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California  
11

12 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA  
13 FOR THE COUNTY OF ALAMEDA  
(Unlimited Jurisdiction)  
14

15 PEOPLE OF THE STATE OF CALIFORNIA EX  
16 REL. BILL LOCKYER, ATTORNEY GENERAL  
OF THE STATE OF CALIFORNIA,

17 Plaintiff,

18 v.  
19

20 ENRON CORPORATION, ENRON ENERGY  
SERVICES, INC.; ENRON ENERGY SERVICES  
OPERATIONS, INC.; ENRON ENERGY  
21 SERVICES, LLC; ENRON NORTH AMERICA  
CORP.; ENRON POWER MARKETING, INC.  
22 AND DOES 1-100,

23 Defendants.  
24

Case No.

**COMPLAINT FOR  
RESTITUTION,  
DISGORGEMENT, AND/OR  
DAMAGES, AND CIVIL  
PENALTIES (CALIFORNIA  
BUSINESS & PROFESSIONS  
CODE § 17200, CALIFORNIA  
CORPORATIONS CODE  
§29536); DEMAND FOR JURY  
TRIAL**

1 The People of the State of California, by and through Bill Lockyer, Attorney General of  
2 the State of California, allege on information and belief as follows:

3 **NATURE OF ACTION**

4 1. This is a law enforcement action brought by the Attorney General of the State of  
5 California to enforce the State’s police and regulatory powers under California’s Unfair Competition  
6 Law (Business & Professions Code § 17200) and California’s Commodity Law (Corporations Code  
7 § 29500, et seq.) against ENRON CORPORATION and its subsidiaries and affiliates (collectively  
8 referred to herein as “ENRON” or “ENRON Defendants”), for engaging in a number of unlawful,  
9 unfair, fraudulent and manipulative trading schemes to the detriment of the people of the State of  
10 California. A fundamental element of the trading schemes was the deliberate use of false or  
11 misleading information.

12 2. ENRON’s chief West Coast power trader, Timothy Belden, and a fellow ENRON  
13 trader, Jeffrey Richter, have pleaded guilty to federal wire fraud charges in connection with these  
14 trading schemes. In his plea agreement, Belden admitted that between 1998 and 2001, he and other  
15 individuals at ENRON agreed to, and did, devise and implement a series of fraudulent schemes . . .

16 .  
17 to obtain increased revenue for ENRON from wholesale electricity customers  
18 and other market participants in the State of California. The schemes required  
19 us to submit false information to the PX and ISO in the electricity and ancillary  
20 services markets . . . Among other things, we knowingly and intentionally filed  
21 energy schedules that misrepresented the nature of the electricity we proposed  
22 to supply, as well as the load we intended to serve. We intentionally filed  
23 schedules designed to artificially increase congestion on California transmission  
24 lines. We were paid to “relieve” congestion when, in fact, we did not relieve  
25 it. We exported and then imported amounts of electricity generated within  
26 California in order to receive higher, out-of-state prices from the ISO when it  
27 purchased “out-of-market.” We scheduled energy that we did not have, or did  
28 not intend to supply . . . As a result of these false schedules, we were able to  
manipulate prices in certain markets . . . obtain “congestion management”  
payments in excess of what we would have received with accurate schedules,  
and receive prices for electricity above price caps set by the ISO and the  
Federal Energy Regulatory Commission.

26 3. In this action, the Attorney General seeks to recover restitution, damages, civil  
27 penalties, and other equitable relief as authorized under California Business & Professions Code §  
28 17206 and California Government Code § 12660.

1 **PARTIES**

2 4. Plaintiff Bill Lockyer is the Attorney General of the State of California and is the  
3 chief law officer of the State (Cal. Const., art. 5, § 13). He is authorized by California Business &  
4 Professions Code § 17204 to prosecute in a court of competent jurisdiction any unlawful, unfair or  
5 fraudulent business act or practice which is prohibited by California Business & Professions Code  
6 § 17200. The Attorney General is also authorized under California Government Code § 12658 to  
7 enforce the California Commodity Law of 1990 (Cal. Corp. Code §§ 29500, et seq.)

8 5. Defendant ENRON CORPORATION, is an Oregon corporation with its principal  
9 place of business in Houston, Texas. At all relevant times alleged in this complaint, ENRON  
10 CORPORATION was and is a holding company that, through its subsidiaries and affiliates, engaged  
11 in wholesale merchant and commodity market businesses, the management of end-use retail  
12 customer energy services, the operation of gas transmission systems and the worldwide management  
13 of energy-related assets and broadband services.

14 6. ENRON ENERGY SERVICES OPERATIONS, INC., with its principal place of  
15 business in Harris, Texas, was and is a wholly owned subsidiary of ENRON ENERGY SERVICES,  
16 LLC and an affiliate of ENRON CORPORATION. At all relevant times alleged in this Complaint,  
17 ENRON ENERGY SERVICES OPERATIONS, INC. was engaged primarily in the business of  
18 providing retail energy products and services.

