Bal-Day Cin. Bal-Day Cin was a daily fixed-for-floating financial swap that settled by an exchange of payments. The fixed price was the traded contract price, and the floating price was the simple average of the hourly LMPs at the MISO Cinergy Hub. For this reason, changes in physical prices impacted the price of Bal-Day Cin.

7. Enforcement determined that on 144 days during the Relevant Period (Days of Interest), Twin Cities engaged in a consistent pattern of flowing physical power in the direction of its financial swaps. Twin Cities imported power into MISO when it held a short swap position, or exported power from MISO when it held a long swap position. Moreover, Twin Cities' financial positions were larger than its physical positions, such that the increase in the value of Twin Cities' swaps exceeded the losses from its physical flows.

8. Enforcement determined that on Days of Interest, Twin Cities' physical flows mirrored changes in its financial positions. Twin Cities' physical power flows were not intended to get the best price and were not in response to market fundamentals. Rather, Twin Cities' intent was to move prices at the MISO Cinergy Hub in order to benefit their

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<sup>1</sup> On January 1, 2012, the Cinergy Hub moved from MISO to PJM. The remaining MISO nodes that constituted the Cinergy Hub were renamed the Indiana Hub. As such, the MISO Cinergy Hub Bal-Day contract no longer trades, replaced by the Indiana Hub Bal-Day contract.

financial swap positions, including Bal-Day Cin. Twin Cities' physical power flows on Days of Interest were occasionally profitable, but over time they produced significant losses. However, Twin Cities' physical power flows consistently resulted in gains to, or avoided losses from, its financial swap positions. Enforcement determined that, during the Relevant Period, the Traders' financial swap positions benefitted by \$978,186 from the manipulative scheme.

9. Enforcement concluded that Twin Cities and the Traders each violated the Commission's Anti-Manipulation Rule, 18 C.F.R. 1c.2 (2014). That rule prohibits any entity from using a fraudulent device, scheme or artifice, or engaging in any act, practice, or course of business that operates or would operate as a fraud; with the requisite scienter; in connection with a transaction subject to the jurisdiction of the Commission.

## **II. Stipulation and Consent Agreement**

10. Enforcement staff, Twin Cities and the Traders resolved Enforcement's investigation by means of the attached Agreements.

11. Twin Cities and the Traders stipulate to the facts recited in their respective Agreements. Twin Cities admits that it violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014). The Traders neither admit nor deny a violation of the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014).

12. Twin Cities agrees to disgorge to MISO \$978,186 plus interest. Twin Cities also agrees to pay a civil penalty of \$2,500,000 and to submit to four years of compliance monitoring.

13. The Traders agree to pay civil penalties as follows: Jason Vaccaro, \$400,000; Allan Cho, \$275,000; Gaurav Sharma, \$75,000. The Traders further agree not to engage in scheduling or trading of physical electric power at wholesale in interstate commerce as follows: Jason Vaccaro for five years, Allan Cho for four years, and Gaurav Sharma for four years. The Traders further agree to certain compliance reporting and training obligations as detailed in their respective Agreements.

### **III. Determination of the Appropriate Sanctions and Remedies**

14. In determining the appropriate remedy for Twin Cities, Enforcement considered the factors described in the Revised Policy Statement on Penalty Guidelines,<sup>2</sup> including the fact that Twin Cities accepted responsibility for its violations and avoided a trial-type hearing.
15. In determining the appropriate penalties for the Traders, Enforcement considered the factors described section 316A of the Federal Power Act (FPA).<sup>3</sup>
16. The Commission concludes that the Agreements are a fair and equitable resolution of the matters concerned and are in the public interest, as they reflect the nature and seriousness of the conduct and recognize the specific considerations stated above and in the Agreements.
17. The Commission also concludes that Twin Cities' civil penalty is consistent with the Revised Policy Statement on Penalty Guidelines,<sup>4</sup> and that the Traders' penalties are consistent with section 316A of the FPA.<sup>5</sup>
18. The Commission emphasizes that using physical power flows to influence physical prices for the purpose of enhancing the value of financial positions violates the Commission's Anti-Manipulation Rule.

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<sup>2</sup> *Enforcement of Statutes, Orders, Rules and Regulations*, 132 FERC ¶ 61,216 (2010).

<sup>3</sup> 16 U.S.C. § 825o-1(b); *Enforcement of Statutes, Regulations & Orders*, 123 FERC ¶ 61,156, at PP 54-71 (2008) (*Revised Policy Statement on Enforcement*).

<sup>4</sup> *Enforcement of Statutes, Orders, Rules and Regulations*, 132 FERC ¶ 61,216 (2010).

<sup>5</sup> 16 U.S.C. § 825o-1(b); *Revised Policy Statement on Enforcement*, 123 FERC ¶ 61,156, at PP 54-71.

The Commission orders:

The attached Stipulation and Consent Agreements are hereby approved without modification.

By the Commission. Commissioner Bay is not participating.

( S E A L )

Kimberly D. Bose,  
Secretary.

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

MISO Cinergy Hub Transactions  
(Twin Cities Power – Canada, Ltd.  
Twin Cities Energy, LLC,  
Twin Cities Power, LLC)

Docket No. IN12-2-000

STIPULATION AND CONSENT AGREEMENT

**I. INTRODUCTION**

1. Staff of the Office of Enforcement (Enforcement) of the Federal Energy Regulatory Commission (Commission), and Twin Cities Power – Canada, Ltd. (TCP Canada Limited), Twin Cities Energy, LLC (TCE) (collectively, Twin Cities Canada), and Twin Cities Power, LLC (TCP) enter into this Stipulation and Consent Agreement (Agreement) to resolve a non-public investigation conducted by Enforcement pursuant to Part 1b of the Commission’s regulations, 18 C.F.R. Part 1b (2014). The investigation examined whether Twin Cities Canada violated the Commission’s Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014), by scheduling and trading physical power into and out of markets operated by the Midcontinent Independent System Operator, Inc. (MISO) in order to benefit related swap positions that settle off of real-time MISO prices, including the MISO Cinergy Hub Balance-of-Day Swap (Bal-Day Cin) traded on IntercontinentalExchange, Inc. (ICE), during the period January 1, 2010 through January 31, 2011 (Relevant Period).

2. Twin Cities Canada admits that it violated 18 C.F.R. § 1c.2 (2014), and agrees to pay disgorgement of \$978,186 plus interest (calculated pursuant to 18 C.F.R. § 35.19a(a)(2)) to MISO, and to pay civil penalties of \$2,500,000. The penalties shall be paid to the United States Treasury.

