

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of:)	CFTC Docket No.: 01-23
)	
)	Honorable George H. Painter
)	
ANTHONY J. DiPLACIDO,)	ORDER MAKING FINDINGS AND
ROBERT S. KRISTUFEK,)	IMPOSING REMEDIAL SANCTIONS
WILLIAM H. TAYLOR,)	AS TO RESPONDENT KRISTUFEK
)	
Respondents.)	
)	
)	

I.

On August 21, 2001, the Commodity Futures Trading Commission (“Commission”) filed a Complaint and Notice of Hearing against Robert S. Kristufek (“Kristufek”), among others. The ten-count Complaint alleged that Kristufek violated Sections 4c(a)(A) and (B), 6(c), 6(d), and 9(a)(2) of the Commodity Exchange Act, as amended (the “Act”), 7 U.S.C. §§ 6c(a)(A) and (B), 9, 15, 13b, and 13(a)(2) (1994), and Section 1.38(a) of the Commission’s regulations promulgated thereunder (the “Regulations”), 17 C.F.R. § 1.38(a).¹

II.

In order to dispose of the allegations and issues raised in the Complaint, Kristufek has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Without admitting or denying any of the allegations of the Complaint or the findings of fact in this Order Making Findings and Imposing Remedial Sanctions As To Respondent Kristufek (“Order”), and prior to any adjudication on the merits, Kristufek acknowledges service of this Order, and consents to the entry of this Order in full and final settlement of any alleged violations of the above referenced laws or regulations, and to the use of the findings in this Order

¹ In two orders also issued on August 21, 2001, in *In re: Avista Energy, Inc. and Michael T. Griswold*, CFTC Docket No. 01-21, and *In re: Thomas A. Johns*, CFTC Docket No. 01-22, the Commission filed and simultaneously settled administrative proceedings against Avista Energy, Inc. (“Avista Energy”), former Avista Energy Vice President of Trading Thomas Johns (“Johns”), and former Avista Energy trader Michael T. Griswold (“Griswold”). In these orders the Commission found that on four days between April 1998 and August 1998, Avista Energy manipulated the settlement prices of Palo Verde and California Oregon Border electricity futures contracts traded on the New York Mercantile Exchange (“NYMEX”), in order to increase the company’s net gain on certain over-the-counter option positions, whose values were based on the settlement prices at issue. The Complaint against the Respondents in this proceeding arises from the same manipulative scheme. In these orders the Commission also found that the traders at Avista Energy involved in the manipulative scheme reported to Johns and that he was responsible for, among other things, the trading strategies they pursued.

only in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party.²

III.

The Commission finds the following:

A. SUMMARY

On several occasions during the period of April 1998 through August 1998 (the “Relevant Period”), a small group of Avista Energy employees (“Avista Energy’s Traders”),³ including Kristufek, engaged in a scheme to manipulate the settlement price of Palo Verde (“PV”) and California Oregon Border (“COB”) (collectively, “Western U.S.”) electricity futures contracts that were traded on the New York Mercantile Exchange (“NYMEX”). Prior to and during the Relevant Period, Avista Energy entered into cash-settled over-the-counter (“OTC”) derivatives contracts, whose value at expiration was based on the daily settlement price of either of the Western U.S. electricity futures contracts on the expiration day of options trading (the “Options Expiration Day”). Through this manipulative scheme, Avista Energy was able to realize or increase its net gain on these option contracts that were in or near the money.

Avista Energy, through its Traders including Kristufek, was able to create artificial settlement prices in NYMEX PV and/or COB electricity futures contracts through the manner in which it placed large orders for NYMEX Western U.S. electricity futures contracts on the Options Expiration Days in April, May, July, and August 1998. Specifically, Avista Energy’s Traders, including Kristufek, engaged in these manipulative practices: (a) selling May and June 1998 NYMEX PV electricity futures contracts at prices less than the prevailing bids during the close on the April and May 1998 Options Expiration Days; (b) purchasing August and September 1998 NYMEX PV electricity futures contracts at prices higher than the prevailing offers during the close on the July and August 1998 Options Expiration Days; and (c) purchasing August 1998 NYMEX COB electricity futures contracts at prices higher than the prevailing offers during the close on the July 1998 Options Expiration Day. In addition, Kristufek supported one of the manipulations through non-competitive trading. Avista Energy also failed to keep adequate records of the positions established through its OTC derivatives contracts or its cash-market positions as required of reportable traders.

