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Arizona Corporation Commission
DOCKETED

JUL 24 2002

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Attn: Nancy Cole, Supervisor
Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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AZ CORP COMMISSION
DOCUMENT CONTROL

Re: Docket No. E-00000A-02-0051
Docket No. E-01345A-01-0822
Docket No. E-00000A-01-0630
Docket No. E-01933A-02-0069
Docket No. E-01933A-98-0471

Dear Ms. Cole:

This letter and the enclosed ten (10) copies of a Supplemental Response of Sempra Energy Trading Corp. are tendered for filing in the above-referenced docket as a supplement to the materials I submitted with my May 29, 2002 letter to you. Those earlier materials were in response to a request from Chairman Mundell, which was set forth in a May 14, 2002 letter from him to Commissioners Irvin and Spitzer. In each instance, the tendered documents are copies of information previously submitted to the Federal Energy Regulatory Commission in response to data requests in FERC Docket No. PA 02-000.

Nancy Cole, Supervisor
July 18, 2002
Page 2

Please let me know in the event you have any questions regarding the above or the enclosed materials.

Thank you for your assistance.

Sincerely,



Lawrence V. Robertson, Jr.

LVR:cl
enclosure

cc: Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer
Ernest Johnson
Chris Kempley

June 17, 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
Supplemental Response of Sempra Energy Trading Corp.

Dear Mr. Gelinas:

We refer you to the May 22, 2002 response (the "May 22 Response") of Sempra Energy Trading Corp. ("SET") to your May 8, 2002 data request (the "Data Request") in the above-referenced docket. SET is submitting this supplement on its own behalf, and not on behalf of any SET affiliate. Affiliates of SET are separately listed as respondents to Attachment A to the Data Request.

SET is providing this additional information to FERC to clarify the public record concerning SET's activities in the electricity markets. Specifically, SET is replying to statements made by PacifiCorp in its response to the Data Request (the "PacifiCorp Response"). None of the information contained herein changes the May 22 Response's conclusion that SET did not engage in any of the trading activities referred to in the Data Request.

The PacifiCorp Response stated that "[i]n a limited number of cases, PacifiCorp entered into a buy and sell transaction with a single counterparty at a single interface for a small fee." (Response of PacifiCorp to the Commission's Data Request Dated May 8, 2002, Docket No. PA02-2-000 ¶ 82.) PacifiCorp speculates that these transactions, conducted between July and November 2000, "might have elements of megawatt laundering." (*Id.* ¶ 84.) PacifiCorp names "Sempra" as one of the counterparties to those transactions, but fails to specify which Sempra entity was the alleged counterparty. (*Id.* ¶ 84.) As a result, SET investigated all of its transactions with PacifiCorp during the period in question, including interviewing relevant traders, management, and operations personnel; analyzing data; and listening to relevant transaction recordings.¹

¹ Although PacifiCorp states that it submitted trading logs and a sampling of audio-taped trading transactions, PacifiCorp declined to share this information with SET.

In particular, SET reviewed its transactions with PacifiCorp from July through November 2000 to search for transaction pairs involving the sale and repurchase of identical quantities of electricity. As discussed below, SET and PacifiCorp did engage in location exchanges of electricity which may have used PacifiCorp's transmission system, but SET did not engage in "ricochet" trades, as those trades are described in the Enron memoranda.

As disclosed in its May 22 Response, SET, as a market participant, often had long and short positions in its energy portfolio and bore the risk of those positions until it had an opportunity to satisfy them. These positions would have been satisfied through a combination of transactions within the CAISO and through both exports and imports, which took into account price differentials between markets, variable costs and the risks associated therewith.

If SET had a long position, it would, from time to time, set up a schedule to export power to the Northwest or transmit power through the CAISO to the Northwest. This would be the case if the price for power in the Northwest was greater than, or anticipated to be greater than, the price for power in the over-the-counter market where SET had a long position, plus the variable charges for transmission, congestion, ancillary services and grid management to move the power to the Northwest. Once the export schedule was set up, SET would have had a long position going out of the CAISO control area at a tie point. Subsequent to setting up that export schedule, SET may have submitted an offer to the CAISO to sell supplemental energy requested by CAISO market notices. SET would not know if its offer to sell energy to the CAISO was accepted until approximately 30 minutes prior to the hour for which it was offered. Also, because SET was typically a "price taker," it would not know the price it would be paid for that supplemental energy until after the CAISO had posted its prices during the hour the energy was effectively delivered. If the CAISO did call on energy offered by SET and SET intended to satisfy the CAISO with SET's long position, SET would have to move the energy from the tie point at which the energy was scheduled for export to the tie point at which the CAISO accepted the supplemental energy offer. SET would, therefore, need to buy transmission to move the energy from one point to the other or enter into a purchase and sale (a "location exchange") with a counterpart to effectively transmit the energy between these points. PacifiCorp was such a counterpart. Each leg of the transaction (the sale to PacifiCorp and the purchase from PacifiCorp) was agreed to at a separate market price (i.e., the price at which SET was willing to sell and the price at which it was willing to buy) and were independent transactions.

There was always the risk that the CAISO would not accept the supplemental bid or that the export schedule could be cut by the CAISO or a neighboring control area. If the CAISO does not accept SET's bid, SET does not receive any money for the energy from the CAISO and has to dispose of it in another manner. If the export schedule is cut, SET

Consequently, SET has been unable to review all audio-taped recordings for these transactions.

has to find another (possibly more expensive) source to meet its obligation to provide energy to the CAISO. In short, there are no riskless opportunities to purchase power in the Cal PX and sell that energy at a higher price in the CAISO.

This supplement to SET's May 22 Response is provided in the following format: (i) This letter provides certain supplemental information and (ii) Attachment 1 to this letter is my affidavit attesting to all of the information contained herein.

Sincerely,

Michael A. Goldstein
Senior Vice President and
General Counsel

Attachment

Attachment 1

**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 a Senior Vice President and General Counsel of Sempra Energy Trading Corp., and that the information and documents provided in the cover letter 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
June, 2002.

Notary Public

My Commission Expires: _____