3. Twin Cities Canada and TCP further agree to implement certain procedures to improve compliance going forward, subject to monitoring via submission of semi-annual reports for four years, as detailed in the following paragraphs of this Agreement.

**II. STIPULATED FACTS**

Enforcement and Twin Cities Canada hereby stipulate and agree to the following facts.

4. TCP Canada Limited is a successor business entity to Twin Cities Power – Canada (ULC) (TCP Canada Unlimited). TCP Canada Unlimited was formed in Alberta, Canada on January 29, 2008 as an unlimited liability corporation, with all membership interest held by TCE. During the Relevant Period, TCP Canada Unlimited’s offices were located in Calgary, Alberta, Canada. Following the Relevant Period, TCP Canada Unlimited converted to Twin Cities Power – Canada Ltd., a Canadian limited liability company. TCP Canada Limited ceased operations in September 2012.
5. TCE, formerly known as Alberta Power, LLC, is a Minnesota limited liability company located in Lakeville, Minnesota. TCE has never had any employees, but during the Relevant Period did have Commission authorization to charge market-based rates for wholesale power sales. As a result of a contractual arrangement, and given TCP Canada Unlimited did not have Commission authorization, TCP Canada Unlimited traders traded through TCE. TCE provided the capital and created and maintained accounts for the majority of the trading conducted by TCP Canada Unlimited.
6. During the Relevant Period, TCE contracted with TCP, a Minnesota limited liability company, to provide oversight and back office support to TCP Canada Unlimited, including accounting, legal, risk and regulatory compliance.
7. TCE stopped all business activity in September 2012 and cancelled its market-based rate authority effective March 27, 2012.
8. During the Relevant Period, TCP Canada Unlimited employed three traders that were the focus of Enforcement’s investigation: Allan Cho, Jason Vaccaro, and Gaurav Sharma (collectively, the Traders).
9. The Traders are Canadian citizens residing in Calgary, Alberta, Canada.
10. Cho was the president, a director and head trader at TCP Canada Unlimited. Cho was responsible for managing all traders and overseeing all trading activities at TCP Canada Unlimited.
11. Vaccaro had been appointed by Cho as a Vice-President of TCP Canada Unlimited. Vaccaro scheduled power on his own behalf and for others at TCP Canada Unlimited, and was also a financial trader.
12. Sharma was primarily a financial trader who also at times scheduled physical power.

13. Initially TCP Canada Unlimited had only Cho and Vaccaro as employees. However, during the Relevant Period, TCP Canada Unlimited employed approximately fifteen people, approximately eleven of whom were traders.

14. Several months prior to the commencement of the investigation, on February 1, 2011, the Traders were all terminated.

15. The investigation focused on the Traders' physical imports and exports between MISO and PJM Interconnection, L.L.C. (PJM), and MISO and Ontario, Canada's Independent Electricity System Operator (IESO).

16. The basic economics of power scheduling between Independent System Operators (ISOs) can be described as follows. A physical power flow between two ISOs captures the difference in prices at the point where the two ISOs interface. If a trader purchases power in one ISO and flows it to an ISO with a higher price, the transaction will be profitable. If a trader purchases power in one ISO and flows it to an ISO with a lower price, the transaction will be unprofitable.

17. The investigation also involved several financial products, but focused primarily on Bal-Day Cin. On January 1, 2012, the Cinergy Hub moved from MISO to PJM. The remaining MISO nodes that constituted the Cinergy Hub were renamed to Indiana Hub. As such, the MISO Cinergy Hub Bal-Day contract no longer trades, replaced instead by the Indiana Hub Bal-Day contract.

18. Bal-Day Cin was a daily fixed-for-floating financial swap traded on ICE that contained no obligation to deliver or receive physical electricity and was settled by an exchange of payments. The buyer of the fixed-for-floating financial swap paid a fixed price and received a floating price. The seller received the fixed price and paid the floating price. For Bal-Day Cin, the fixed price was the traded contract price. The floating price was the simple average of the hourly LMPs at the Cinergy Hub. Because the Bal-Day Cin contract definition referenced physical prices at the Cinergy Hub, changes in physical prices impacted the price of Bal-Day Cin.

19. On certain days during the Relevant Period (Manipulation Days), the Traders flowed physical power for the purpose of moving physical prices at the Cinergy Hub, intending to benefit financial swap positions referencing Cinergy Hub physical prices.

20. On Manipulation Days, one or more of the Traders engaged in a consistent pattern of flowing physical power in the direction of their financial swaps. The Traders imported power into MISO to increase supply when they held a short swap position, or exported power from MISO to decrease supply when

they held a long swap position. Additionally, the Traders consistently and intentionally flowed large volumes of physical power in the direction of their financial positions with the intent to move prices at the Cinergy Hub.

21. On Manipulation Days, the Traders' pattern of physical flows mirrored changes in their financial positions, with the Traders consistently adding to their financial positions while proportionally increasing their power flows and consistently decreasing their power flows or not flowing any power after their financial positions were reduced or eliminated.

22. The Traders' physical power flows were not intended to get the best price and were not in response to market fundamentals. The Traders' trading on Manipulation Days was occasionally profitable, but over time produced significant losses. However, these physical power flows consistently resulted in gains to, or avoided losses from, the Traders' financial swap positions.

23. On Manipulation Days, one or more of the Traders' financial positions was leveraged relative to their physical power flows, so the gains from swaps exceeded the losses from physical flows, making the overall scheme financially attractive. During the Relevant Period, the Traders' financial swap positions benefitted by \$978,186 from the manipulative scheme.

24. In addition to the trading patterns staff observed, during the course of the investigation staff obtained a significant number of communications, including instant messages between the Traders, indicating the Traders' manipulative intent and describing how the manipulation operated.

### **III. VIOLATIONS**

25. Enforcement determined that Twin Cities Canada violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014) by engaging in certain trades during the Relevant Period. That rule prohibits any entity from using a fraudulent device, scheme or artifice, or engaging in any act, practice, or course of business, that operates or would operate as a fraud; with the requisite scienter; in connection with a transaction subject to the Commission's jurisdiction.

26. As set forth above, Enforcement concludes that Twin Cities Canada flowed physical power for the purpose of influencing physical prices in order to benefit its financial swap positions. The Commission has repeatedly held that such physical-financial cross-market manipulation violates the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2.

### **IV. REMEDIES AND SANCTIONS**

27. Twin Cities Canada and TCP cooperated fully with Enforcement's investigation.

28. Twin Cities Canada and TCP stipulate to the facts as described in Section II of this Agreement, and admit that Twin Cities Canada's conduct violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2. For purposes of settling any and all civil and administrative disputes arising from Enforcement's investigation, Twin Cities Canada and TCP agree to the remedies set forth in the following paragraphs.