Kristufek, one of the group of Avista Energy’s Traders who traded Western U.S. electricity futures contracts on the NYMEX, helped to devise the manipulative scheme with other Avista personnel and, as part of the manipulative scheme, traded Western U.S. electricity futures contracts on the NYMEX for the benefit of Avista Energy. Also, in July 1998, Kristufek supported one of the manipulations through non-competitive trading of Western U.S. electricity futures contracts on the NYMEX for the benefit of Avista Energy.

² Kristufek does not consent to the use of his Offer or this Order, or the findings to which he has consented in his Offer, as the sole basis for any other proceeding brought by the Commission, other than a proceeding brought to enforce the terms of this Order. The findings to which Kristufek has consented in his Offer, as contained in this Order, are not binding on any other person or entity named as a respondent in this or in any other proceeding.

³ None of Avista Energy’s Traders is currently employed by Avista Energy, its parent or affiliates.

B. SETTLING RESPONDENT

Robert S. Kristufek, who currently resides in Chicago, Illinois, was an energy trader at Avista Energy's Houston, Texas office during the Relevant Period. As part of his duties and responsibilities at Avista Energy, Kristufek placed orders for trades for NYMEX Western U.S. electricity futures contracts. Kristufek also advised and counseled on, and aided the design, coordination, and implementation of Avista Energy's electricity trading strategy, including trading NYMEX Western U.S. electricity futures contracts. Kristufek was a floor trader and a NYMEX Member from October 1995 through May 7, 1997. Since May 7, 1997, Kristufek has not been registered with the Commission in any capacity.

C. FACTS

1. The NYMEX Western U.S. Electricity Futures Contracts

On March 29, 1996, NYMEX launched two electricity futures contracts focusing on the west coast power grid: PV, based on delivery of a monthly block of on-peak electricity at the Palo Verde switchyard in Arizona; and COB, based on delivery of on-peak electricity at the California/Oregon border. The contracts were designed to serve as hedging and pricing instruments for investor-owned, municipal and federal electric utilities, marketers and retail end users which generate, trade or consume electricity in the western and southwestern United States.

Under NYMEX rules during the Relevant Period, the last trading day of the NYMEX PV and COB electricity futures contracts was the fourth business day prior to the first calendar day of the delivery month. Under the relevant rules, NYMEX options expired on the business day immediately preceding the last futures trading day (sometimes referred to as the "penultimate" day). Thus, for example, the August 1998 NYMEX PV electricity futures contract ceased trading on July 28, 1998, and options on the August 1998 NYMEX PV electricity futures contract expired on July 27, 1998. Pursuant to NYMEX Rule 6.52C, during the Relevant Period, the daily settlement price of the nearby month on Options Expiration Days was calculated as the weighted (by transaction size) average of the transaction prices occurring during the last two minutes of trading (the "Close"). On the Options Expiration Days during the Relevant Period, the Close of trading on the NYMEX PV electricity futures contracts began at 3:23 p.m. Eastern time and ended at 3:25 p.m. Eastern time, while the Close of trading on the NYMEX COB electricity futures contracts began at 3:28 p.m. Eastern time and ended at 3:30 p.m. Eastern time.

During the Relevant Period, the NYMEX futures markets in Western U.S. electricity were illiquid, exhibiting relatively low volume and open interest, and exhibiting relatively wide bid-ask spreads. Volume was substantially higher than normal on Options Expiration Days. However, open interest tended to decline significantly from its peak during the weeks before Options Expiration Day. Experienced floor brokers and traders generally considered an order of 25 or 30 contracts to be large enough so that it could move prices materially in the NYMEX Western U.S. electricity futures contracts.

2. The Strategy Behind the Manipulative Scheme

During and prior to the Relevant Period, several electricity trading firms, including Avista Energy, traded OTC option contracts that were cash-settled based on the NYMEX daily settlement price of either NYMEX PV or COB electricity futures contracts on Options Expiration Day. Avista Energy's OTC option contracts were profitable only when the settlement price of the NYMEX Western U.S. electricity futures contracts rose or fell to certain levels and became more profitable as the settlement price exceeded or declined from those levels.