19 7. Defendant ENRON ENERGY SERVICES, INC., a Delaware corporation with its  
20 principal place of business in Harris, Texas, was and is a wholly-owned subsidiary of ENRON  
21 ENERGY SERVICES OPERATIONS INC., and an affiliate of ENRON CORPORATION. At all  
22 relevant times alleged in this complaint, ENRON ENERGY SERVICES, INC. was engaged in the  
23 business of retail power sales and related power marketing and energy services.

24 8. Defendant ENRON ENERGY SERVICES, LLC, a limited liability company with  
25 its principal place of business in Houston, Texas, directly or indirectly owns, controls or holds,  
26 98.16% of the voting securities of ENRON CORPORATION. At all relevant times alleged in this  
27 Complaint, ENRON ENERGY SERVICES, LLC was engaged primarily in the business of retail  
28 energy products and services.

1           9. Defendant ENRON NORTH AMERICA CORP., a Delaware corporation with its  
2 principal place of business in Harris, Texas and also previously known as ENRON CAPITAL &  
3 TRADE RESOURCES CORP., was and is a wholly-owned subsidiary of ENRON  
4 CORPORATION. At all relevant times, ENRON NORTH AMERICA CORP. was engaged in  
5 purchasing, marketing, and delivering natural gas, and electricity and other commodities (through  
6 its wholly owned subsidiary, ENRON POWER MARKETING, INC.) in North America.

7           10. Defendant ENRON POWER MARKETING, INC., a Delaware corporation with its  
8 principal place of business in Harris Texas, was and is a wholly-owned subsidiary of ENRON  
9 NORTH AMERICA CORP. and an affiliate of ENRON CORPORATION. At all relevant times  
10 alleged in this complaint, ENRON POWER MARKETING, INC. marketed a range of products  
11 related to the purchase, sale and delivery of electric power (including related products and services)  
12 and the management of associate price risks.

13           11. The true names and capacities of defendants sued in this Complaint under fictitious  
14 names of DOES 1 through 100, inclusive, are unknown to plaintiff, who sues such defendants by  
15 such fictitious names. Each of the fictitiously-named defendants engaged in or is otherwise  
16 responsible in some manner for the acts, omissions, misrepresentations, use or misuse of information  
17 or other occurrences which caused the violations alleged herein.

18           12. Unless otherwise alleged, whenever reference is made in this Complaint to any act  
19 of defendants, such allegation shall mean that each defendant acted individually and jointly with the  
20 other defendants named in the Complaint.

21           13. Unless otherwise alleged, whenever reference is made in this Complaint to any act  
22 of any corporate or other business defendant, such allegation shall mean that such corporation or  
23 other business did the acts alleged in this Complaint through its officers, directors, employees,  
24 agents and/or representatives who were acting within the actual or ostensible scope of their  
25 authority.

26           14. At all relevant times alleged in this Complaint, each of the defendants has acted as  
27 an agent, representative, or employee of each of the other defendants and has acted within the course  
28 and scope of their actual or ostensible authority.

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2 **JURISDICTION**

3 15. This Court has jurisdiction to hear the claims alleged in this Complaint and is a court  
4 of competent jurisdiction to grant the relief requested.

5 16. This Court has jurisdiction over the ENRON Defendants because they each registered  
6 with the Secretary of State to conduct business in California and did conduct business in California  
7 by engaging in the offer, sale and purchase of electricity in the State of California and/or the control  
8 area of the California Independent System Operator, and because they otherwise have sufficient  
9 minimum contacts in California, to render the exercise of jurisdiction over them by the California  
10 courts consistent with traditional notions of fair play and substantial justice.

11 **VENUE**

12 17. Venue is proper in this Court because the causes of action arise in the County of  
13 Alameda where some of the violations of law have occurred.

14 **STATUTORY BACKGROUND**

15 **A. The Unfair Competition Law**

16 18. California Business & Professions Code section 17200 provides that “unfair  
17 competition” shall mean and include *any* unlawful, unfair or fraudulent business practice.

18 19. Section 17203 of the California Business and Professions Code provides that “[a]ny  
19 person who engages, has engaged, or proposes to engage in unfair competition may be enjoined in  
20 any court of competent jurisdiction.” The court may make such orders or judgments as may be  
21 necessary to prevent the use or employment by any person of any practice which constitutes unfair  
22 competition or as may be necessary to restore any person in interest any money or property, real or  
23 personal, which may have been acquired by means of such unfair competition.

24 20. Section 17206 of the California Business & Professions Code provides that any  
25 person who engaged, has engaged, or proposes to engage in unfair competition shall be liable for  
26 a civil penalty not to exceed two thousand five hundred dollars (\$2,500) for each violation, which  
27 shall be assessed and recovered in a civil action brought in the name of the People of the State of  
28 California by the Attorney General. Section 17205 of the California Business & Professions Code

1 further provides that the remedies or penalties thereunder are cumulative to each other and to the  
2 remedies or penalties available under all other laws of this state.