**A. Disgorgement**

29. To settle the violations referenced above, Twin Cities Canada shall disgorge \$978,186 plus interest (calculated pursuant to 18 C.F.R. § 35.19a(a)(2)) to MISO, for distribution to market participants affected by Twin Cities Canada's actions described herein. The manner or conditions of payment are to be determined by MISO.

**B. Civil Penalties**

30. Twin Cities Canada agrees to a total civil penalty in the amount of \$2,500,000 which it shall pay to the United States Treasury.

**C. Compliance Reporting and Compliance Monitoring**

31. Twin Cities Canada and TCP shall institute new policies and associated processes for capturing and retaining all emails and instant messages sent or received by all employees through company accounts on company-owned computers and electronic devices. Twin Cities Canada and TCP must retain such communications in a manner and format that makes them readily searchable and reproducible. Twin Cities Canada and TCP shall retain such communications for a period of three years from the date of the communication.

32. Twin Cities Canada and TCP shall institute new compliance policies and associated processes aimed specifically at detecting potentially manipulative trading, including but not limited to cross-market manipulation.

33. Twin Cities Canada and TCP shall improve training for their traders, supervisors, and managers regarding the Commission's regulations governing energy trading, including adherence to the tariffs in the organized markets in which they participate.

34. Twin Cities Canada and TCP shall make semi-annual compliance monitoring reports to Enforcement for four years following the Effective Date of this Agreement. The first semi-annual compliance monitoring report must be submitted no later than ten days after December 31, 2014. The remaining reports must be submitted no later than ten days following each six month interval thereafter. The reports must: (1) identify any known violations of Commission regulations that occurred during the reporting period, including a description of the nature of the violation and what steps were taken to rectify the situation; (2) describe actions taken to improve compliance, including training activities during the reporting period; and (3) include an affidavit stating that the compliance reports are true and accurate. Twin Cities Canada and TCP must also include corroborative documentation or other satisfactory evidence demonstrating or otherwise supporting the content of these reports.

## **V. TERMS**

35. The “Effective Date” of this Agreement shall be the date on which the Commission issues an order approving this Agreement without material modification. When effective, this Agreement shall resolve the matters specifically addressed herein, and that arose on or before the Effective Date, as to Twin Cities Canada and TCP.

36. Commission approval of this Agreement without material modification shall release Twin Cities Canada and TCP and forever bar the Commission from holding Twin Cities Canada and TCP liable for any and all administrative or civil claims arising out of the conduct addressed and stipulated to in this Agreement that occurred on or before the Agreement’s Effective Date.

37. The disgorgement and penalty amounts specified in section IV. Remedies and Sanctions are to be paid according to the following payment plan. Within ten days of the Effective Date, Twin Cities Canada shall pay a lump sum of \$500,000 to MISO as disgorgement. Beginning with the second quarter of 2015 and for four years thereafter, Twin Cities Canada shall pay equal quarterly installments, first to MISO as disgorgement until the disgorgement is fully paid, and thereafter to the United States Treasury in satisfaction of the penalties.

38. If Twin Cities Canada does not make the cash civil penalty and disgorgement payments described above at the time agreed by the parties, then TCP shall be jointly and severally liable for any remaining unpaid amounts.

39. If Twin Cities Canada does not make the cash civil penalty payments described above at the time agreed by the parties, interest payable to the United States Treasury will begin to accrue pursuant to the Commission’s regulations at

18 C.F.R. § 35.19a(a)(2)(iii) (2014) from the date that payment is due, in addition to the penalties specified above and any other enforcement action and penalty that the Commission may take or impose. Similarly, if Twin Cities Canada does not make the disgorgement payments described above at the time agreed by the parties, additional interest payable to MISO will begin to accrue pursuant to the Commission's regulations at 18 C.F.R. § 35.19(a)(2)(iii) (2014) from the date that payment is due, in addition to the disgorgement and interest specified above and any other enforcement action and penalty that the Commission may take or impose.

40. Failure by Twin Cities Canada or TCP to comply with any provision of this Agreement shall be deemed a violation of a final order of the Commission issued pursuant to the Federal Power Act (FPA), 16 U.S.C. §792, *et seq.*, and may subject the companies to additional action under the enforcement provisions of the FPA.

41. The Agreement binds Twin Cities Canada and TCP and their agents, successors, transferees and assignees. The Agreement does not create any additional or independent obligations on Twin Cities Canada and TCP or their agents, other than the obligations identified in this Agreement.

42. The signatories to this Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of Enforcement, or Twin Cities Canada or TCP, has been made to induce the signatories or any other party to enter into the Agreement.

43. Unless the Commission issues an order approving the Agreement in its entirety and without material modification, the Agreement shall be null and void and of no effect whatsoever, and neither Enforcement nor Twin Cities Canada nor TCP shall be bound by any provision or term of the Agreement, unless otherwise agreed to in writing by Enforcement and Twin Cities Canada and TCP.

44. Twin Cities Canada and TCP agree that the Commission's order approving the Agreement without material modification shall be a final and unappealable order assessing a civil penalty under section 316A(b) of the Federal Power Act, 16 U.S.C. § 825o-1(b). Twin Cities Canada and TCP waive findings of fact and conclusions of law, rehearing of any Commission order approving the Agreement without material modification, and judicial review by any court of any Commission order approving the Agreement without material modification.

45. This Agreement can be modified only if in writing and signed by Enforcement and Twin Cities Canada and TCP, and any modifications shall not be

effective unless approved by the Commission.

46. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.

47. Twin Cities Canada and TCP affirm that they have read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of their knowledge, information and belief, and that they understand that the Agreement is entered into by Enforcement in express reliance on those representations.

48. The Agreement may be signed in counterparts.

49. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

Agreed to and accepted:



Larry G. Gasteiger  
Acting Director, Office of Enforcement  
Federal Energy Regulatory Commission

Date: November 20, 2014



Timothy S. Krieger  
President & CEO  
Twin Cities Power, LLC  
Twin Cities Energy, LLC  
Twin Cities Power – Canada, Ltd.

Date: November 19, 2014

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

MISO Cinergy Hub Transactions  
(Jason F. Vaccaro)

Docket No. IN12-2-000

STIPULATION AND CONSENT AGREEMENT

**I. INTRODUCTION**

1. Staff of the Office of Enforcement (Enforcement) of the Federal Energy Regulatory Commission (Commission) and Jason F. Vaccaro enter into this Stipulation and Consent Agreement (Agreement) to resolve a non-public investigation conducted by Enforcement pursuant to Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2014). The investigation examined whether Vaccaro violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014), by scheduling and trading physical power into and out of markets operated by the Midcontinent Independent System Operator, Inc. (MISO) in order to benefit related swap positions that settle off of real-time MISO prices, including the MISO Cinergy Hub Balance-of-Day Swap (Bal-Day Cin) traded on IntercontinentalExchange, Inc. (ICE), during the period January 1, 2010 through January 31, 2011 (Relevant Period).

