

156 FERC ¶ 61,122
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, Tony Clark,
and Colette D. Honorable.

Saracen Energy Midwest, LP

Docket No. IN16-7-000

ORDER APPROVING STIPULATION AND CONSENT AGREEMENT

(Issued August 22, 2016)

1. The Commission approves the attached Stipulation and Consent Agreement (Agreement) between the Office of Enforcement (Enforcement) and Saracen Energy Midwest, LP (Saracen). 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 (2015), into whether Saracen violated the Southwest Power Pool, Inc.'s (SPP) Open Access Transmission Tariff, Attachment AE, § 7.4.1(4) by submitting bids for Transmission Congestion Rights (TCRs) at Electronically Equivalent Settlement Locations (EESLs). Saracen submitted the bids at issue for auctions in September and October 2014, and March and April 2015 (Relevant Bids or Relevant Auctions).

2. Saracen neither admits nor denies the violations and agrees to pay a civil penalty of \$25,000. Saracen will also implement measures designed to ensure compliance in the future, including submitting an annual compliance report.

I. Background and Investigation

3. SPP's Market Monitoring Unit (MMU) submitted a referral to Enforcement on April 7, 2015. Thereafter, on September 21, 2015, staff opened a preliminary, non-public investigation. Staff sent data requests to Saracen and SPP, interviewed several SPP employees, and took investigative testimony from the relevant Saracen trader (Trader).

4. Saracen is one of several affiliated companies comprising a privately held investment enterprise based in Houston, Texas. The enterprise is involved in a variety of investment activities, but is focused primarily on energy trading. Saracen has traded TCRs in SPP since SPP's Integrated Marketplace started-up in March 2014. The referral and investigation centered on Saracen's bids in SPP's monthly TCR auctions.

5. TCRs in SPP, like Financial Transmission Rights in other markets, provide a financial tool to hedge price risk, or to speculatively profit from price differences, associated with congestion between two locations. Market participants bid for TCRs in annual and monthly auctions.
6. EESLs are two points in SPP's TCR model that SPP determines are electrically equivalent, meaning SPP anticipates they will have a price divergence of zero. As a result, EESLs are modeled in such a way that there should never be congestion between them. Because TCRs are designed to target congestion, and EESLs should never be congested, TCRs placed at EESLs serve no legitimate purpose.
7. For these reasons, SPP's Tariff prohibits market participants from placing TCR bids at EESLs. SPP's Tariff, Attachment AE, section 7.4.1(4) states in relevant part: "Market Participants may not submit offers to buy TCRs between Settlement Locations that are collocated and electrically equivalent."
8. Enforcement determined that in five separate auction rounds across four different auction months, Saracen submitted TCR bids at EESLs. Specifically, Saracen submitted the TCR bids at issue over the course of four separate monthly auctions: August 2014 bidding for September 2014 TCRs; September 2014 bidding for October 2014 TCRs; February 2015 bidding for March 2015 TCRs; and March 2015 bidding for April 2015 TCRs.
9. As discussed in the Agreement, after bidding for each of the Relevant Auctions, SPP notified the Trader either by phone or email indicating that the Relevant Bids were submitted at EESLs, that they violated the Tariff, and as such were removed from the Relevant Auction (Removal Notice). Importantly, because SPP identified and removed the Relevant Bids, they never cleared and the market was not harmed.
10. Although the Trader took remedial action after receiving each Removal Notice, the Trader nevertheless continued submitting TCR bids at EESLs. Only after receiving the fourth Removal Notice did the Trader successfully implement all of the necessary controls and procedures sufficient to prevent submitting TCR bids at EESLs.

II. Stipulation and Consent Agreement

11. Enforcement and Saracen resolved Enforcement's investigation by means of the attached Agreement.
12. Saracen stipulates to the facts recited in the Agreement. Saracen neither admits nor denies that it violated SPP's Tariff, Attachment AE, § 7.4.1(4).

13. Saracen agrees to pay a civil penalty of \$25,000 and to submit to one year of compliance monitoring.

III. Determination of the Appropriate Sanctions and Remedies

14. In determining the appropriate remedy for Saracen, Enforcement considered the factors described in the Revised Policy Statement on Penalty Guidelines,¹ including the fact that Saracen did not accept responsibility for its violations, but is choosing to avoid a trial-type hearing.