3 **B. The California Commodity Law**

4 21. Section 12657 of the California Government Code, which became effective on  
5 January 1, 2004, provides the Attorney General with concurrent enforcement powers to enforce  
6 California's Commodity Law.

7 22. Section 12658 of the California Government Code provides that whenever it appears  
8 to the Attorney General that any person has engaged or is about to engage in any act or practice  
9 constituting a violation of the California Commodity Law, the Attorney General may, in his  
10 discretion, bring an action in the name of the People of the State of California in superior court to  
11 enjoin any act or practice constituting a violation of the commodities laws, and, where appropriate,  
12 seek ancillary relief, including restitution, disgorgement, or damages.

13 23. Section 12661 of the California Government Code also authorizes the Attorney  
14 General to take any actions as are authorized by the federal Commodity and Exchange Act as  
15 amended before or after January 1, 2004, the effective date of Section 12661.

16 24. Section 13a-2 of the Commodity Exchange Act (7 U.S.C. § 13a-2) authorizes the  
17 Attorney General to bring suit for any act or practice constituting a violation of the Commodity  
18 Exchange Act against any person (other than a contract market, derivatives transaction execution  
19 facility clearinghouse, floor broker, or floor trader). Section 13a-2 (7) of the Commodity Exchange  
20 Act further provides that:

21 Nothing contained in this section shall prohibit an authorized State official  
22 [defined by Section 13a-2(1) to include the attorney general of any State] from  
23 proceeding in State court on the basis of an alleged violation of any general  
24 civil or criminal antifraud statute of such State.

24 25. The Attorney General is enforcing only the general unfair competition and antifraud  
25 provisions contained in California Business & Professions Code § 17200 and California  
26 Corporations Code § 29536, and not provisions of the Commodity Exchange Act, against the  
27 ENRON Defendants in this action.

28 26. Section 29504 of the California Commodity Law defines a "commodity" to include

1 any fuel (whether liquid, gaseous, or otherwise), and all other goods, articles, products or items of  
2 any kind. Section 29510 of the California Commodity Law defines a “commodity option” as the  
3 right but not the obligation to purchase or sell one or more commodities.

4 27. Section 29513 of the California Commodity Law defines an “offer” to include “every  
5 offer to sell, offer to purchase, or offer to enter into a commodity contract or commodity option.”

6 28. Section 29516 of the California Commodity Law defines “sale” or “sell” to include  
7 “every sale, contract of sale, contract to sell, or disposition, for value.”

8 29. Section 29536 of the California Commodity Law provides that it is unlawful for any  
9 person, directly or indirectly, in connection with the purchase or sale of, the offer to sell, the offer  
10 to purchase, the offer to enter into, or the entry into, a commodity, commodity contract, or  
11 commodity option to: (a) willfully employ any device, scheme or artifice to defraud; (b) to willfully  
12 make any false report, enter any false report, make any untrue statement of a material fact or omit  
13 to state a material fact necessary in order to make the statements made, in the light of the  
14 circumstances under which they were made, not misleading; (c) to willfully engage in any  
15 transaction, act, practice, or course of business which operates or would operate as a fraud or deceit  
16 upon any persons; or (d) to willfully misappropriate or convert the funds, security, or property of  
17 any other person.

18 30. Section 12660 of the California Government Code provides that any person who  
19 violates any provision of the California Commodity Law shall be liable for a civil penalty not to  
20 exceed twenty-five thousand dollars (\$25,000) for each violation, which shall be assessed and  
21 recovered in a civil action brought by the Attorney General in the name of the people of the State  
22 of California.

## 23 FACTS

### 24 **A. Deregulation of California’s Electric Generation Market**

25 31. Prior to restructuring of the electricity industry in California, the State’s major  
26 investor-owned utilities (“IOUs”), namely Pacific Gas & Electric Company (“PG&E”), Southern  
27 California Edison (“SCE”), and San Diego Gas & Electric Company (“SDG&E”), provided bundled  
28 services for electricity, including generation, transmission, and distribution, to the majority of retail

1 customers in the state. In September 1996, the California Legislature enacted Assembly Bill 1890  
2 (“AB 1890”), with the goal of introducing competition in the generation and sale of electricity, at  
3 both the wholesale and retail levels. In order to promote competition, AB 1890 encouraged the IOUs  
4 to divest themselves of a significant portion of their generating capacity. As a consequence, the  
5 IOUs sold almost all of their natural gas-fired generating capacity to five merchant generating  
6 companies: Duke, Dynegy, AES, Mirant and Reliant.

7 **B. The ISO and PX Markets**

8 32. AB 1890 also established two new institutions: the California Independent System  
9 Operator (“ISO”) and the California Power Exchange (“PX”).

10 33. The ISO was established to operate the high-voltage transmission grid serving most  
11 of the state and is responsible for all real-time operations, such as continually balancing generation  
12 and load and managing congestion on the transmission system it controls.