2. Vaccaro neither admits nor denies that he violated 18 C.F.R. § 1c.2 (2014), but agrees to pay a civil penalty of \$400,000. The penalty shall be paid to the United States Treasury.

3. Vaccaro further agrees not to engage in wholesale scheduling or trading of physical power for five years.

4. Vaccaro further agrees to certain compliance reporting and training obligations as detailed in the following paragraphs of this Agreement.

**II. STIPULATED FACTS**

Enforcement and Vaccaro hereby stipulate and agree to the following facts.

5. Vaccaro is a Canadian citizen residing in Canada.

6. During the Relevant Period, Vaccaro was formally employed by Twin Cities Power – Canada, ULC (TCP Canada or Calgary office), located in Calgary, Alberta, Canada, which was part of a larger corporate structure involving multiple

business entities. Vaccaro primarily carried out his trades through a second business entity, Twin Cities Energy, LLC (TCE), formerly known as Alberta Power, LLC. Vaccaro also traded through a third business entity, Twin Cities Power, LLC (TCP). TCE and TCP are Minnesota limited liability companies located in Lakeville, Minnesota. TCE provided the capital and created and maintained accounts for the majority of the trading conducted by the Calgary office.

7. Vaccaro was an energy trader, scheduling power on his own behalf and for others in the Calgary office. Vaccaro also traded financial products, including Bal-Day Cin.

8. Vaccaro worked in the Calgary office with Allan Cho and Gaurav Sharma, among others. Cho was the president, a director and head trader at the Calgary office. Cho was responsible for managing all traders and overseeing all trading activities of the traders operating out of the Calgary office. Sharma was primarily a financial trader who also at times traded physical power, although others entered his power schedules. None of the three traders currently works for TCP Canada.

9. The Calgary office was created in 2008 and initially had only Cho and Vaccaro as employees. During the Relevant Period, the Calgary office employed approximately fifteen people, approximately eleven of whom were traders.

10. TCP provided oversight and back office support to the Calgary office, including accounting, legal, risk and compliance. Compliance training for traders in the Calgary office was the responsibility of TCP personnel. TCP operated out of the same offices as TCE.

11. TCP is also affiliated with a number of additional trading desks, including Cygnus Energy Futures, LLC, Summit Energy, LLC, and TC Energy Trading, LLC. Currently, the company at the head of the corporate structure is Twin Cities Power Holdings, LLC.

12. The investigation focused on the Calgary office and certain traders' physical imports and exports between MISO and PJM Interconnection, L.L.C. (PJM), and MISO and Ontario, Canada's Independent Electricity System Operator (IESO). The investigation also included other business entities affiliated with TCP, TCP Canada and TCE.

13. The basic economics of power scheduling between Independent System Operators (ISOs) are straightforward. A physical power flow between two ISOs captures the difference in prices at the point where the two ISOs interface. If a

trader expects one ISO to be priced at a premium to another, the trader will buy power at the cheaper ISO and flow it to the more expensive ISO to make a profit.

14. The investigation also involved several financial products, but focused primarily on Bal-Day Cin. On January 1, 2012, MISO changed the Cinergy Hub to the Indiana Hub. As such, the Cinergy Hub Bal-Day contract no longer trades, replaced instead by the Indiana Hub Bal-Day contract.

15. Bal-Day Cin was a daily fixed-for-floating financial swap traded on ICE that contained no obligation to deliver or receive physical electricity and was settled by an exchange of payments. The buyer of the fixed-for-floating financial swap paid a fixed price and received a floating price. The seller received the fixed price and paid the floating price. For Bal-Day Cin, the fixed price was the traded contract price. The floating price was the simple average of the hourly LMPs at the Cinergy Hub. Because the Bal-Day Cin contract definition referenced physical prices at the Cinergy Hub, changes in physical prices impacted the price of Bal-Day Cin.

16. On certain days during the Relevant Period (Days of Interest), Vaccaro flowed physical power in the direction of his financial swaps. In certain hours, Vaccaro imported power into MISO when he held a short swap position, or exported power from MISO when he held a long swap position.

17. In these hours on Days of Interest, Vaccaro added to his financial positions while increasing his power flows and decreased his power flows or stopped flowing any power after his financial positions were reduced or eliminated.

18. In these hours on Days of Interest, Vaccaro's financial positions were larger than his physical power flows, such that the increase in value of his swaps exceeded the losses from his physical flows.

### **III. VIOLATIONS**

19. Enforcement determined that Vaccaro violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014) by engaging in certain trades during the Relevant Period. That rule prohibits any entity from using a fraudulent device, scheme or artifice, or engaging in any act, practice, or course of business, that operates or would operate as a fraud; with the requisite scienter; in connection with a transaction subject to the Commission's jurisdiction.

20. Enforcement concluded that on Days of Interest, Vaccaro's physical flows mirrored changes in his financial positions. Vaccaro flowed physical power for

the purpose of moving physical prices at the Cinergy Hub, intending to benefit financial swap positions referencing Cinergy Hub physical prices.

21. Vaccaro's physical power flows were not intended to get the best price and were not in response to market fundamentals. Vaccaro's trading on Days of Interest was occasionally profitable, but over time his trading produced significant losses. However, these physical power flows consistently resulted in gains to, or avoided losses from, Vaccaro's financial swap positions.

22. In addition to the trading patterns staff observed, during the course of the investigation staff obtained a significant number of communications indicating Vaccaro's manipulative intent.

#### **IV. REMEDIES AND SANCTIONS**

23. Vaccaro stipulates to the facts as described in Section II of this Agreement, but neither admits nor denies Enforcement's determination that his conduct violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2, nor stipulates to any of the findings set forth in Section III. For purposes of settling any and all civil and administrative disputes arising from Enforcement's investigation, Vaccaro agrees to the remedies set forth in the following paragraphs.

##### **A. Civil Penalty**

24. Vaccaro agrees to a total civil penalty in the amount of \$400,000, which he will pay to the United States Treasury within sixty days of the Effective Date.

