

May 22, 2002

Donald J. Gelinas
Associate Director
Office of Markets, Tariffs and Rates
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Docket No. PA02-2-000
Responses of Sempra Energy Trading Corp.

Dear Mr. Gelinas:

Attached are the responses of Sempra Energy Trading Corp. ("SET") to your May 8, 2002 data request in the above-referenced docket. These responses are being submitted by SET on its own behalf, and not on behalf of any SET affiliate.¹

Due Diligence Conducted in Preparing Responses

Since receiving your request, SET has devoted extensive resources in an effort to provide complete and accurate responses. To that end, SET identified and interviewed all currently-employed electricity traders, schedulers, managers, and operations personnel. SET reviewed transactions, relevant e-mails, documents and data relating to the your inquiries. SET does not maintain telephone logs. SET's phone lines for the above personnel are taped on a regular basis during the trading day. There is no way to conduct a transaction-specific review of these tapes, and we estimate that a complete review of these tapes would require approximately two years of man-hours. In SET's view, this would be unduly burdensome. Should you require that SET conduct this review, we would request your guidance on how to proceed. Finally, while SET believes that it has met its obligations in this response, SET reserves

¹ Affiliates of SET are separately listed as respondents to Attachment A to your data request, and SET is advised that they are providing separate responses to your inquiry.

the right to supplement it if appropriate.

Description of Submittal

SET's data responses are provided in the following format. This cover letter provides certain procedural information. Attachment 1 to this letter provides responses to the specific questions posed in your May 8, 2002 data request. Attachment 2 to this letter is my affidavit attesting to all of the information contained in this response, including this cover letter and Attachment 1.

Sincerely,

Michael A. Goldstein
Senior Vice President and
General Counsel

Attachments

May 22, 2002

Attachment 1

I. Requests for Admissions

- A. 1. **Admit or Deny: The company engaged in activity referred to in the Enron memoranda as “Export of California Power” during the period 2000-2001, in which the company buys energy at the Cal PX to export outside of California in order to take advantage of the price spread between California markets (which were capped) and uncapped markets outside California.**

Denied. SET did not buy energy at the Cal PX to export outside of California in order to take advantage of the price spread between California markets and markets outside of California, as described in the Enron memoranda. Those memoranda assume there existed a riskless opportunity to buy energy from the Cal PX for delivery at a profit to markets outside of California. In fact, the marketplace was and is more complicated and risky. SET, as a market participant, often had long and short positions in its energy portfolio and bore the risk of those positions until SET had an opportunity to satisfy them. These positions would have been satisfied through a combination of transactions within California and through both exports and imports, which took into account price differentials between markets, variable costs and the risks associated therewith, including the risk that transmission could be curtailed or constrained. For example, a long position could have been established by bidding for energy in the Cal PX day-ahead market. At the time of such bid, SET would not necessarily sell this energy to an export market because of transmission and other market risks, such as the risk that the constrained market clearing price actually paid by SET for such energy could be greater than SET's bid price. SET then bore the financial risk of its long position until it sold such energy the next day in the Cal PX day-of market, over-the-counter market, export market or the real-time market. Therefore, SET was not assured that it could buy energy at the Cal PX to take advantage of higher prices outside of California.

2. **If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all purchases and sales of energy and/or ancillary services, counter-parties to the transactions, prices and volumes, delivery points, and corresponding Cal ISO schedules. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- B. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Non-Firm Export” during the period 2000-2001, in which the company gets a counterflow (scheduling energy in the opposite direction of a constraint) congestion payment from the Cal ISO by scheduling non-firm energy from a point in California to a control area outside of California, and cutting the non-firm energy after it receives such payment.**

Denied. SET did not schedule non-firm energy for export outside of California.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, congestion payments received, corresponding Cal ISO schedules, counter parties, and delivery points. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- C. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Death Star” during the period 2000-2001, in which the company schedules energy in the opposite direction of congestion (counterflow), but no energy is actually put onto the grid or taken off of the grid. This allows the company to receive congestion payments from the Cal ISO.**

Denied. SET did not schedule energy in the opposite direction of congestion without actually putting energy onto or taking it off of the grid. The Cal ISO occasionally paid SET in connection with its operational grid management needs, but at all times SET’s schedules were supported by valid and enforceable purchases, sales and transmission.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, all transmission and energy schedules, the counter parties, all congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- D. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Load Shift” during the period 2000-2001. This variant of “relieving congestion” involves submitting artificial schedules in order to receive inter-zonal congestion payments. The appearance of congestion is created by deliberately over-scheduling load in one zone (e.g., NP-15), and under-scheduling load in another, connecting zone (e.g., SP-15); and shifting load from a congested zone to the less congested zone, thereby earning congestion payments for reducing congestion.**