13 34. The PX was established to operate two auction-style markets for the purchase and  
14 sale of electricity for delivery during the same or next day. These were the “day-ahead” and “day-of  
15 markets.” The intent of the deregulation plan was that 95 percent of the power needed to serve  
16 customers in the ISO control area would be sold and purchased through the PX markets. In the day-  
17 ahead and day-of markets, the PX established a single market clearing price that all sellers collected  
18 and all buyers paid for power delivered in each hour across the entire ISO control area, provided  
19 there were no transmission constraints. When transmission congestion existed, a separate clearing  
20 price was established for each transmission constrained area or zone in California.<sup>1/</sup>

21 35. At all times alleged in this complaint, the ISO was responsible for managing  
22

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23  
24 1. A transmission path is “congested” when total amount of electricity scheduled to be  
25 transmitted between two areas across that path exceeds the path’s available transmission capacity.  
26 A “schedule” is a statement submitted to the ISO that indicates both: (1) an electricity demand  
27 requirement (including the quantity of electricity need, the duration of the need and where the  
28 delivery is needed) and (2) the proposed electricity supply that is to be used to meet the demand in  
question (including the quantity of electricity to be delivered, the duration of delivery, the location  
of the generating facility, along with other technical information regarding transmission losses and  
what ancillary services will be associated with the delivery). A schedule is considered to be  
“balanced” when the schedule’s demand level is matched with an equivalent level of supply.



1 congestion on the ISO-controlled grid. The ISO solicited “adjustment bids” in order to allocate the  
2 limited transmission capacity available across congested transmission paths to those market  
3 participants that valued it most highly. Adjustment bids represent the amount of money per  
4 megawatt hour that an entity is willing to pay to have its power transmitted over a particular  
5 congested path, or be paid to reduce the amount of power it plans to send over a congested path.

6           36. At all times relevant to the complaint, in addition to operating the congestion  
7 management system, the ISO administered a variety of auction markets for the purpose of procuring  
8 the electricity necessary to operate the transmission system reliably, including an energy market to  
9 procure the power needed to continuously match the amount of power being supplied to the grid  
10 with the amount of energy being demanded by customers. This market is known as the “real-time”  
11 energy market or the “imbalance” energy market.

12           37. The ISO also procured various types of capacity, known as ancillary services, that  
13 could be called upon by the ISO to produce electricity in the event of a system emergency, such as  
14 a major plant outage, or to correct a routine imbalance between supply and demand on the grid. The  
15 ISO procured four different types of ancillary services through auction markets run one day and one  
16 hour ahead of actual (“real-time”) consumption of the electricity. The four different services are  
17 differentiated by the amount of time it takes the producer to deliver the energy to the grid when  
18 called on by the ISO.

19           38. A generator or marketer of electricity wishing to participate in the PX and ISO energy  
20 markets was required to do so through a scheduling coordinator. A scheduling coordinator is an  
21 entity authorized to submit energy bids and schedules to the PX and ISO on behalf of electricity  
22 suppliers and purchasers. A generator or marketer could serve as its own scheduling coordinator  
23 or use a third party to act as its scheduling coordinator. The PX was also considered to be a  
24 scheduling coordinator but with restricted capabilities. Many scheduling coordinators performed  
25 several functions, including coordinating many generators and loads; negotiating generator and load  
26 changes with clients; negotiating bilateral contracts with or between clients; aggregating contracts  
27 between market participants; acting as energy service provider; owning, contracting for, or brokering  
28 generation; bundling generation and load; acting as the sole agent to the ISO; and submitting

1 schedules and bids for ancillary services.

2           39. The IOUs were required by law to sell all of the output from the generating units that  
3 they had not previously divested into markets administered by the PX and ISO, and to purchase all  
4 of their energy and capacity requirements from those PX and ISO markets. As a result, the PX was  
5 the largest scheduling coordinator in California, representing at times approximately 90 percent of  
6 the load served by the ISO grid.

7           40. As a scheduling coordinator, the PX was required to submit a balanced schedule of  
8 load and generation to the ISO for the following day. In order to maintain balance on the  
9 transmission grid, the ISO would dispatch power from sellers that submitted successful bids in the  
10 imbalance energy market or ancillary services markets. If there were insufficient bids in the ISO  
11 real-time market to meet customer demand, the ISO, as a last resort, would purchase energy “out-of-  
12 market” in order to procure the resources necessary to operate the system.

13           41. Neither the ISO nor the PX purchased or sold energy for their own accounts or  
14 benefit. Rather, they served as “market-makers” or clearinghouses to facilitate the sale and purchase  
15 of wholesale power by market participants such as the ENRON defendants. In markets administered  
16 by the PX and ISO, sellers submitted bids specifying the amount of electricity and/or capacity they  
17 wished to sell, and the price at which they were offering to sell. The auction operator ranked all bids  
18 in merit order, (i.e., from lowest to highest price) and then selected all of the bids it needed in order  
19 to meet the demand in a given interval. The bid submitted by the highest priced unit selected by the  
20 ISO set a single, “market-clearing price” that all buyers paid, and all sellers received.