##### **B. Suspension of Trading Activity**

25. Vaccaro agrees that he, or any person acting on his behalf, will not engage in trading or scheduling of physical electric power at wholesale in interstate commerce for five years. Additionally, Vaccaro, or any person acting on his behalf, will not manage, operate, or consult about the trading or scheduling of physical electric power at wholesale in interstate commerce for five years. This paragraph does not apply to any business entity in which Vaccaro has an ownership interest, or its employees, so long as Vaccaro does not personally trade or schedule physical electric power at wholesale in interstate commerce, or manage, operate, or consult about such trading or scheduling.

26. The suspension in the immediately preceding paragraph begins 30 days after the Effective Date.

### **C. Compliance Reporting**

27. Vaccaro must make semi-annual compliance reports to Enforcement for five years following the Effective Date of this Agreement. The first semi-annual compliance report must be submitted no later than ten days after December 31, 2014. The remaining reports must be submitted no later than ten days following each six month interval thereafter. The reports must: (1) identify any known violations of Commission regulations that occurred during the reporting period, including a description of the nature of the violation and what steps were taken to rectify the situation; (2) describe actions taken to improve compliance, including training activities during the reporting period; and (3) include an affidavit stating that the compliance reports are true and accurate. Upon request by Enforcement, Vaccaro must also include corroborative documentation or other evidence demonstrating or otherwise supporting the content of these reports. On an annual basis for a period of five years, Vaccaro is to complete a minimum of sixteen hours of compliance training provided by a third party approved by Enforcement. On a quarterly basis for a period of five years, Vaccaro is to provide Enforcement with a data file sufficient to show the date, time period, product, quantity and price of all of his physical and financial electric power trades, including specifically any derivatives settling off of Commission-jurisdictional prices, or such trades executed on his behalf, in either a Microsoft Excel, SAS, or .CSV format.

### **V. TERMS**

28. The “Effective Date” of this Agreement shall be the date on which the Commission issues an order approving this Agreement without material modification. When effective, this Agreement shall resolve the matters specifically addressed herein, and that arose on or before the Effective Date, as to Vaccaro.

29. Commission approval of this Agreement without material modification shall release Vaccaro and forever bar the Commission from holding Vaccaro liable for any and all administrative or civil claims arising out of the conduct addressed and stipulated to in this Agreement that occurred on or before the Agreement’s Effective Date.

30. Failure by Vaccaro to comply with the any provision of this Agreement shall be deemed a violation of a final order of the Commission issued pursuant to the Federal Power Act (FPA), 16 U.S.C. §792, *et seq.*, and may subject Vaccaro to additional action under the enforcement provisions of the FPA.

31. If Vaccaro does not make the cash civil penalty payment described above at the time agreed by the parties, interest payable to the United States Treasury

will begin to accrue pursuant to the Commission's regulations at 18 C.F.R. § 35.19a(a)(2)(iii) (2014) from the date that payment is due, in addition to the penalties specified above and any other enforcement action and penalty that the Commission may take or impose.

32. The Agreement binds Vaccaro and his agents, successors, and assignees. The Agreement does not create any additional or independent obligations on Vaccaro or his agents, other than the obligations identified in this Agreement. Enforcement and Vaccaro do not intend for this Agreement to entitle any other party to any claim for monetary or other compensation.

33. The signatories to this Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of Enforcement or Vaccaro has been made to induce the signatories or any other party to enter into the Agreement.

34. Unless the Commission issues an order approving the Agreement in its entirety and without material modification, the Agreement shall be null and void and of no effect whatsoever, and neither Enforcement nor Vaccaro shall be bound by any provision or term of the Agreement, unless otherwise agreed to in writing by Enforcement and Vaccaro.

35. Vaccaro agrees that the Commission's order approving the Agreement without material modification shall be a final and unappealable order assessing a civil penalty under section 316A(b) of the Federal Power Act, 16 U.S.C. § 8250-1(b). Vaccaro waives findings of fact and conclusions of law, rehearing of any Commission order approving the Agreement without material modification, and judicial review by any court of any Commission order approving the Agreement without material modification.

36. This Agreement can be modified only if in writing and signed by Enforcement and Vaccaro, and any modifications will not be effective unless approved by the Commission.

37. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.

38. Vaccaro affirms that he has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his knowledge, information and belief, and that he understands that the Agreement is entered into by Enforcement in express reliance on those representations.

39. The Agreement may be signed in counterparts.

40. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

Agreed to and accepted:



Larry D. Gasteiger  
Acting Director, Office of Enforcement  
Federal Energy Regulatory Commission

Date: November 20, 2014



Jason F. Vaccaro

Date: 10/15/2014

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

MISO Cinergy Hub Transactions  
(Allan Cho)

Docket No. IN12-2-000

STIPULATION AND CONSENT AGREEMENT

**I. INTRODUCTION**

1. Staff of the Office of Enforcement (Enforcement) of the Federal Energy Regulatory Commission (Commission) and Allan Cho enter into this Stipulation and Consent Agreement (Agreement) to resolve a non-public investigation conducted by Enforcement pursuant to Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2014). The investigation examined whether Cho violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014), by scheduling and trading physical power into and out of markets operated by the Midcontinent Independent System Operator, Inc. (MISO) in order to benefit related swap positions that settle off of real-time MISO prices, including the MISO Cinergy Hub Balance-of-Day Swap (Bal-Day Cin) traded on IntercontinentalExchange, Inc. (ICE), during the period January 1, 2010 through January 31, 2011 (Relevant Period).

2. Cho neither admits nor denies that he violated 18 C.F.R. § 1c.2 (2014), but agrees to pay a civil penalty of \$275,000. The penalty shall be paid to the United States Treasury.

3. Cho further agrees not to engage in wholesale scheduling or trading of physical power for four years.

4. Cho further agrees to certain compliance reporting obligations as detailed in the following paragraphs of this Agreement.

**II. STIPULATED FACTS**

Enforcement and Cho hereby stipulate and agree to the following facts.

5. Cho is a Canadian citizen residing in Canada.

6. During the Relevant Period, Cho was formally employed by Twin Cities Power – Canada, ULC (TCP Canada or Calgary office), located in Calgary, Alberta, Canada, which was part of a larger corporate structure involving multiple

business entities. Cho primarily carried out his trades through a second business entity, Twin Cities Energy, LLC (TCE), formerly known as Alberta Power, LLC. Cho also traded through a third business entity, Twin Cities Power, LLC (TCP). TCE and TCP are Minnesota limited liability companies located in Lakeville, Minnesota. TCE provided the capital and created and maintained accounts for the majority of the trading conducted by the Calgary office.

7. Cho was the president, a director and head trader at the Calgary office. Cho was responsible for managing all traders and overseeing all trading activities of the traders operating out of the Calgary office. Cho also traded financial products, including Bal-Day Cin. Additionally, Cho traded physical power, although others entered his power schedules.

