Subject Index

Note: Page numbers followed by “n” with numbers indicate footnotes.

Administrative agency, process at, 48–49
Administrative Law Judge (ALJ), 48, 125, 142, 158
Affirmative defense, 146
Agriculture Department, 34
Alternative hypothesis, 131, 163
Amaranth, 124, 125
battle of economists, 129
case (2007), 119, 125–127
Commission Decision, 134–135
hedge fund, 124
important of economists, 129–130
lies, damn lies, and econometrics, 130–132
Quinn and Fischel for defense, 132–134
scienter, 128–129
searching for manipulation, 137–138
settlements and jurisdiction, 135–137
side excursion on put options, 127–128
staff’s case and Hunter’s rebuttals, 125
theories of manipulation, 123
trading, 134
American Electric Power Service Corporation, 89n4
Amicus curae, 37
Ancillary market strategy, 91–93
Ancillary markets, 78–79
Anti-Manipulation Rule, 170
Appeals Court, 32, 34, 37, 38, 40, 49
Arbitrage, 13–15, 93, 145–146
strategy, 110, 117
Arbitrageurs, 8
Artificial price, 10, 44, 54, 57–58, 105, 110–113
Avista, 48, 57, 65
trades on underlying during market close, 55
trading strategy, 56–57
Balanced schedules, 94, 100
Balancing authority, 69
Bankruptcy, 5
Barclays, 158, 212
Dean Hubbard’s statement, 171–174
defense, 165–167
district court’s decision on discovery, 174–176
exchange between barclays and staff, 165–169
FERC’s penalty order, 169–171
process, 158–159
show cause order, 159–165
Baseline consumption, 188
“Bid–ask spread”, 9
“Black box” approach, 150, 166
Black Oak decision, 198
BP America, 141
arbitrage and early trading, 145–146
“framing the open” theory, 143–145
manipulation and theory of firm, 150–152
other issues, 153
parties and proceedings, 141–143
scienter, 147–150
trading strategies, 146–147
Bre-X Minerals Limited Canadian company, 10
Bre-X stock rose, 10
British Columbia Hydro, 89
“Bury the corpse” effect, 19, 35, 107
California energy crisis, 67, 68
California Independent System Operator (CAISO), 69, 81
computing system, 108
day-ahead ancillary market, 92
market, 110
system, 83, 85
California’s electricity markets
(see also Electricity markets), 81
ancillary market strategy, 91–93
congestion-related strategies, 89–91
electricity restructuring, 81–87
energy procurement in day-ahead markets, 95
ENRON, 87–89
gaming, 100–101
price arbitrage strategies, 97–100
real-time prices, 93–97
California–Oregon border (COB), 48
Call options, 51, 52
Capacity markets, 98n12
_Cargill v. Harden_ (1971), 38–40
Cascade effect, 26, 27, 53, 59, 60, 127, 147
Cash settled option contracts, 51
Cash-settled index, 7, 23
Cheap talk, 47, 64
Chicago Mercantile Exchange, 2
Chicago rye markets, 32, 33
Chicago wheat market, 24
Commodity Exchange Authority (CEA), 31
Commodity exchanges, 22, 42, 59, 69
Commodity Futures Trading Commission (CFTC), 11, 31, 42, 44, 47, 134, 137
artificial price, 57–58
misconstruing _Cargill_, 63–64
misconstruing _Henner_, 61–63
path to manipulation finding, 57–64
Commodity market, 1
actions as farmer, 4
buying from exchange, 5–6
challenges for commodity trader, 7–9
challenges for exchange, 6–7
hypothetical trading book for corn, 9
selling to, 1–4
trading, 211
Commodity trader, challenges for, 7–9
Competitive Energy Solutions (CES), 182
Congestion Revenue Rights (CRRs), 106
Congestion-related strategies, 89
Death Star and Cut Schedules, 90–91
load shifting, 89–90
Congressional staffers, 50
Constrained equilibrium, 75
Convertible bonds, 124
Corn contracts, 12
“Corners”, 11
Crop insurance, 2n1
Cut Schedules, 90–91
“Data snooping”, 132
_Daubert v. Merrell Dow Pharmaceuticals, Inc._, 153
Day-Ahead Load Response Program (DALRP), 179–180, 185–187
rules, 187–189
Day-ahead markets, 75–77
_DC Energy v. H. Q. Energy Services_, 114
_De novo_ review, 197–198
_De novo_ trial, 158, 175
Death Star, 90–91
Deception, 100
Degenerate pricing, 110–113
Delivery/settlement period, 27–28
Demand, 72–75
reduction, 181
Demand response, 186
policy ISO-NE policy, 179–181
“Dependent” variable, 130
Deutsche Bank, 105, 118, 206
arguments, 107–108
“degenerate pricing” and
“artificial” prices, 110–113
legal standards, 113
motivation, 108–109
original intent rule, 116–117
other issues, 113
per se illegality, 115–116
proceedings and FERC Staff’s arguments, 106–107
prosecution’s case, 105
reason for lose money, 109–110
settlement with FERC, 120
stand-alone profitability, 113–114
subsequent FERC cases, 117–118
US enforcement agencies, 118–119
DiPlacido, 47, 166, 212
CFTC’s path to manipulation finding, 57–64
contending theories, 50–57
parties and charges, 48
process at administrative agency, 48–49
weaknesses of procedure, 49–50
Dreyfuss Show Cause Order and Consent, 117
“Dummy” variables, 130n12