21           **C. The Breakdown of the Market, Skyrocketing Electricity Prices,**  
22           **and Rolling Blackouts**

23           42. In May 2000, the price of wholesale power quickly rose to historically unprecedented  
24 levels in California, and did not begin declining until June 2001 (the period referred to as “the  
25 California Energy Crisis”).

26           43. During the crisis, buyers of wholesale power incurred massive losses. The two  
27 largest IOUs, SCE and PG&E, incurred enormous debts and, as a result, defaulted on payments to  
28 both the PX and the ISO. PG&E filed for bankruptcy in April 2001, and SCE teetered on the brink

1 of bankruptcy. On January 29, 2001, the PX suspended trading on its markets, effectively ceasing  
2 its operations, and declared bankruptcy on March 9, 2001.

3 45. On January 17, 2001, Governor Davis declared a state of emergency in order to  
4 ensure that a continuous supply of energy was available in California. Governor Davis authorized  
5 the State, through the California Department of Water Resources (“DWR”), to purchase electricity  
6 to protect health, safety, and vital economic interests of California citizens and businesses. From  
7 January through October 2001, DWR spent \$10 billion buying electricity on a short-term basis from  
8 suppliers, including the ENRON Defendants. All told, wholesale power buyers paid approximately  
9 \$27 billion in each of 2000 and 2001 for wholesale power, compared to \$7 billion in 1999.

10 46. Those costs were passed on to retail, end-use customers, and retail rates remain  
11 among the highest in the nation four years after the start of the crisis. Retail customers of SDG&E  
12 began paying dramatically increased rates in the summer of 2000 as a result of the AB 1890 “rate  
13 freeze” ending early. In June, the average residential rate increased to more than 6 cents/kwh from  
14 3-5 cents/kwh in May. In July, the rate increased to more than 13 cents/kwh. By September, rates  
15 had skyrocketed to 21 cents/kwh, with the average price of residential electricity increasing 413  
16 percent from the third quarter of 1999 to the third quarter of 2000. Paying the monthly electric bill  
17 became a major economic hardship for many individual customers. Numerous businesses were  
18 forced to raise prices, lay off employees, or go out of business altogether. Public agencies, such as  
19 schools and hospitals, also absorbed debilitating rate increases. Ultimately, the State was forced to  
20 adopt legislation capping the retail rates of SDG&E customers in order to cushion the impact.

21 47. In a series of decisions beginning in 2001, the California Public Utilities Commission  
22 (“CPUC”) was forced to significantly increase the rates paid by retail, end-use customers of PG&E  
23 and SCE, as well. The CPUC also approved steep rate increases necessary to recoup the billions of  
24 dollars that DWR spent buying wholesale power.

25 48. The crisis also posed a serious threat to the safety and reliability of high voltage  
26 transmission grid serving the State, which was subjected to extended periods of ISO-declared system  
27 emergencies in which operating reserves fell below system requirements. The ISO declared  
28 numerous Stage 3 system emergencies (the highest level of system emergency) because actual or

1 anticipated operating reserves were less than or equal to one and a half percent (1½%) of projected  
2 peak demand. For the first time ever in California history, businesses and residents in the State were  
3 subjected to rolling blackouts.

4 **D. Enron’s Shocking Disregard for the Public Welfare**

5 49. While the State reeled from the combined impact of sky high power prices, supply  
6 shortages, and rolling blackouts, the ENRON Defendants enjoyed massive, unprecedented profits,  
7 and extracted millions of dollars in ill-gotten gains from utilities and their customers through a  
8 variety of fraudulent schemes. And through it all, the ENRON Defendants displayed a shocking  
9 disregard for the public welfare, as numerous telephone conversations involving their trading  
10 personnel vividly demonstrate.

11 50. In one such call, Enron traders rejoiced at the prospect of a major transmission line  
12 being shut down due to a fire, potentially causing prices to increase and threatening the stability of  
13 the grid:

14 Person 2: The magical word of the day is “Burn Baby Burn.”

15 Person 1: What’s happening?

16 Person 2: There’s a fire under the core line it’s been derated from 45 to 2100.

17 Person 1: Really.

18 Person 2: Yup.

19 Together: Burn baby, burn.

20 51. In other such calls, Enron traders boasted about “steal[ing] money from California  
21 to the tune of about a million” dollars a day, and the ease with which they lined their own pockets  
22 at the expense of ordinary Californians:

23 KEVIN: So the rumor’s true? They’re [expletive] takin’ all the money back from you  
24 guys? All the money you guys stole from those poor grandmothers in California?

25 BOB: Yeah, grandma Millie, man. But she’s the one who couldn’t figure out how to  
26 [expletive] vote on the butterfly ballot.