In light of the illiquidity of the market for NYMEX Western U.S. electricity futures contracts, Avista Energy's strategy was that under certain circumstances it might be possible to materially raise or lower the settlement price of NYMEX Western U.S. electricity futures contracts on Options Expiration Day with a large buy or sell order to profit via an artificially created increase in the value of its OTC derivatives contracts.

The manipulative scheme also involved two strategies to mitigate the risk that by placing a large buy or sell order for NYMEX Western U.S. electricity futures contracts on the Close to benefit its OTC derivatives contracts, with those derivatives contracts expiring Avista Energy could be left with a significant and risky position in NYMEX Western U.S. electricity futures contracts as trading commenced on the last futures trading day, that is, the business day after the Options Expiration Day.

The first strategy involved trading forward contracts in the physical market in quantities and for delivery periods and locations that were approximately equal and opposite to the orders for trades that Avista Energy was placing for NYMEX Western U.S. electricity futures contracts on the Close. Because the physical market was much more liquid than the market for NYMEX Western U.S. electricity futures contracts, trades in the physical market could be executed without materially affecting prices in the physical market. Avista Energy's position the next day as a result of this strategy was a low-risk spread between its physical market positions and the expiring NYMEX Western U.S. electricity futures contracts, which could easily be unwound.

The other strategy involved placing orders for NYMEX Western U.S. electricity futures contracts prior to the Close on Options Expiration Day (either during the days leading up to Options Expiration Day or earlier in the trading day on Options Expiration Day) opposite to those that Avista Energy would place on the Close on that day. Thus, for example, during July 1998, Avista Energy shorted August 1998 NYMEX Western U.S. electricity futures contracts because the manipulative scheme on the July Options Expiration Day involved placing a large buy order. These short positions, which were accumulated slowly and in a manner designed to avoid influencing prices in the market, would be offset by the large buy orders during the Closes of the NYMEX Western U.S. electricity futures contracts. Many of these short futures positions were accumulated via Exchange for Physicals (EFPs) transactions pursuant to NYMEX rules. In each EFP, a short futures position and an opposite long physical position were acquired in a simultaneous transaction.⁴

⁴ For a more complete discussion of the manipulative scheme, see the Commission's August 21, 2001 Order Instituting Proceedings Pursuant To Sections 6(c) And 6(d) Of The Commodity Exchange Act, Making

3. The Manipulative Scheme on Friday, April 24, 1998

April 24, 1998 was the Options Expiration Day for the May 1998 NYMEX PV electricity futures contract. Avista Energy's OTC derivatives contracts would increase in value as the settlement price of the May 1998 NYMEX PV electricity futures contract declined.

Kristufek and other of Avista Energy's Traders had several conversations before the Close on April 24 to strategize about Avista Energy's trading on the Close in order to move the price of the May 1998 NYMEX PV electricity futures contract down on the Close. In these conversations Kristufek observed concerning the Close that "we have every reason to push this thing down."

On April 24, Kristufek used a NYMEX floor broker to sell May 1998 NYMEX PV electricity futures contracts during the Close, instructing that floor broker that the sales should occur at as low a price as possible. After the Close, in speaking with Griswold, Kristufek observed that Avista Energy "took this market down just like 60 cents in 70 lots," and that "it was successful [what] we did at the end there."

4. The Manipulative Scheme on Friday, May 22, 1998

May 22, 1998 was the Options Expiration Day for the June 1998 NYMEX PV electricity futures contract. Avista Energy's OTC derivatives contracts would increase in value as the settlement price declined in the June 1998 NYMEX PV electricity futures contract. The manipulative scheme in May involved placing large sell orders to be executed during the Close to achieve the lowest settlement price possible.

Before and during the Close, Kristufek placed orders and instructed the floor brokers to sell June 1998 NYMEX PV electricity futures contracts on the Close at the lowest possible price. The floor brokers followed Kristufek's instructions by selling at progressively lower prices, except for one trade. Avista Energy sold a total of 180 June NYMEX PV electricity futures contracts on the Close.

5. The Manipulative Scheme on Monday, July 27, 1998

July 27, 1998 was the Options Expiration Day for the August 1998 NYMEX PV and COB electricity futures contracts. Avista Energy's OTC derivatives contracts would increase in value as the settlement price increased in the August 1998 NYMEX Western U.S. electricity futures contracts.