Denied. SET did not submit artificial schedules in an attempt to create the appearance of congestion.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, all schedules of load by zone, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- E. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Get Shorty” during the period 2000-2001, also known as “paper trading” of ancillary services in which it: (i) sells ancillary services in the Day-ahead market; and (ii) the next day, in the real-time market, the company “zeros out” the ancillary services by cancelling the commitment to sell and buying ancillary services in the real-time market to cover its position. The phrase “paper trading” is used because the seller does not actually have the ancillary services to sell.**

Denied. SET did not sell ancillary services in the day-ahead market and later cancel its commitment to do so in the real-time market. SET only sold ancillary services in the day-ahead market at the interties where SET was able to meet its commitments. To the extent that SET or the Cal ISO adjusted schedules due to changed circumstances (*i.e.*, market opportunities, transmission line deratings or generation outages), SET would have had to transact for ancillary services in the hour-ahead market.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this trading strategy, including the dates of all transactions; prices and volumes for sales of ancillary services in the Day-ahead market; the cancellation of such sales, prices and volumes for the purchase of ancillary services in the real-time market to cover the company’s position; and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately**

above.

Not applicable.

- F. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Wheel Out” during the period 2000-2001. Knowing that an intertie is completely constrained (*i.e.*, its capacity is set at zero), or that a line is out of service, the company schedules a transmission flow over the facility. The company also knows that the schedule will be cut and it will receive a congestion payment without actually having to send energy over the facility.**

Denied. SET did not schedule transmission over a facility knowing that an intertie was completely constrained, that a line was out of service, or that the schedule would be cut.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates of all transactions, corresponding schedules, counter parties, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- G. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Fat Boy” during the period 2000-2001 in which the company artificially increases load on the schedule it submits to the Cal ISO with a corresponding amount of generation. The company then dispatches the generation it schedules, which is in excess of its actual load. This results in the Cal ISO paying the company for the excess generation. Scheduling coordinators that serve load in California may be able to use this activity to includes the generation of other sellers.**

Denied. SET did not artificially increase load on any schedule submitted to the Cal ISO because it was able to anticipate that the real-time price would be favorable or because SET knew that the market would be short, as described in the Enron memoranda. As a Scheduling Coordinator, there were instances in which SET overscheduled load based on its view of the market, including the inherent difficulty of matching generation to load. In all these instances, SET accepted the financial risk as a price taker in providing excess energy to the marketplace.

- 2. If you so admit, provide complete details as to all transactions that your**

company engaged in as part of this activity, including the dates of all transactions, corresponding schedules, and payments from the Cal ISO for excess generation (including both price and volumes). Also, provide all documents that refer or relate to the activity described immediately above.

Not applicable.

- H. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Ricochet,” also known as “megawatt laundering,” during the period 2000-2001, in which the company: (i) buys energy from the Cal PX and exports to another entity, which charges a small fee; and (ii) the first company resells the energy back to the Cal ISO in the real-time market.**

Denied. SET did not buy energy from the Cal PX which it then exported to another entity, for a fee, in order to resell the same energy back to the Cal ISO in the real-time market.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, names of counter parties and whether they were affiliates, the fees charged, prices and volumes for energy that was bought and then re-sold. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- I. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Selling Non-firm Energy as Firm Energy” during the period 2000-2001, in which the company sells or resells what is actually non-firm energy to the Cal PX, but claims that it is “firm” energy. This allows the company to receive payment from the Cal ISO for ancillary services that it claims to be providing, but does not in fact provide.**

Denied. SET did not sell or resell non-firm energy to the Cal PX which it claimed to be “firm” energy in order to receive payment from the Cal ISO for ancillary services which it did not provide.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, prices and volumes, and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- J. 1. Admit or Deny: The company engaged in activity described in the Enron memoranda as “Scheduling Energy to Collect Congestion Charge II” during the period 2000-2001, in which the company: (i) schedules a counterflow even though it does not have any available generation; (ii) in real time, the Cal ISO charges the company for each MW that it was short; and (iii) the company collects a congestion payment associated with the counterflow scheduled. This activity is profitable whenever the congestion payment is greater than the charge associated with the energy that was not delivered.**

Denied. SET did not schedule a counterflow, without having available generation, in order to collect a congestion payment.

- 2. If you so admit, provide complete details as to all transactions that your company engaged in as part of this activity, including the dates for all transactions, corresponding schedules, prices and volumes, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.**

Not applicable.