27 KEVIN: Yeah, now she wants her [expletive] money back for all the power you’ve  
28 charged right up - jammed right up her [expletive] for [expletive] 250 dollars a megawatt hour.

1 [laughter]

2 **E. The Enron Defendants' Fraudulent Trading Schemes**

3 52. Through their scheduling coordinators, the ENRON Defendants sold electricity into  
4 the California markets. They operated in all of the organized spot markets, including day-ahead,  
5 day-of, real-time, and ancillary services. They made tens of thousands of electricity transactions in  
6 those markets starting in approximately 1998 and continuing through 2002.

7 53. Beginning as early as 1998 and continuing at least through 2001, the ENRON  
8 Defendants willfully engaged in a startling array of manipulative and fraudulent schemes designed  
9 to enable them to collect payment for ancillary services they never intended to provide and did not  
10 provide, to obtain "congestion relief" payments for taking actions that did not relieve any  
11 congestion, and to receive prices for wholesale power above the ISO's price cap. These gaming  
12 schemes are widely known as the "Enron trading strategies." The Enron trading strategies include,  
13 but are not limited to, the following:

14 **1. Congestion Games**

15 54. The ENRON Defendants engaged in several strategies designed to collect payment  
16 for taking actions that would purportedly "relieve" congestion along constricted transmission paths.  
17 The ENRON Defendants willfully submitted false schedules to the ISO for the purpose of creating  
18 illusory congestion and collecting payment for taking actions to "relieve" congestion that were  
19 bogus and did not relieve any actual congestion. These sham "congestion-relief" schemes include,  
20 but are not limited to, the following:

21 **a) "Deathstar"**

22 55. In a "Deathstar" transaction, the ENRON Defendants scheduled power in the  
23 opposite direction of congestion without having any intention of delivering the power. The ENRON  
24 Defendants collected payment for "relieving" congestion, but put no actual power onto the grid and  
25 took no power off of the grid. Thus, no congestion was relieved.

26 **b) "Wheel-Out"**

27 56. In a "Wheel-Out" transaction, the ENRON Defendants, knowing that an inter-tie line  
28 at the ISO border (connecting the ISO control area with outside grids) was completely constrained

1 (i.e., its available capacity is set at zero) or out-of-service, scheduled power over the inter-tie line  
2 for the sole purpose of creating the appearance of congestion on the affected path. The ENRON  
3 Defendants submitted these bogus schedules in the knowledge that the schedule ultimately would  
4 be curtailed by the ISO, and that they would receive a congestion relief payment from the ISO  
5 without having to send any power over the line in the first place, and without having to “relieve” any  
6 actual congestion.

7 **c) “Non-Firm Export”**

8 57. In a “non-firm export,” the ENRON Defendants scheduled non-firm energy from a  
9 point in California to a control area outside of California in the opposite direction of congestion  
10 without having any intention of making the delivery. As soon as the ENRON Defendants collected  
11 payment for purportedly “relieving” congestion on the facility, they cut the export schedule. As a  
12 result, no power was transmitted and no congestion was relieved, even though congestion relief  
13 payment was collected.

14 **2. Ancillary Services-Related Games / “Get Shorty”**

15 58. Market participants providing ancillary services to the ISO are paid by the megawatt  
16 for keeping their capacity in reserve in the event it is needed by the ISO to generate power. In the  
17 event the ISO orders a market participant to produce electricity from this reserve capacity, the ISO  
18 also pays the seller by the megawatt hour for the power provided.

19 59. In order to preserve these critically-important electricity-supply reserves, each market  
20 participant that sells ancillary services to the ISO expressly warrants through a Participating  
21 Generator Agreement that it has sufficient capacity to meet its obligation and will keep its capacity  
22 in reserve and available for dispatch by the ISO.

23 60. The ENRON Defendants engaged in a manipulative scheme, known both as “Get  
24 Shorty” or paper trading of ancillary services, under which they collected payment for ancillary  
25 services they did not provide, and never intended to provide. The ENRON Defendants carried out  
26 this scheme by willfully submitting bids to provide ancillary services in the day-ahead market  
27 without having any physical resources (i.e., actual generating reserves) backing up the sale. The  
28 ENRON Defendants then “covered” all or part of their commitment by buying ancillary services in

1 the hour-ahead market so that they could profit from selling high in the day-ahead market and  
2 buying back at a lower price in the real-time market. In submitting their bids to provide ancillary  
3 services to the ISO, the ENRON Defendants willfully and falsely represented that the capacity they  
4 were obligated to keep in reserve was actually available for dispatch, when in fact it did not exist.

5 **3. Submission of False Load Schedules / “Fat Boy”**

6 61. Market participants within the ISO-control area are required to submit balanced  
7 schedules to the ISO, in which anticipated generation must be scheduled against an equal amount  
8 of load that the market participant expected to serve. The ENRON Defendants willfully submitted  
9 bogus schedules that overstated the load they intended to supply, knowing that the “excess”  
10 generation would be accounted for by ISO as an “uninstructed deviation” and paid the market  
11 clearing price for imbalance energy.