Early trading, 145–146
ECONLIT search engine, 144
Econometrics, 130–132
Economic theories of manipulation, 17
everly works, 17–19
Pirrong creating field, 19–25
works by Ledgerwood and coauthors, 25–28
Efficient Markets Hypothesis, 28, 161

eggs, 34
Electricity
demand, 68–69
price, 185
Electricity markets, 67, 211
ancillary markets, 78–79
day-ahead and real-time markets, 75–77
FTRs, 77–78
required price for offering into reserve market, 79
restructured, 68–70
three-node model, 70–75
Electricity Reliability Council of Texas (ERCOT), 68
Electricity restructuring in California, 68, 81
monthly wholesale electricity prices during crisis, 84
price caps and finger pointing, 83–87
supply curves, 86
“End game” of manipulation, 21
Energy Information Administration, 186
Energy Policy Act (2005), 134
ENRON, 81, 87, 195
in California Crisis, 88–89
strategy, 99
ENRON Energy Services (EES), 99
Etracom, 118
Ex ante profitability, 113–114, 117
Ex post enforcement, 203
Ex post profitability, 113–114, 117
Exchange(s), 23
buying from, 5–6
commodity, 22, 42, 59, 69
fungible, 3
rules, 62
Exxon stock, 19

Farming, 1–2
“Fat Boy” strategy, 99–100
Federal court system, 213
Federal Energy Regulatory Commission (FERC), 49, 68, 81, 96, 105, 123, 125, 137, 141, 144, 151, 157, 179,
Subject Index

FERC v. Electric Power Supply Association, 181
FERC v. Silkman, 182, 191
penalty order, 169–171
staff, 105, 159
Federal Power Act (FPA), 170, 183, 202
Federal Reserve Board, 42
Federal Trade Commission (FTC), 49
Financial economics, 28
Financial index market, 159
Financial market manipulation, 15
Financial risk, 106
Financial Transmission Rights (FTRs), 77–78, 89, 105
Finger pointing, 83–87
Firm compliance, 152
Firms, 110
First law of nature, 33
Forney Perpetual Loop, 90
“Framing the open” theory, 143–145
Fraud, 116
Freeport-McMoran Corporation, 10
Gaming, 89, 91, 100–101
rule, 212
General Foods v. Brannan (1948), 32–34
“Get Shorty” ENRON, 91–93
Grain Futures Act (1922), 31
Great Western v. Brannan (1953), 34–36
“Harming well-functioning market”, 107
Hedge fund, 124
Hedgers, 8, 17, 18
Hedging, 51–53
financial risk method, 105
theory, 56
Home-run strategy, 206
Houston Ship Channel (HSC), 142
Hunt Brothers’ silver market episode, 32, 40–45
Hunter v. FERC, 136, 711 F. 3rd 155
Hurricane Katrina, 124
Hydroelectric facilities, 67
Independent System Operators (ISOs), 69
Independent variables, 130
Index manipulation, 158
Index period, 158
Indicator variable, 145
Individual trader, incentive of, 151–152
Indonesian government, 10
Informed party, 17, 18
Instant message (IM), 126
Intermediate Microeconomics, 150
“Invisible hand” (Smith), 68
ISO-New England (ISO-NE), 179
policy, 179–181
Jurisdiction, 135–137
Kaminski’s analysis, 131–132
Kirchhoff’s law, 67, 72
Kyle model, 17
Laundering, 93
“Law and economics” paradigm, 35n3
LEXIS search terms, 59
“Light” index (see NP off-peak)
Limit orders, 26
Liquidity, 8
Load serving entities (LSEs), 76
Load shifting, 89–90, 105
London Metal Exchange (LME), 23
Long manipulations, 22, 24
Loopholes, 201–203, 207
Manipulation, 1, 9, 39, 47, 105, 150–152
analysis, 199–200
CFTC, 11
commodity market, 1–9
Ledgerwood and Kleit
definitions, 12
losing money, 10
market, 12
speculation, arbitrage, and market
power, 13–15
strategy, 23
theory, 53–54
wash trading, 12, 13
Manipulator, 11, 21, 24
Marginal costs (MCs), 72
Marginal Loss Surplus Allocation
(MLSA), 197
Market
bid, 9
design function, 100
impact, 14n10
maker, 8
manipulation, 12
monitors, 70
participants, 14, 23
power, 9, 13–15
power manipulations, 15
wholesale price, 179
Market monitoring and information
protocols (MMIP), 96
Merit order, 77
Midwest Independent System
Operator (MISO), 69
Minorco v. Hunt, 14
Misconstruing Cargill, 63–64
Misconstruing Henner, 61–63
MLSA revenues, 198–199
“Money for nothing” scheme, 91
Monopsony behavior, 94
Motives for violating bidders,
59–60
My Cousin Vinny (movie), 153n14
Natural gas, 145
“Neo-classical” theory of the
firm, 150
New Orleans contracts, 36
New York Cotton Exchange, 37
New York Mercantile Exchange
contracts (NYMEX
contracts), 48, 57
Nodes, 71
“Nontransitory” market power, 15
Null hypothesis, 131
Ohms, 71
Options, 51–53
Original intent rule, 116–117
“Out of merit” (OOM), 85
Overgeneration, 99–100
Palo Verde (PV), 48, 55, 65, 91, 158
electricity, 11
Payment system, 196
Per se illegality, 115–116
Per se rule, 61
Peruvian government, 43
Phantom congestion, 108
PJM, 195, 201–203, 205
Plaintiff, 135
“Polar Vortex”, 204
Post hoc rationalization, 206
Power flow, 73
Power supply, 68
Powhatan, 195
participants and proceedings,
197–198
Powhatan’s response, 200–206
show cause order, 198–200
staff’s rebuttal and commission’s
initial decision, 206–208
transmission losses, 195–197
Powhatan’s trades, 203–204
Preliminary econometric model, 166
Price arbitrage strategies, 97
Overgeneration and “Fat Boy”
strategy, 99–100
“Ricochet”, 97–99
Price caps, 83–87
Price effect manipulation, 43
Price impact, 14n10
“Price Rebound” theory, 132
Price slippage, 14n10
Protective call, 51
Subject Index