8. Cho worked in the Calgary office with Jason F. Vaccaro and Gaurav Sharma, among others. Vaccaro was an energy trader, scheduling power on his own behalf and for others in the Calgary office. Sharma was primarily a financial trader who also at times traded physical power, although others entered his power schedules. None of the three traders is currently employed by TCP Canada.

9. The Calgary office was created in 2008 and initially had only Cho and Vaccaro as employees. During the Relevant Period, the Calgary office employed approximately fifteen people, approximately eleven of whom were traders.

10. TCP provided oversight and back office support to the Calgary office, including accounting, legal, risk and compliance. Compliance training for traders in the Calgary office was the responsibility of TCP personnel. TCP operated out of the same offices as TCE.

11. TCP is also affiliated with a number of additional trading desks, including Cygnus Energy Futures, LLC, Summit Energy, LLC, and TC Energy Trading, LLC. Currently, the company at the head of the corporate structure is Twin Cities Power Holdings, LLC.

12. The investigation focused on the Calgary office, including Cho's physical imports and exports between MISO and PJM Interconnection, L.L.C. (PJM), and MISO and Ontario, Canada's Independent Electricity System Operator (IESO). The investigation also included other business entities affiliated with TCP, TCP Canada, and TCE.

13. The basic economics of power scheduling between Independent System Operators (ISOs) are straightforward. A physical power flow between two ISOs captures the difference in prices at the point where the two ISOs interface. If a trader expects one ISO to be priced at a premium to another, the trader will buy

power at the cheaper ISO and flow it to the more expensive ISO to make a profit.

14. The investigation also involved several financial products, but focused primarily on Bal-Day Cin. On January 1, 2012, MISO changed the Cinergy Hub to the Indiana Hub. As such, the Cinergy Hub Bal-Day contract no longer trades, replaced instead by the Indiana Hub Bal-Day contract.

15. Bal-Day Cin was a daily fixed-for-floating financial swap traded on ICE that contained no obligation to deliver or receive physical electricity and was settled by an exchange of payments. The buyer of the fixed-for-floating financial swap paid a fixed price and received a floating price. The seller received the fixed price and paid the floating price. For Bal-Day Cin, the fixed price was the traded contract price. The floating price was the simple average of the hourly LMPs at the Cinergy Hub. Because the Bal-Day Cin contract definition referenced physical prices at the Cinergy Hub, changes in physical prices impacted the price of Bal-Day Cin.

16. On certain days during the Relevant Period (Days of Interest), Cho flowed physical power in the direction of his financial swaps. In certain hours, Cho imported power into MISO when he held a short swap position, or exported power from MISO when he held a long swap position.

17. In these hours on Days of Interest, Cho added to his financial positions while increasing his power flows and decreased his power flows or stopped flowing any power after his financial positions were reduced or eliminated.

18. In these hours on Days of Interest, Cho's financial positions were larger than his physical power flows, such that the increase in value of his swaps exceeded the losses from his physical flows.

### **III. VIOLATIONS**

19. Enforcement determined that Cho violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014) by engaging in these trades described above during the Relevant Period. That rule prohibits any entity from using a fraudulent device, scheme or artifice, or engaging in any act, practice, or course of business, that operates or would operate as a fraud; with the requisite scienter; in connection with a transaction subject to the Commission's jurisdiction.

20. Enforcement concluded that on Days of Interest, Cho's physical flows mirrored changes in his financial positions. Cho flowed physical power for the purpose of moving physical prices at the Cinergy Hub, intending to benefit financial swap positions referencing Cinergy Hub physical prices.

21. Cho's physical power flows were not intended to get the best price and were not in response to market fundamentals. Cho's trading on Days of Interest was occasionally profitable, but over time his trading produced significant losses. However, these physical power flows consistently resulted in gains to, or avoided losses from, Cho's financial swap positions.

22. In addition to the trading patterns staff observed, during the course of the investigation staff obtained a significant number of communications indicating Cho's manipulative intent.

#### **IV. REMEDIES AND SANCTIONS**

23. Cho stipulates to the facts as described in Section II of this Agreement, but neither admits nor denies Enforcement's determination that his conduct violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2, nor stipulates to any of the findings set forth in Section III. For purposes of settling any and all civil and administrative disputes arising from Enforcement's investigation, Cho agrees to the remedies set forth in the following paragraphs.

##### **A. Civil Penalty**

24. Cho agrees to a total civil penalty in the amount of \$275,000, which he will pay to the United States Treasury within ten days of the Effective Date.

##### **B. Suspension of Trading Activity**

25. Cho agrees that he, or any person acting on his behalf, will not engage in trading or scheduling of physical electric power at wholesale in interstate commerce for four years. Additionally, Cho, or any person acting on his behalf, will not manage, operate, or consult about the trading or scheduling of physical electric power at wholesale in interstate commerce for four years. This paragraph does not apply to any business entity in which Allan Cho has an ownership interest, or its employees, so long as Allan Cho does not personally trade or schedule physical electric power at wholesale in interstate commerce, or manage, operate, or consult about such trading or scheduling.

26. The suspension in the immediately preceding paragraph begins 30 days after the Effective Date.

##### **C. Compliance Reporting**

27. Allan Cho must make semi-annual compliance reports concerning his individual trading to Enforcement for four years following the Effective Date of this Agreement. The first semi-annual compliance report must be submitted no later than ten days after December 31, 2014. The remaining reports must be submitted no later than ten days following each six month interval thereafter. The reports must: (1) identify any known violations of Commission regulations that occurred during the reporting period, including a description of the nature of the violation and what steps were taken to rectify the situation; (2) describe actions taken to improve compliance, including training activities during the reporting period; and (3) include an affidavit stating that the compliance reports are true and accurate. Upon request by Enforcement, Cho must also include corroborative documentation or other evidence demonstrating or otherwise supporting the content of these reports.

## **V. TERMS**

28. The “Effective Date” of this Agreement shall be the date on which the Commission issues an order approving this Agreement without material modification. When effective, this Agreement shall resolve the matters specifically addressed herein, and that arose on or before the Effective Date, as to Cho.

29. Commission approval of this Agreement without material modification shall release Cho and forever bar the Commission from holding Cho liable for any and all administrative or civil claims arising out of the conduct addressed and stipulated to in this Agreement that occurred on or before the Agreement’s Effective Date.

30. Failure by Cho to comply with any provision of this Agreement shall be deemed a violation of a final order of the Commission issued pursuant to the Federal Power Act (FPA), 16 U.S.C. § 792, *et seq.*, and may subject Cho to additional action under the enforcement provisions of the FPA.