12 **4. “Ricochet” or “Megawatt Laundering”**

13 62. The ENRON Defendants engaged in a manipulative trading scheme known as  
14 “ricochet” or “megawatt laundering” designed to evade the price cap in the ISO’s real-time,  
15 imbalance energy market. The ISO had a practice of paying prices above its cap for power imported  
16 from sources located outside the State when supplies bid into the real-time market were insufficient  
17 to meet demand. Such sales, known as “out-of-market” or “OOM” sales, were completed outside  
18 the centralized, imbalance energy market.

19 63. In a ricochet transaction, the ENRON Defendants purchased energy in the PX day-  
20 ahead or day-of market, sold it briefly to an entity located outside the State and then repurchased it  
21 back from the entity so that they could sell it back to the ISO at a greatly inflated price as an OOM  
22 sale. Through this strategy, the ENRON Defendants willfully and falsely represented to the ISO that  
23 the energy it sold as OOM had been imported into California in order to be paid at a price above the  
24 cap, despite the fact that, as a practical matter, no energy ever left or re-entered the State.

25 **FIRST CAUSE OF ACTION**

26 **UNFAIR BUSINESS COMPETITION**  
27 **(Business and Professions Code § 17200 et seq.)**

28 64. Plaintiff realleges and incorporates by reference paragraphs 1 through 63 inclusive

1 as if fully set forth herein.

2 65. Section 17200 of the California Business & Professions Code prohibits unfair  
3 competition, which includes any unlawful, unfair or fraudulent business act or practice.

4 66. Beginning in 1998 and continuing through at least 2001, each ENRON Defendant  
5 willfully engaged in unfair competition that includes, but is not limited to:

6 (a) offering to sell ancillary services to the ISO without having any physical  
7 resources backing up the sale, and collecting payment for ancillary services they did not provide and  
8 had no intention of providing;

9 (b) misrepresenting “out-of-market” sales of power to the ISO as “imports,” and  
10 collecting payment for “out-of-market” sales at prices above the price cap, when in fact the power  
11 originated in California;

12 (c) overstating the amount of load they expected to serve, and thereby collecting  
13 payment for the “excess” generation at the market clearing price;

14 (d) scheduling non-firm energy in the opposite direction of congestion to a point  
15 outside the ISO control area without having any intention of delivering the power, collecting  
16 payment for purportedly relieving congestion, and then cutting the schedule before putting any  
17 energy on the grid;

18 (e) scheduling power in the opposite direction of congestion without having any  
19 intention of delivering the power, and collecting payment for purportedly relieving congestion, when  
20 in fact no congestion was relieved; and

21 (f) scheduling power across an inter-tie with the knowledge that it was out-of-  
22 service or already completely constrained, and without having any intention of delivering the power,  
23 and collecting payment for purportedly relieving congestion on the line without relieving any  
24 congestion.

25 67. Each of the acts and practices of the ENRON Defendants, including, but not limited  
26 to, those alleged in Paragraph 66 to this Complaint are “unfair” within the meaning of California  
27 Business & Professions Code §17200.

28 68. Each of the acts and practices of the ENRON Defendants, including, but not limited



1 to, those alleged in Paragraph 66 to this Complaint are “fraudulent” within the meaning of California  
2 Business & Professions Code §17200.

3 69. Each of the acts and practices of the ENRON Defendants, including, but not limited  
4 to, those alleged in Paragraph 66 to this Complaint are “unlawful” within the meaning of California  
5 Business & Professions Code §17200 because they violate California law, including but not limited  
6 to California Corporations Code § 29536.

7 70. As a direct consequence of the ENRON Defendants’ unlawful, unfair and fraudulent  
8 business practices, the operations of the ISO and PX markets were adversely affected, overall  
9 system-wide grid reliability was degraded, and the health, safety, and economic well-being of  
10 California businesses and residents were put in danger.

11 71. As a direct consequence of the ENRON Defendants’ unlawful, unfair and fraudulent  
12 business practices, California businesses and residents were subjected to the risks and dangers of  
13 power supply interruptions, rolling blackouts and other adverse consequences.

14 **SECOND CAUSE OF ACTION**

15 **UNLAWFUL COMMODITY TRANSACTIONS**  
16 **(California Corporations Code §§ 29500, et seq.)**

17 72. Plaintiff realleges and incorporates by reference paragraphs 1 through 71 inclusive  
18 as if fully set forth herein.

19 73. Under California Government Code §§ 12658 and 12660, the Attorney General has  
20 authority to enforce the California Commodity Law, Cal. Corp. Code §§ 29500 et seq., and to seek  
21 injunctive relief, civil penalties, and ancillary relief, including restitution, disgorgement, and  
22 damages for violations thereof.

23 74. Electricity is a “commodity” as defined under § 29504 of the California Commodity  
24 Law.

25 75. Ancillary services are “commodity options” within the meaning of § 29510 of the  
26 California Commodity Law.

