

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

DC Energy, LLC)	
DC Energy Mid-Atlantic, LLC,)	
Complainants)	
)	
v.)	Docket No. EL12-8-000
)	
PJM Interconnection, L.L.C.,)	
Respondent)	

**ANSWER OF PJM INTERCONNECTION, L.L.C.
TO COMMENTS OF SCYLLA ENERGY LLC**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure (18 C.F.R. § 385.213), PJM Interconnection, L.L.C. (“PJM”) submits this answer to the “Motion to Intervene and Comments in Support of Complaint of DC Energy, LLC and DC Energy Mid-Atlantic, LLC” filed by Scylla Energy LLC (“Scylla”) on December 1, 2011 in the captioned proceeding (“Scylla Comments”).¹ This answer will assist the Commission’s deliberations by providing important facts omitted by Scylla that demonstrate the need for re-billing Scylla for Balancing Operating Reserve (“BOR”) charges avoided through the improper reporting of non-physical Internal Bilateral Transactions (“IBTs”).

¹ DC Energy, LLC and DC Energy Mid-Atlantic, LLC are herein referred to as collectively “DC Companies.”

I. BACKGROUND

In answering the DC Companies' Complaint,² PJM explained that IBTs must represent a physical transfer of energy to qualify for reporting under PJM's Open Access Transmission Tariff ("PJM Tariff") and Amended and Restated Operating Agreement ("PJM Operating Agreement").³ PJM explained that purely financial arrangements, i.e., agreements involving no physical transfer of energy, no transfer of title between counter-parties, and no transmission service to effectuate the obligations under the arrangement, were not IBTs, properly reported to PJM's eSchedules tracking system. Accordingly, in seeking dismissal of the Complaint, PJM asked the Commission to confirm PJM's authority and obligation to re-bill BOR charges to DC Companies and all similarly-situated entities who misreported purely financial transactions as IBTs to offset real-time imbalances and avoid BOR charges.

In commenting on the Complaint, Scylla describes itself as similarly situated to DC Companies, noting that it seeks relief "identical to that sought by DC [Companies]."⁴ While Scylla is "similarly situated" to DC Companies in that

² Answer of PJM Interconnection, L.L.C., Docket No. EL12-8-000 (Dec. 2, 2011) ("Answer to the Complaint").

³ Schedule 1 of the Operating Agreement also appears as the Appendix to Attachment K of the PJM Tariff. The physicality requirement is set forth in Section 1.7.10 of the Operating Agreement and the corresponding provisions of the Attachment K-Appendix.

⁴ Scylla Comments at 2.

it also improperly avoided BOR charges by submitting purely financial arrangements via eSchedules, Scylla's reported "transactions" are even more obviously inappropriate than those of DC Companies in that, unlike the DC Companies' IBTs, the purported Scylla "bilaterals" do not even involve two companies. The purpose of this answer is to document for the Commission the device Scylla used, but did not disclose to the Commission, and demonstrate the mischief that would be condoned and invited if, as Scylla urges, its non-physical, sham IBTs are allowed to be used to avoid financial responsibility for real-time imbalances.⁵

II. ANSWER

As PJM explained in its answer, BOR charges reflect the cost of Operating Reserves for PJM's Real-time Energy Market as a whole. When PJM experiences real-time deviations in load and generation, PJM incurs costs. In his affidavit, Mr. Bresler, PJM's Vice-President of Market Operations and Demand Resources, described several examples of such costs, including the cost of requesting resources, in real-time, to start-up, ramp-down, ramp-up or extend run times on

⁵ See, e.g., *Cal. Indep. Sys. Operator, Inc.*, 137 FERC ¶ 61,165, at P 9 (2011) (accepting answer to motion to intervene and comments, noting that information provided in the answer would assist the Commission in its decisional process.).

schedules (or at levels) that deviate from the schedules/levels cleared in the Day-ahead Energy Market.⁶

BOR costs are assessed proportionately across *all* generation and load deviations. It necessarily follows, therefore, that to the extent certain market participants have improperly avoided BOR assessments for their real-time imbalances, other market participants will be disproportionately burdened with the costs associated with PJM's Operating Reserves.

Scylla's situation provides a compelling depiction of "transactions" which attempt to avoid BOR charges, but which plainly meet neither the physical, nor bilateral, transfer requirements of the PJM Tariff. In Scylla's case, the company simply established two separate billing sub-accounts *for the same company* and then reported IBTs to transfer financial liabilities between its two accounts. By reporting IBTs to PJM in eSchedules, Scylla purported to act as both the buyer and the seller of physical energy. But by its very name, an IBT describes a "bilateral" transfer – not the unilateral movement of liabilities from Scylla's left pocket to its right pocket. Moreover, those liabilities were shifted unaccompanied by any underlying purchase and sale of physical energy. In short, there is nothing "IBT"

⁶ Answer to the Complaint at Attachment A.

about Scylla's arrangements and their representation by Scylla as such in eSchedules was wrong.⁷

Purely paper transactions or accounting transfers do not comply with PJM's Tariff and may not be reported in eSchedules in order to offset real-time imbalances. Scylla's purported IBTs are indeed "similarly situated" with those of DC Companies. But in not going through the motion to create another subsidiary to engage in manufactured purchase and sale transactions, and thus dispensing with any facade of legitimacy such as DC Companies attempted to create, Scylla lays bare exactly how fictitious IBTs can be used to circumvent BOR charges by effecting mere accounting entries, instead of reflecting an underlying physical transfer of actual electricity. The Commission should not allow such circumvention to continue to the unfair detriment of those other market participants paying BOR charges.

⁷ There may well be legitimate reasons for a company to establish separate settlement sub-accounts, such as to be able to track purchases/sales within a particular region or transmission zone. PJM accommodates market participant desires to establish sub-accounts to keep track of their activity in this manner. However, the concept of using separate accounts to, in effect, act as counterparties to a financial swap for the purpose of offsetting real-time imbalances serves no function other than to avoid BOR charges under the guise of a purportedly tariff-compliant IBT.

III. CONCLUSION

For the reasons set forth herein and in PJM's Answer to the Complaint, the Commission should find that Scylla must be assessed BOR charges for real-time imbalances associated with improperly reported, non-physical, IBTs.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 16th day of December, 2011.

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