To effectuate the manipulative scheme on July 27, 1998, Kristufek stated that his intention was to trade in such a manner as to drive up the settlement prices of the August 1998

NYMEX Western U.S. electricity futures contracts. Again, Kristufek enlisted the help of brokers and had discussions with a broker's phone clerk about the manipulative scheme and how best to execute it.

Shortly before the start of the PV Close, Kristufek called a floor broker and told the broker to bid up the price of the August 1998 NYMEX PV electricity futures contract. He further instructed that the floor broker could buy up to 10 August 1998 NYMEX PV electricity futures contracts, but that Avista Energy did not care whether the floor broker actually bought any of those contracts as long as the floor broker simply "stay[ed] on the bid strong." Kristufek then instructed another floor broker's phone clerk that Avista Energy wanted the price on the August 1998 NYMEX PV electricity futures contracts to "go to the moon"

Kristufek remained on the line with the floor broker's phone clerk during the PV and COB Closes, and repeatedly instructed the clerk to bid at increasingly higher prices. During and after the Closes, Kristufek instructed that he wanted the settlements as "high as can be" and, with reference to COB, that he wanted the settlement price to be "well above" \$45.00. After being told by the phone clerk that the price of the August 1998 NYMEX PV electricity futures contracts had increased two dollars as a result of Avista Energy's and the floor broker's actions, Kristufek responded that he "wanted it more than that."

To further increase the PV settlement price, Kristufek and another broker entered into a non-competitive trade. Following the COB Close, one of the floor brokers who traded for Avista during the Closes called Kristufek to discuss another NYMEX floor broker who had "a problem" because that broker had overbought August 1998 NYMEX COB electricity futures contracts. Kristufek was told that this other broker will "get settlement wherever you want it . . . will work with us and get the settlement where we need it." Kristufek declined to purchase additional August 1998 NYMEX COB electricity futures contracts, but did agree to buy an additional 25 lots of August 1998 NYMEX PV electricity futures contracts, provided that this trade would count in the calculation of the settlement price of the August 1998 NYMEX PV electricity futures contract. Kristufek stated that Avista Energy wanted the PV settlement price "to be up there," and initially proposed buying the 25 August 1998 NYMEX PV electricity futures contracts at a price of \$57.00. The broker responded that the settlement price for August 1998 NYMEX PV electricity futures contracts would be above \$57.00 and thus the price that Kristufek initially suggested would have the effect of lowering the settlement price. At the suggestion of the floor broker, Kristufek agreed to a purchase price of \$58.00, which was only ten cents less than the high for August 1998 NYMEX PV electricity futures contracts during the Close.

6. The Manipulative Scheme on Tuesday, August 25, 1998

August 25, 1998 was an Options Expiration Day for the September 1998 NYMEX PV electricity futures contract. Avista Energy's OTC derivatives contracts would increase in value as the settlement price rose above \$45.00 in the September 1998 NYMEX PV electricity futures contract.

Early in the day on August 25, 1998, some of Avista Energy's Traders, including Kristufek, discussed their trading strategy for the day. Kristufek told Griswold that he was "bidding [PV] up on the floor" and that he had to buy additional September 1998 NYMEX PV electricity futures contracts. In another conversation Kristufek stated that \$45.00 was an important number for Avista Energy in PV, that PV was close to trading at that level, and that he planned to buy over 100 contracts during the Close. Griswold said he too had a position that would benefit from a \$45.00 price, and he asked Kristufek whether it could be pushed up to that level.

As he had done during the prior Options Expiration Days, Kristufek deliberately traded in a manner to manipulate the settlement price of the September 1998 NYMEX PV electricity futures contract. In effectuating the manipulative scheme, a floor broker filled Avista Energy's order at progressively-increasing prices and violated prevailing offers.

D. LEGAL DISCUSSION

1. Overview of the Law of Attempted Manipulation and Manipulation

Section 9(a)(2) provides that it is unlawful for "[a]ny person to manipulate or attempt to manipulate the price of any commodity in interstate commerce, or for future delivery on or subject to the rules of any contract market, or to corner or attempt to corner any such commodity." Sections 6(c) and 6(d) together authorize the Commission to serve a complaint and provide for the imposition of, among other things, fines and penalties if the Commission "has reason to believe that any person ... has manipulated or attempted to manipulate the market price of any commodity, in interstate commerce, or for future delivery on or subject to the rules of any contract market ... or otherwise is violating or has violated any of the provisions of [the] Act."