Protective put, 53
Punishment and theory of firm, 150–151
Put option, 52

Quantity risk, 2n1

Rate of return regulation, 68
Real-time markets, 75–77
Real-time prices, 93–97
“Real-time” markets, 76
Regional transmission operator (RTO), 67–70, 106, 181, 195
“Regulation” markets, 79
Regulatory capture, 42
Reserve markets, 78, 91
Reserve payments, 78
Resistance, 70–72
Restructured electricity markets, 68
rate of return regulation, 68
restructured states, 69
RTOs, 68–70
RTOs in North America, 70
Revenue equation, 20
“Ricochet”, 97
economic analysis, 98
strategy, 97
“Risk neutral”, 21
Rumford and Silkmann defense, 185
DALRP, 185–187
rules of DALRP, 187–189
scienter, 189–190
Rumford Paper, 182
Rumford Show Cause Order, 184

Scienter, 35, 116, 128–129, 135,
147–150, 161–164, 189–190, 200
Secretary of Agriculture, 32
Self-preservation, 33
Self-regulating organization, 205
Settlements, 135–137
Short manipulation, 24
Show cause order, 117, 144n7, 157,
159, 182–185, 198
damages amount, 164–165
manipulation analysis, 199–200
scienter, 161–164, 200
underlying case, 159–161
UTC trading driven by MLSA revenues, 198–199
Solar power, 76
Southwest Power Pool (SPP), 69
Speculation, 13–15
Speculators, 8, 14, 17
Squeezes, 11
Standard deviation, 172
State Department of Water and Resources, 83
State-mandated price, 82
Statistical inference, 130–131
Statistical significance, 131
Stepwise regression, 132
Sullivan & Long v. Scattered, 108
Supply, 72–75
curves in California, 86, 87
power, 68
Supplying reserve power, 78
Surrebuttal analysis, 133
“t-statistic”, 131
Target, 26
Theory of the firm, 150
firm compliance, 152
incentive of individual trader, 151–152
punishment and, 150–151
Three-node model, 67, 70, 71
constrained equilibrium, 75
flow across three transmission
lines, 74
power flow, 73
resistance, 70–72
supply and demand, 72–75
Town eggs, 34
Traders, 151
Trading, 22
book, 8
strategies, 146–147
Trading Places (Classic 1983 movie), 6n5
Transmission lines, 71
losses, 195–197
Treasury bonds, 19
Trigger, 25–26

*U.S. v. Addyston Pipe*, 116
Underscheduling Load, 96
Uneconomic trading, 10, 26, 27, 48
“Unintentional” squeeze, 35
University of Utah, 58
“Up-To-Congestion” contracts (UTC), 198
trading driven by MLSA revenues, 198–199

US enforcement agencies, 118–119
Violating bids, 57, 58
CFTC, 61
DiPlacido’s defense, 60
motives for violating bidders, 59–60
Violating offers, 58, 59
*Volkart Brothers* (1962), 36

Wash trading, 12, 13
Well-functioning market, 195, 205–206
Western State Power Pool (WSPP), 92
Widget, 150
Wind power, 76