31. If Cho does not make the cash civil penalty payment described above at the time agreed by the parties, interest payable to the United States Treasury will begin to accrue pursuant to the Commission’s regulations at 18 C.F.R. § 35.19a(a)(2)(iii) (2014) from the date that payment is due, in addition to the penalties specified above and any other enforcement action and penalty that the Commission may take or impose.

32. The Agreement binds Cho and his agents, successors, and assignees. The Agreement does not create any additional or independent obligations on Cho or his agents, other than the obligations identified in this Agreement. The signatories to

this agreement do not intend for this Agreement to entitle any other entity or individual to any right, benefit, or claim for monetary or other compensation.

33. The signatories to this Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of Enforcement or Cho has been made to induce the signatories or any other party to enter into the Agreement.

34. Unless the Commission issues an order approving the Agreement in its entirety and without material modification, the Agreement shall be null and void and of no effect whatsoever, and neither Enforcement nor Cho shall be bound by any provision or term of the Agreement, unless otherwise agreed to in writing by Enforcement and Cho.

35. Cho agrees that the Commission's order approving the Agreement without material modification shall be a final and unappealable order assessing a civil penalty under section 316A(b) of the Federal Power Act, 16 U.S.C. § 8250-1(b). Cho waives findings of fact and conclusions of law, rehearing of any Commission order approving the Agreement without material modification, and judicial review by any court of any Commission order approving the Agreement without material modification.

36. This Agreement can be modified only if in writing and signed by Enforcement and Cho, and any modifications will not be effective unless approved by the Commission.

37. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.

38. Cho affirms that he has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his knowledge, information and belief, and that he understands that the Agreement is entered into by Enforcement in express reliance on those representations.

39. The Agreement may be signed in counterparts.

40. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

Agreed to and accepted:



Larry D. Gasteiger  
Acting Director, Office of Enforcement  
Federal Energy Regulatory Commission

Date: November 20, 2014



Allan Cho

Date: 10/13/2014

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

MISO Cinergy Hub Transactions  
(Gaurav Sharma)

Docket No. IN12-2-000

STIPULATION AND CONSENT AGREEMENT

**I. INTRODUCTION**

1. Staff of the Office of Enforcement (Enforcement) of the Federal Energy Regulatory Commission (Commission) and Gaurav Sharma enter into this Stipulation and Consent Agreement (Agreement) to resolve a non-public investigation conducted by Enforcement pursuant to Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2014). The investigation examined whether Sharma violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014), by scheduling and trading physical power into and out of markets operated by the Midcontinent Independent System Operator, Inc. (MISO) in order to benefit related swap positions that settle off of real-time MISO prices, including the MISO Cinergy Hub Balance-of-Day Swap (Bal-Day Cin) traded on IntercontinentalExchange, Inc. (ICE), during the period January 1, 2010 through January 31, 2011 (Relevant Period).

2. Sharma neither admits nor denies that he violated 18 C.F.R. § 1c.2 (2014), but agrees to pay a civil penalty of \$75,000. The penalty shall be paid to the United States Treasury.

3. Sharma further agrees not to engage in wholesale scheduling or trading of physical power for four years.

4. Sharma further agrees to certain compliance reporting obligations as detailed in the following paragraphs of this Agreement.

**II. STIPULATED FACTS**

Enforcement and Sharma hereby stipulate and agree to the following facts.

5. Sharma is a Canadian citizen residing in Canada.

6. During the Relevant Period, Sharma was formally employed by Twin Cities Power – Canada, ULC (TCP Canada or Calgary office), located in Calgary, Alberta, Canada, which was part of a larger corporate structure involving multiple

business entities. Sharma primarily carried out his trades through a second business entity, Twin Cities Energy, LLC (TCE), formerly known as Alberta Power, LLC. Sharma also traded through a third business entity, Twin Cities Power, LLC (TCP). TCE and TCP are Minnesota limited liability companies located in Lakeville, Minnesota. TCE provided the capital and created and maintained accounts for the majority of the trading conducted by the Calgary office.

7. Sharma primarily traded financial products, including Bal-Day Cin. Additionally, Sharma at times traded physical power, although others entered his power schedules.

8. Sharma worked in the Calgary office with Allan Cho and Jason F. Vaccaro, among others. Cho was the president, a director and head trader at the Calgary office. Cho was responsible for managing all traders and overseeing all trading activities of the traders operating out of the Calgary office. Vaccaro was an energy trader, scheduling power on his own behalf and for others in the Calgary office. None of the three traders currently works for TCP Canada.

9. The Calgary office was created in 2008 and initially had only Cho and Vaccaro as employees. Sharma later joined the Calgary office in 2009. During the Relevant Period, the Calgary office employed approximately fifteen people, approximately eleven of whom were traders.

10. TCP provided oversight and back office support to the Calgary office, including accounting, legal, risk and compliance. Compliance training for traders in the Calgary office was the responsibility of TCP personnel. TCP operated out of the same offices as TCE.

11. TCP is also affiliated with a number of additional trading desks, including Cygnus Energy Futures, LLC, Summit Energy, LLC, and TC Energy Trading, LLC. Currently, the company at the head of the corporate structure is Twin Cities Power Holdings, LLC.

12. The investigation focused on the Calgary office, including Sharma's physical imports and exports between MISO and PJM Interconnection, L.L.C. (PJM), and MISO and Ontario, Canada's Independent Electricity System Operator (IESO).

13. The basic economics of power scheduling between Independent System Operators (ISOs) are straightforward. A physical power flow between two ISOs captures the difference in prices at the point where the two ISOs interface. If a trader expects one ISO to be priced at a premium to another, the trader will buy

power at the cheaper ISO and flow it to the more expensive ISO to make a profit.

14. The investigation also involved several financial products, but focused primarily on Bal-Day Cin. On January 1, 2012, MISO changed the Cinergy Hub to the Indiana Hub. As such, the Cinergy Hub Bal-Day contract no longer trades, replaced instead by the Indiana Hub Bal-Day contract.

15. Bal-Day Cin was a daily fixed-for-floating financial swap traded on ICE that contained no obligation to deliver or receive physical electricity and was settled by an exchange of payments. The buyer of the fixed-for-floating financial swap paid a fixed price and received a floating price. The seller received the fixed price and paid the floating price. For Bal-Day Cin, the fixed price was the traded contract price. The floating price was the simple average of the hourly LMPs at the Cinergy Hub. Because the Bal-Day Cin contract definition referenced physical prices at the Cinergy Hub, changes in physical prices impacted the price of Bal-Day Cin.

16. On certain days during the Relevant Period (Days of Interest), Sharma flowed physical power in the direction of his financial swaps. In certain hours Sharma imported power into MISO when he held a short swap position, or exported power from MISO when he held a long swap position.