- K. 1. Admit or Deny: The company engaged in any activity during the period 2000-2001 that is a variant of any of the above-described activities or that is a variant of, or uses the activities known as, “inc-ing load” or “relieving congestion,” as described above.**

Denied. SET did not engage in any activity during the period 2000-2001 that it believes is a variant of any of the above-described activities or is a variant of, or uses the activities known as, “inc-ing load” or “relieving congestion,” as described in the Enron memoranda. As part of the ordinary course of its participation in the market, SET took long and short positions in different markets in order to purchase and sell energy for its customers and itself. As with any net position, SET bore the financial risks associated with the marketplace.

- 2. If you so admit, provide a narrative description of each specific time in which the company engaged in such activity and provide complete details of those transactions, including the dates of the transactions, counter parties, prices and volumes bought or sold, corresponding schedules, and any congestion payments received. Also, provide all documents that refer to or relate to such activities.**

Not applicable.

II. Requests for Production of Documents

- A. Provide copies of all communications or correspondence, including e-mail messages, instant messages, or telephone logs, between your company and any other company (including your affiliates or subsidiaries) with respect to all of the trading strategies discussed in the Enron memoranda (both the ten “representative trading strategies” as well as “inc-ing load” and “relieving congestion”). This request encompasses all transactions conducted as part of such trading strategies engaged in by your company and the other company in the U.S. portion of the WSCC during the period 2000-2001.**

Based on its review and investigation, SET did not produce any documents responsive to this request.

- B. Provide copies of all material, including, but not limited to, opinion letters, memoranda, communications (including e-mails and telephone logs), or reports, that address or discuss your company’s knowledge of, awareness of, understanding of, or employment or use of any of the trading strategies discussed in the Enron memoranda, or similar trading strategies, in the U.S. portion of the WSCC during the period 2000-2001. The scope of this request encompasses all material that address or discuss your company’s knowledge or awareness of *other* companies’ use of the trading strategies discussed in the Enron memoranda, or similar trading strategies, including, but not limited to: (i) offers by such other companies to join in transactions related to such trading strategies, regardless of whether such offers were declined or accepted; and (ii) possible responses by your companies to other companies’ use of such trading strategies. To the extent that you wish to make a claim of privilege with respect to any responsive material, please provide an index of each of those materials, which includes the date of the each individual document, its title, its recipient(s) and its sender(s), a summary of the contents of the document, and the basis of the claim of privilege.**

Based on its review and investigation, SET did not produce any documents responsive to this request.

III. Requests for Other Information

- A. On page 2 of the December 8, 2000, Enron memorandum, the authors allege that traders have learned to build in under-scheduling of energy into their models and forecasts. State whether your company built under-scheduling into any of**

its models or forecasts during the period 2000-2001, and provide a narrative description of such activity. Provide copies of all such models or forecasts prepared by or relied on by your company during the period 2000-2001 that had under-scheduling built into them.

SET does not do any modeling to forecast prices or scheduling. Accordingly, there are no models or forecasts into which under-scheduling has been built.

- B. Refer to the discussion of the trading strategy described as “Ricochet” in the Enron memoranda. State whether your company purchased energy from, or sold energy to, any Enron company, including Portland General Electric Company, as part of a “Ricochet” (or megawatt laundering) transaction during the period 2000-2001. Provide complete details as to such transactions, including the dates of the transactions; the names, titles, and telephone numbers of the traders at your company who engaged in such transactions; the prices at which your company bought and sold such energy (on a per transaction basis); the volumes bought and sold (on a per transaction basis); delivery points; and all corresponding schedules.**

SET did not purchase energy from, nor did it sell energy to, any Enron company, including Portland General Electric Company, as part of a “Ricochet” (or megawatt laundering) transaction during the period 2000-2001.

Attachment 2

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Fact-Finding Investigation of
Potential Manipulation of
Electric and Natural Gas Prices

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Docket No. PA02-2-000

Affidavit of Michael A. Goldstein

County of Fairfield)
) ss.:
State of Connecticut)

Michael A. Goldstein, being duly sworn according to law, on oath deposes and says: That he is Senior Vice President and General Counsel of Sempra Energy Trading Corp., and that the information and documents provided in the cover letter and Attachment 1 attached hereto constitute a response that is true and accurate to the best of his knowledge, information, and belief formed, after a thorough investigation was diligently conducted (the process and scope of which is described in the cover letter), under his supervision and control, into the trading activities of SET's employees and agents in the U.S. portion of the WSCC during the years 2000 and 2001.

Michael A. Goldstein

Subscribed and sworn to before me, the undersigned Notary Public, the ____ day of May,
2002.

Notary Public

My Commission Expires:_____