15. The Commission concludes that the Agreement is a fair and equitable resolution of the matters concerned and is in the public interest, as it reflects the nature and seriousness of the conduct and recognizes the specific considerations stated above and in the Agreement.

16. The Commission also concludes that Saracen's civil penalty is consistent with the Revised Policy Statement on Penalty Guidelines.²

17. When an ISO, RTO or market monitor informs a market participant that its conduct violates the tariff, the market participant should act quickly to address the issue. For market participants that do not comply with the Tariff, the Commission will take appropriate action to ensure compliance.

The Commission orders:

The attached Stipulation and Consent Agreement is hereby approved without modification.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

¹ *Enforcement of Statutes, Orders, Rules and Regulations*, 132 FERC ¶ 61,216 (2010).

² *Id.*

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Saracen Energy Midwest, LP

Docket No. IN16-7-000

STIPULATION AND CONSENT AGREEMENT

I. INTRODUCTION

1. Staff of the Office of Enforcement (Enforcement) of the Federal Energy Regulatory Commission (Commission), and Saracen Energy Midwest, LP (SEM) 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 (2015), examining whether SEM violated Southwest Power Pool, Inc.'s (SPP) Tariff, Attachment AE, Section 7.4.1(4), by submitting bids for Transmission Congestion Rights (TCRs) at Electrically Equivalent Settlement Locations (EESLs) for auctions in September and October 2014, and March and April 2015.

2. SEM stipulates and agrees to the facts but neither admits nor denies that it violated SPP's Tariff. SEM agrees to pay a civil penalty of \$25,000, which shall be paid to the United States Treasury. SEM further agrees to enhance certain compliance procedures to improve compliance going forward, and to compliance monitoring and reporting for one year, as detailed in the following paragraphs of this Agreement.

II. STIPULATED FACTS

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

3. SEM is a Texas limited partnership located at 3033 W. Alabama Street, Houston, Texas. SEM is one of several affiliated companies involved in energy trading in a number of different markets, as well as other investment activities. Among other products, SEM trades congestion contracts known as TCRs in SPP.

4. TCRs are financial instruments that settle off of the value of congestion between two nodes in the Day-Ahead market. In SPP, a market participant can buy TCRs in an annual auction, as well as subsequent monthly auctions.

5. EESLs are two points in SPP's TCR model that SPP determines are electrically equivalent and which SPP anticipates will have a price divergence of zero. Because the flow is modeled by SPP to be unconstrained between EESLs, TCRs placed at EESLs have no legitimate purpose. For this reason, SPP's Tariff prohibits market participants from placing TCR bids at EESLs.

6. SPP publishes a list of EESLs on its website each month to give notice to market participants. However, TCR bids at EESLs are not automatically blocked by SPP's software. As a result, SPP scans the TCR auctions and removes any bids at EESLs so that they do not clear. SPP then contacts market participants who placed prohibited EESL bids and informs them that the bids violate SPP's Tariff and were removed.
7. SEM's TCR trader ("Trader") routinely submits thousands of TCR bids each month. The 19 TCR bids at issue comprise a small subset of SEM's TCR bidding activity. The Trader submitted the TCR bids at issue over the course of four separate monthly auctions: August 2014 bidding for September 2014 TCRs; September 2014 bidding for October 2014 TCRs; February 2015 bidding for March 2015 TCRs; and March 2015 bidding for April 2015 TCRs (Relevant Bids or Relevant Auctions).
8. After bidding for each of the Relevant Auctions, SPP notified the Trader either by phone or email indicating that the Relevant Bids were submitted at EESLs, that they violated the Tariff, and as such were removed from the Relevant Auction (Removal Notice). After receiving the fourth Removal Notice, the Trader successfully implemented all of the necessary controls and procedures sufficient to prevent submitting TCRs at EESLs. Because SPP removed the Relevant Bids, they never cleared and the market was not harmed.
9. The Trader has been actively trading TCRs in SPP since shortly after they became available on March 1, 2014. Initially, the Trader relied on an ineffective manual process to avoid submitting EESL bids. In response to the first Removal Notice, the Trader attempted to correct the problem by automating his bid submission process to include the EESL list published by SPP, and available to market participants for each TCR auction. In response to additional Removal Notices, the Trader made additional corrections and ensured he had the most current EESL list.
10. Because of the Trader's improvements to his TCR bidding process, SPP has not sent any additional Removal Notices to SEM since the last Relevant Auction.
11. The Trader placed the Relevant Bids as the result of human error and oversight.
12. SEM cooperated throughout the investigation. SEM promptly responded to data requests and requests for testimony. Because of SEM's cooperation, Enforcement was able to quickly and efficiently conclude its investigation.