17. In these hours on Days of Interest, Sharma added to his financial positions while increasing his power flows and decreased his power flows or stopped flowing any power after his financial positions were reduced or eliminated.

18. In these hours on Days of Interest, Sharma's financial positions were larger than his physical power flows, such that the increase in value of his swaps exceeded the losses from his physical flows.

### **III. VIOLATIONS**

19. Enforcement determined that Sharma violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2 (2014) by engaging in certain trades during the Relevant Period. That rule prohibits any entity from using a fraudulent device, scheme or artifice, or engaging in any act, practice, or course of business, that operates or would operate as a fraud; with the requisite scienter; in connection with a transaction subject to the Commission's jurisdiction.

20. Enforcement concluded that on Days of Interest, Sharma's physical flows mirrored changes in his financial positions. Sharma flowed physical power for the purpose of moving physical prices at the Cinergy Hub, intending to benefit financial swap positions referencing Cinergy Hub physical prices.

21. Sharma's physical power flows were not intended to get the best price and were not in response to market fundamentals. Sharma's trading on Days of Interest was occasionally profitable, but over time his trading produced significant losses. However, these physical power flows consistently resulted in gains to, or avoided losses from, Sharma's financial swap positions.

22. In addition to the trading patterns staff observed, during the course of the investigation staff obtained a significant number of communications indicating Sharma's manipulative intent.

#### **IV. REMEDIES AND SANCTIONS**

23. Sharma stipulates to the facts as described in Section II of this Agreement, but neither admits nor denies Enforcement's determination that his conduct violated the Commission's Anti-Manipulation Rule, 18 C.F.R. § 1c.2, nor stipulates to any of the findings set forth in Section III. For purposes of settling any and all civil and administrative disputes arising from Enforcement's investigation, Sharma agrees to the remedies set forth in the following paragraphs.

##### **A. Civil Penalty**

24. Sharma agrees to a total civil penalty in the amount of \$75,000, which he will pay to the United States Treasury within ten days of the Effective Date.

##### **B. Suspension of Trading Activity**

25. Sharma agrees that he, or any person acting on his behalf, will not engage in trading or scheduling of physical electric power at wholesale in interstate commerce for four years. Additionally, Sharma, or any person acting on his behalf, will not manage, operate, or consult about the trading or scheduling of physical electric power at wholesale in interstate commerce for four years. This paragraph does not apply to any business entity in which Gaurav Sharma has an ownership interest, or its employees, so long as Gaurav Sharma does not personally trade or schedule physical electric power at wholesale in interstate commerce, or manage, operate, or consult about such trading or scheduling.

26. The suspension in the immediately preceding paragraph begins 30 days after the Effective Date.

##### **C. Compliance Reporting**

27. Sharma must make semi-annual compliance reports concerning his

individual trading to Enforcement for four years following the Effective Date of this Agreement. The first semi-annual compliance report must be submitted no later than ten days after December 31, 2014. The remaining reports must be submitted no later than ten days following each six month interval thereafter. The reports must: (1) identify any known violations of Commission regulations that occurred during the reporting period, including a description of the nature of the violation and what steps were taken to rectify the situation; (2) describe actions taken to improve compliance, including training activities during the reporting period; and (3) include an affidavit stating that the compliance reports are true and accurate. Upon request by Enforcement, Sharma must also include corroborative documentation or other evidence demonstrating or otherwise supporting the content of these reports. On a quarterly basis for a period of two years, Sharma is to provide Enforcement with a data file sufficient to show the date, time period, product, quantity and price of all of his physical and financial electric power trades, including specifically any derivatives settling off of Commission-jurisdictional prices, or such trades executed on his behalf, in either a Microsoft Excel, SAS, or .CSV format or such other format as Enforcement and Sharma mutually agree upon.

## **V. TERMS**

28. The “Effective Date” of this Agreement shall be the date on which the Commission issues an order approving this Agreement without material modification. When effective, this Agreement shall resolve the matters specifically addressed herein, and that arose on or before the Effective Date, as to Sharma.

29. Commission approval of this Agreement without material modification shall release Sharma and forever bar the Commission from holding Sharma liable for any and all administrative or civil claims arising out of the conduct addressed and stipulated to in this Agreement that occurred on or before the Agreement’s Effective Date.

30. Failure by Sharma to comply with any provision of this Agreement shall be deemed a violation of a final order of the Commission issued pursuant to the Federal Power Act (FPA), 16 U.S.C. § 792, *et seq.*, and may subject Sharma to additional action under the enforcement provisions of the FPA.

31. If Sharma does not make the cash civil penalty payment described above at the time agreed by the parties, interest payable to the United States Treasury will begin to accrue pursuant to the Commission’s regulations at 18 C.F.R. § 35.19a(a)(2)(iii) (2014) from the date that payment is due, in addition to the penalties specified above and any other enforcement action and penalty that the

Commission may take or impose.

32. The Agreement binds Sharma and his agents, successors, and assignees. The Agreement does not create any additional or independent obligations on Sharma or his agents, other than the obligations identified in this Agreement. The signatories to this agreement do not intend for this Agreement to entitle any other entity or individual to any right, benefit, or claim for monetary or other compensation.

33. The signatories to this Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of Enforcement or Sharma has been made to induce the signatories or any other party to enter into the Agreement.

34. Unless the Commission issues an order approving the Agreement in its entirety and without material modification, the Agreement shall be null and void and of no effect whatsoever, and neither Enforcement nor Sharma shall be bound by any provision or term of the Agreement, unless otherwise agreed to in writing by Enforcement and Sharma.

35. Sharma agrees that the Commission's order approving the Agreement without material modification shall be a final and unappealable order assessing a civil penalty under section 316A(b) of the Federal Power Act, 16 U.S.C. § 8250-1(b). Sharma waives findings of fact and conclusions of law, rehearing of any Commission order approving the Agreement without material modification, and judicial review by any court of any Commission order approving the Agreement without material modification.

36. This Agreement can be modified only if in writing and signed by Enforcement and Sharma, and any modifications will not be effective unless approved by the Commission.

37. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.

38. Sharma affirms that he has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his knowledge, information and belief, and that he understands that the Agreement is entered into by Enforcement in express reliance on those representations.

39. The Agreement may be signed in counterparts.

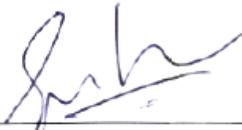
40. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

Agreed to and accepted:



Larry D. Gasteiger  
Acting Director, Office of Enforcement  
Federal Energy Regulatory Commission

Date: November 20, 2014



Gaurav Sharma

Date: Oct 13/2014