Together, Sections 6(c), 6(d), and 9(a)(2) of the Act prohibit either manipulation or an attempted manipulation. To sustain a charge of manipulation in cases involving congested markets, i.e., squeezes or corners, the following four factors have been used: (1) that the respondent had the ability to influence market prices; (2) that the respondent specifically intended to do so; (3) that artificial prices existed; and (4) that the respondent caused the artificial price. *See In re Cox* [1986-1987 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 23,786 at 34,061 (CFTC July 15, 1987).

The following elements generally are required to show an attempted manipulation: (1) an intent to affect the market price; and (2) some overt act in furtherance of that intent. *See In re Abrams*, [1994-1996 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 26,479 at 43,136 (CFTC

July 31, 1995). See also *In re Hohenberg Brothers*, [1975-1977 Transfer Binder] *Comm Fut. L. Rep. (CCH)* ¶ 20,271 at 21,477 (CFTC Feb. 18, 1977).

The test for attempted manipulation and manipulation is a flexible one. As the U.S. Court of Appeals for the Eighth Circuit has recognized, the means of “manipulation are limited only by the ingenuity of man”; thus, “the test of manipulation must largely be a practical one if the purposes of the Commodity Exchange Act are to be accomplished. . . . The aim must be therefore to discover whether conduct has been intentionally engaged in which has resulted in a price which does not reflect basic forces of supply and demand.” *Cargill v. Hardin*, 452 F.2d 1154, 1163 (8th Cir. 1971), *cert. denied*, 406 U.S. 932 (1972). Manipulation cases tend to be characterized by fact-specific, case-by-case analysis, which examines whether prices have been affected by factors other than the legitimate forces of supply and demand. See *Frey v. CFTC*, 931 F.2d 1171, 1175 (7th Cir. 1991). Accord *In re Indiana Farm Bureau Cooperative Association*, [1982-1984 Transfer Binder] *Comm. Fut. L. Rep. (CCH)* ¶ 21,796 at 27,281 (CFTC Dec. 17, 1982) (defining manipulation or attempted manipulation “has fallen to case-by-case judicial development”).

2. Avista Energy and its Traders, Including Kristufek, Had the Ability to Influence Prices

In *In re Henner*, 30 A.D. 1151, 1169 (1971), an administrative decision of the Commodity Exchange Authority, the Commission’s predecessor agency, a Judicial Officer, while acknowledging that Henner, a trader on the Chicago Mercantile Exchange, “was not in a position where he could exercise a squeeze or a corner on the market,” found Henner had manipulated shell egg futures prices by his purchases at the close of trading. Going into that day, Henner had established a large long position. In an apparent attempt to raise the settlement price, he engaged in a flurry of buying at the close and made a final bid eleven ticks higher than his previous purchase. The last bid was accepted and resulted in a limit-up-price.

The resulting closing price was much higher than those of previous days and that price level quickly fell the next day. The Judicial Officer concluded that the price was artificial primarily because Henner “paid more than he had to . . . for the purpose of causing the closing price to be at that high level.” *Id.* at 1194. He found no other factors besides Henner’s bidding that could account for the unusual and unsustainable price rise and held that Henner’s unusual and unnecessarily high last bid demonstrated Henner’s clear intent to create an artificial price, which, if sustained, would have benefited his previously established long position. *Id.* at 1157-75.

Here, during the Relevant Period, Avista Energy, through its traders including Kristufek, possessed the financial ability to place, and did place, large, market-moving orders during the Closes on Options Expiration Days in a low volume, illiquid market. The prices of the contracts were materially affected by the large orders that Kristufek and other of Avista Energy’s Traders placed during the Closes on Options Expiration Days. Kristufek possessed the ability to and did, in fact, influence market prices.

3. Kristufek Specifically Intended to Influence Market Prices

To prove the intent element of manipulation, it must be shown that Kristufek “acted (or failed to act) with the purpose or conscious object of causing or effecting a price or price trend in the market that did not reflect the legitimate forces of supply and demand.” *Indiana Farm Bureau*, ¶ 21,796 at 27,283. “[I]ntent is the essence of manipulation.” *Id.* at 27,282. Here, the evidence is overwhelming that Kristufek intended to influence market prices. The findings above show that during the Relevant Period Kristufek repeatedly expressed the intent to affect settlement prices and employed a scheme to effectuate this intent.