III. VIOLATIONS

13. Enforcement determined that SEM violated SPP's Tariff, Attachment AE, section 7.4.1(4), which prohibits market participants from placing TCR bids at EESLs. As described above, SEM submitted TCR bids at EESLs in four separate TCR auction months.

IV. REMEDIES AND SANCTIONS

14. SEM stipulates to the facts as described in Section II of this Agreement, but neither admits nor denies Enforcement's determination that its conduct violated SPP's Tariff. For purposes of settling any and all civil and administrative disputes arising from Enforcement's investigation, SEM agrees to the remedies set forth in the following paragraphs.

A. Penalties

15. SEM agrees to a total civil penalty in the amount of \$25,000, which it will pay to the United States Treasury within 10 days of the Effective Date.

B. Compliance Monitoring

16. SEM shall institute new policies and associated processes for notifying management and compliance personnel whenever it is informed that SEM may have violated a tariff, rule, regulation or order. SEM shall improve the training of its traders, supervisors, and managers regarding the importance of promptly and appropriately addressing possible violations.

17. SEM shall formalize in its compliance policies and associated processes the necessary procedures to ensure that it does not submit TCR bids at EESLs in SPP.

18. SEM shall make a compliance monitoring report to Enforcement following the Effective Date of this Agreement. The compliance monitoring report must be submitted no later than ten days after June 30, 2017. The report 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. SEM must also include corroborative documentation or other satisfactory evidence demonstrating or otherwise supporting the content of the report.

V. TERMS

19. 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 SEM.

20. Commission approval of this Agreement without material modification shall release SEM and forever bar the Commission from holding SEM, any affiliated entity, any employee, and any successor in interest to SEM 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.

21. Failure by SEM to make the civil penalty payment or comply with the obligations agreed to herein, or any other provision of this Agreement, shall be deemed a violation of a final order of the Commission issued pursuant to Federal Power Act (FPA), 16 U.S.C. § 792, *et. seq.*, and may subject SEM to additional action under the enforcement provisions of the FPA.

22. If SEM does not make the civil penalty payment described above at the time agreed by the parties, interest will begin to accrue pursuant to the Commission’s regulations at 18 C.F.R. § 35.19a (2015) from the date that payment is due, in addition to the penalty specified above and any other enforcement action and penalty that the Commission may take or impose.

23. The Agreement binds SEM and its agents, successors, and assignees. The Agreement does not create any additional or independent obligations on SEM, or any affiliated entity, its agents, officers, directors, or employees, other than the obligations identified in this Agreement.

24. 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 SEM has been made to induce the signatories or any other party to enter into the Agreement.

25. 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 SEM shall be bound by any provision or term of the Agreement, unless otherwise agreed to in writing by Enforcement and SEM.

26. SEM agrees that the Commission’s order approving the Agreement without modification shall be a final and unappealable order under section 316(a) of the FPA, 16

U.S.C. § 825o(a). SEM 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.

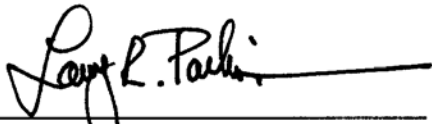
27. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity, and accepts the Agreement on the entity's behalf.

28. The undersigned representative of SEM affirms that he or she has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his or her knowledge, information and belief, and that he or she understands that the Agreement is entered into by Enforcement in express reliance on those representations.

29. The Agreement may be signed in counterparts.

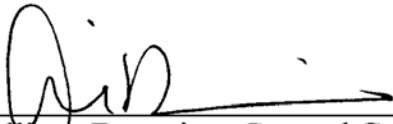
30. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

Agreed to and accepted:



Larry R. Parkinson
Director, Office of Enforcement
Federal Energy Regulatory Commission

Date: 7-5-16



Allison Duensing, General Counsel
Saracen Energy Midwest, LP

Date: 7-1-16