27 76. The ENRON Defendants engaged in transactions in which they offered to sell, sold,  
28 offered to purchase, and purchased commodities and commodity options in the PX and ISO markets.

1 77. Section 29536 of the California Commodity Law provides in relevant part:

2 It is unlawful for any person, directly or indirectly, in connection with the  
3 purchase or sale of, the offer to sell, the offer to purchase, the offer to enter into,  
4 or the entry into, a commodity, commodity contract, or commodity option, to  
5 do any of the following:

- 6 (a) To willfully employ any device, scheme, or artifice to defraud.
- 7 (b) To willfully make any false report, enter any false record, make any  
8 untrue statement of a material fact, or omit to state a material fact  
9 necessary in order to make the statements made, in the light of the  
10 circumstances under which they were made, not misleading.
- 11 (c) To willfully engage in any transaction, act, practice, or course of  
12 business which operates or would operate as a fraud or deceit upon  
13 any persons.
- 14 (d) To willfully misappropriate or convert the funds, security, or property  
15 of any other person.

16 78. Beginning in 1998 and continuing through at least 2001, in connection with their  
17 offers to sell, sales, offers to purchase, and purchases, of commodities and commodity options in the  
18 PX and ISO markets, the ENRON Defendants violated § 29536(a)-(d) by engaging in conduct  
19 including, but not limited to, the following:

20 (a) willfully and fraudulently offering to sell ancillary services to the ISO without  
21 having any physical resources backing up the sale, and collecting payment for ancillary services they  
22 did not provide and had no intention of providing;

23 (b) willfully and fraudulently misrepresenting “out-of-market” sales of power to  
24 ISO as “imports,” and collecting payment for “out-of-market” sales at prices above the price cap,  
25 when in fact the power never left or re-entered California;

26 (c) willfully and fraudulently overstating the amount of load they expected to serve,  
27 and thereby collecting payment for the “excess” generation at the market clearing price;

28 (d) willfully and fraudulently scheduling non-firm energy in the opposite direction  
of congestion to a point outside the ISO control area without having any intention of delivering the  
power, collecting payment for purportedly relieving congestion, and then cutting the schedule before  
any putting any energy on the grid;

(e) willfully and fraudulently scheduling power in the opposite direction of

1 congestion without having any intention of delivering the power, and collecting payment for  
2 purportedly relieving congestion, when in fact no congestion was relieved; and

3 (f) willfully and fraudulently scheduling power across an inter-tie with the  
4 knowledge that it was out-of-service or already completely constrained for the purpose of creating  
5 the appearance of congestion, and then collecting payment for relieving congestion on the line  
6 without relieving any congestion, and without having any intention of doing so.

7 80. As a direct consequence of the ENRON Defendants' violations of § 29536(a)-(d),  
8 the operations of the ISO and PX markets were adversely affected, overall system-wide grid  
9 reliability was degraded, and the health, safety, and economic well-being of California businesses  
10 and residents were put in danger.

11 81. As a direct consequence of the ENRON Defendants' violations of § 29536(a)-(d),  
12 California businesses and residents were subjected to the risks and dangers of power supply  
13 interruptions, rolling blackouts and other adverse consequences.

14 **PRAYER FOR RELIEF**

15 WHEREFORE, the Attorney General prays for judgment against Defendants, and each  
16 of them, as follows:

17 1. For an order permanently enjoining Defendants from violating California Business  
18 & Professions Code § 17200 and California Corporations Code § 29536, including but not limited  
19 to the violations alleged in this Complaint.

20 2. For an order directing Defendants to pay restitution in an amount according to proof,  
21 as authorized by California Business & Professions Code § 17203;

22 3. For an order directing Defendants to pay restitution, disgorgement, and/or damages  
23 in amounts according to proof, as authorized by California Government Code § 12658(b).

24 4. For an order assessing civil penalties in the amount of Two Thousand Five Hundred  
25 Dollars (\$2,500) against each Defendant for each violation of California Business & Professions  
26 Code § 17200, as authorized by California Business & Professions Code § 17206;

27 5. For an order assessing civil penalties in the amount of Twenty Five Thousand Dollars  
28 (\$25,000) for each violation of the California Commodity Law, as authorized by California

1 Government Code § 12660;

2 6. For an order awarding Plaintiffs their costs of suit herein;

3 7. For such other and further relief as the nature of the case may require and the court  
4 deems appropriate and just.

5 **DEMAND FOR JURY TRIAL**

6 Plaintiffs hereby demand trial by jury.

7 DATED: June 17, 2004

8 Respectfully submitted,

9 **BILL LOCKYER**  
Attorney General of the State of California

10 **TOM GREENE**  
Senior Assistant Attorney General

11 **KENNETH ALEX**  
Supervising Deputy Attorney General

12 **DANETTE E. VALDEZ**  
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15 \_\_\_\_\_  
16 **KEITH YAMANAKA**  
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19 State of California  
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