Moreover, Kristufek’s repeated trading with no need for NYMEX PV and COB positions, at prices worse than what was being bid or offered, had no apparent business or economic rationale but for an intent to affect the prices of the futures contracts and thus increase Avista Energy’s financial gain on its OTC derivatives contracts.

4. Artificial Prices Existed

Proof of a successful manipulation ordinarily requires a showing that prices became artificial. *Cox*, ¶ 23,786 at 34,061. An “artificial” (also termed a “distorted”) price is one “that does not reflect the market or economic forces of supply and demand.” *Id.* at 34,064. The Commission has further explained that:

[T]o determine whether an artificial price has occurred one must look at the aggregate forces of supply and demand and search for those factors which are extraneous to the pricing system, are not a legitimate part of the economic pricing system, are not a legitimate part of the economic pricing of the commodity, or are extrinsic to that commodity market. When the aggregate forces of supply and demand bearing on a particular market are all legitimate, it follows that the price will not be artificial. On the other hand, when a price is affected by a factor which is not legitimate, the resulting price is necessarily artificial. Thus, the focus should not be as much on the ultimate price, as on the nature of the factors causing it.

Id. (quoting *Indiana Farm Bureau*, ¶ 21,796 at 27,288 n.2).

In *Henner*, the Judicial Officer found that “[t]he inference is inescapable that [Henner] paid more than he had to ... for the purpose of causing the closing price to be at that high level. No further proof is needed to show” that the settlement price was artificial. *Henner*, 30 A.D. at 1194. As the Judicial Officer held, by paying more than he “would have had to pay,” Henner “succeeded in creating an artificially high closing price for November shell egg futures on the Exchange on June 25. Such action is ‘manipulation’ prohibited by the Commodity Exchange Act.” *Id.* at 1174-75.

Likewise, in the instant case, an artificial settlement price existed for the nearby NYMEX PV electricity futures contracts on the Options Expiration Days in April, May, July, and August 1998, and for the nearby NYMEX COB electricity futures contract on the Options Expiration

Day in July 1998. The findings show that Avista Energy's Traders, including Kristufek, engaged in a scheme to sell and did sell NYMEX PV electricity futures contracts for less than they could have on the Options Expiration Days in April and May 1998. Likewise, the evidence shows that Avista Energy's Traders purchased NYMEX Western U.S. electricity futures contracts and NYMEX PV electricity futures contracts for more than they had to pay on the Options Expiration Days in July and August 1998, respectively. As discussed above, this trading made no economic or business sense, but for an intent to manipulate the market to Avista Energy's advantage. Kristufek thus acted as an illegitimate force in the market and the resulting futures prices were artificial.

5. Kristufek Caused Artificial Prices

Causation of artificial prices is established when it is demonstrated that artificial market prices resulted from the conduct of a trader, or group of traders acting in concert, rather than the legitimate forces of supply and demand. See *Cargill*, 452 F.2d at 1170-72; *Indiana Farm Bureau*, ¶ 21,796 at 27,286. The manipulator's actions need not be the sole cause of the artificial price. "It is enough, for purposes of a finding of manipulation in violation of sections 6(b) and 9 of the [A]ct, that respondents' action contributed to the price [movement]." *In re Kosuga*, 19 A.D. 603, 624 (1960). See also *Cox*, at 34,066 (recognizing there can be multiple causes of an artificial price and holding that a charge of manipulation can be sustained where respondents' acts are a proximate cause of the artificial price).

In that regard, Avista Energy's trading constituted at least 50 percent of the net trading activity on Avista Energy's side of the market (*i.e.*, selling during April and May and buying during July and August) during each of the Options Expirations Days in question.⁵ Moreover, Kristufek expressly placed his orders for the purpose of influencing the price, and Avista Energy's Traders, including Kristufek, believed that they had, in fact, successfully influenced the price. Further, as noted, Avista, through Kristufek and its brokers, repeatedly violated bids and offers and executed transactions outside of the prevailing bid-ask spread. Kristufek accordingly caused artificial prices to exist.

Therefore, as Kristufek's conduct satisfies all of the requisite elements of market manipulation and attempted manipulation, Kristufek has violated Sections 6(c), 6(d) and 9(a)(2) of the Act.

6. Non-competitive Trading

Section 4c(a)(A) of the Act prohibits accommodation trades or fictitious sales, and Section 4c(a)(B) of the Act prohibits any transaction that is used to cause any price to be recorded which is not a true and bona fide price. In addition, Commission Regulation Section 1.38(a) requires that all trades on a contract market, unless other specified, shall be executed openly and competitively during regular trading hours.

⁵ To determine "net" buying and selling, the net change in the futures position of each person who executed trades in the Close was calculated. For example, a broker who bought twenty contracts and sold ten contracts during the Close would be a net buyer of ten contracts.

Generally, fictitious sales include transactions that appear to have been submitted to the open market while negating the market risk or price competition inherent in competitive trading. *In re Three Eight Corp.*, [1992-1994 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 25,749 at 40,444-45 (CFTC June 16, 1993). Noncompetitive trading consists of the use of trading techniques that negate risk or price competition that is incident to an open, competitive market. *In re Bear Stearns*, [1990-1992 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,994 at 37,662 (CFTC Jan. 25, 1991).

By engaging in a noncompetitive trade to raise the settlement price in the August 1998 NYMEX PV electricity futures contract, Kristufek violated Sections 4c(a)(A) and (B) of the Act and Commission Regulation 1.38(a).

IV. FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that Kristufek violated Sections 6(c), 6(d), and 9(a)(2) of the Act, as amended, 7 U.S.C. §§ 9, 15, 13b, and 13(a)(2) (1994); Sections 4c(a)(A) and (B) of the Act, 7 U.S.C. §§ 6c(a)(A) and (B), and Section 1.38 of the Commission's Regulations, 17 C.F.R. § 1.38.

V. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

1. Kristufek shall cease and desist from violating Sections 6(c), 6(d), 9(a), and 4c(a)(A) and (B) of the Act, Section 1.38 of the Commission's Regulations ; and

2. Kristufek shall pay a civil monetary penalty in the amount of one hundred fifty-five thousand dollars (\$155,000.00) within ten (10) days of the date of the Order. Kristufek shall make such payment by U.S. postal money order, certified check, bank cashier's check, or bank money order, made payable to the Commodity Futures Trading Commission, and addressed to Dennese Posey, Division of Enforcement, Commodity Futures Trading Commission, 1155 21st Street, N.W., Washington, D.C. 20581 under cover of a letter that identifies Kristufek and the name and docket number of the proceeding. Copies of the cover letter and the form of payment shall be simultaneously transmitted to Gregory Mocek, Director, Division of Enforcement, Commodity Futures Trading Commission, at the following address: 1155 21st Street, N.W., Washington, D.C. 20581, and to Charles J. Sgro, Regional Counsel, Division of Enforcement, Commodity Futures Trading Commission, at the following address: 140 Broadway, New York, NY 10005. In accordance with Section 6(e)(2) of the Act, 7 U.S.C. § 9a(2), if Kristufek fails to pay the full amount of this penalty within fifteen (15) days of the due date, he shall be automatically prohibited from the privileges of all registered entities until he shows to the

satisfaction of the Commission that payment of the full amount of the penalty with interest thereon to the date of payment has been made;

3. Kristufek shall be prohibited, for a period of twenty-four (24) months beginning on the day the Order is issued, from trading on or subject to the rules of any registered entity, as that term is defined by Section 1a(29) of the Act, as amended by the Commodity Futures Modernization Act of 2000, Appendix E, Pub. L. 106-554, 114 Stat. 2763 (2000), 7 U.S.C. § 1a(29), and requires all registered entities to refuse Kristufek privileges thereon; and

4. Kristufek shall comply with the following undertakings:

A. neither he nor any of his agents or employees, if any, shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in the Order, or creating, or tending to create, the impression that the Order is without a factual basis; provided, however, that nothing in this provision affects Kristufek's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party; Kristufek shall take all steps necessary to ensure that his agents or employees, if any, understand and comply with this undertaking; and

B. to cooperate fully with the Commission and its staff in this proceeding by, among other things: 1) responding promptly, completely, and truthfully to any inquiries or requests for information; 2) authenticating documents; 3) testifying completely and truthfully; and 4) not asserting privileges under the Fifth Amendment of the United States Constitution.

By the Commission.

Dated: September 12, 2002

Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission