

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

PJM Interconnection, L.L.C.)))	Docket No. ER14-822-002
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**ANSWER AND MOTION FOR LEAVE TO ANSWER
OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rules 212 and 213 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”), submits this answer to, and moves for leave to answer, the answer filed by EnerNOC (“EnerNOC”) on July 11, 2014.

I. ANSWER

EnerNOC claims that “[t]he Market Monitor confuses operational concerns with the need for just, reasonable and not unduly discriminatory performance assessments.”² The rules at issue concern more than post facto performance assessments. The rules determine the relationship between the response of demand resources to dispatch and the payment for that response. The rules for compliance measurement of emergency and pre-emergency resources directly impact operational aspects of dispatch because they directly affect the incentives to perform and thus the nature of the response to dispatch. The operational values of demand resources are affected when the rules for measuring compliance differ from the rules for dispatching resources. This relationship cannot be ignored.

¹ 18 CFR § 385.212 & 213 (2013).

² Motion for Leave to Answer and Limited Answer of EnerNOC, Inc., Docket No. ER14-822-002 at 6.

Currently, PJM measures compliance by zone, regardless of how many zones are dispatched, regardless of the RPM clearing prices by zone and regardless of whether a dispatched zone is electrically contiguous with another dispatched zone. By proposing to allow compliance to be measured across zones within a compliance aggregation area (CAA), PJM would change the way CSPs dispatch resources when multiple electrically contiguous areas with the same RPM clearing prices are dispatched. The compliance rules determine how CSPs are paid and thus create incentives that CSPs will include in their decisions about how to respond to PJM dispatch.

A CSP typically has more resources registered in a zone than are committed. This enables a CSP to decrease performance risk by having additional resources to cover poor performance resources. When more than one zone or subzone in a CAA is dispatched by PJM, the proposed compliance calculation would increase the amount of resources a CSP can dispatch to meet their commitment MW level. This reduces the CSP's compliance risk by providing a broader pool of resources considered part of measured performance without consideration of the effectiveness of the resources in solving PJM's operational issue. More importantly, there is no necessary relationship between the location of the resources in the broader pool of resources and the actual operation problem that PJM is dispatching to solve. Thus, a decrease in CSPs' performance risk means an increase in PJM's operational risk, because PJM will have less information about the electrical location of demand response resources compared to the location where such resources are needed in response to dispatch instructions.

For example, if PJM dispatches DR in two electrically contiguous zones with the same RPM prices for two different problems which are not electrically related, PJM's proposed approach would create incentives for worse performance than under the current system. In this example, the goal of PJM dispatch is to reduce load in zone one at a specific location and to reduce load in zone two at another specific location, which is electrically distant from the zone one location. Under PJM's proposed approach, a CSP could dispatch only resources in zone one and those resources would be considered as part of performance

for both the problem in zone one and the electrically unrelated problem in zone two. This is not a rational result and this result is not consistent with the goal of dispatching resources in locations where they are needed. PJM's original goal in their filing was to make the dispatch of DR more granular but PJM's revised proposal would do the reverse.

When an emergency condition occurs due to a local constraint, the efficient solution is to dispatch resources as close as possible to the constraint and on the side of the constraint that needs relief. Since PJM does not require demand resources to register at a specific node and PJM dispatch is by zone or sub-zone, dispatch of DR is not as efficient as the nodal dispatch which applies to generating units. PJM's CAA proposal would make demand resources' response to dispatch less locational rather than more locational and would make the dispatch of DR less efficient.

EnerNOC argued that "[w]ithout the ability to aggregate on a 'Compliance Aggregation Area' basis, the costs and risks associated with delivering a Demand Resource comprised of many locations, a core component of a curtailment service provider's business model, would be so high as to reduce the efficiencies Demand Response affords system operators as a capacity resource."³ This is clearly and demonstrably false. CSPs were not able to aggregate on a CAA for the 2012/2013 and 2013/2014 Delivery Years. During these years, the penalty charges represented only 3.0 percent of the capacity credits for the 2013/2014 Delivery Year and 0.8 percent of the capacity credits for the 2012/2013 Delivery Year.⁴

In addition, the goal of PJM's rules is not to conform to the business model of any participant or participant class but to establish a rational, nodal market reflecting the marginal cost of meeting load at individual nodes. Conforming to the CSPs' business model

³ *Id.*

⁴ 2014 *State of the Market Report for PJM*, Section 6: Demand Response, Table 6-29.

is not a relevant objective. In fact, EnerNOC's assertions about the CSP business model means explicitly that the business model is at odds with the efficient dispatch of the system. While CAA dispatch might be more cost effective for CSPs, it is less efficient for PJM.

Instead of PJM's proposal to degrade the response of demand resources to the PJM dispatch signal by measuring compliance by CAA, PJM should measure compliance and dispatch at the zonal and sub-zonal level with the ultimate goal of making the dispatch more comparable to generation and more consistent with the nodal PJM system.

II. MOTION FOR LEAVE TO ANSWER

The Commission's Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answers to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.⁵ In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision-making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this pleading as the Commission resolves the issues raised in this proceeding.

⁵ See, e.g., *PJM Interconnection, L.L.C.*, 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that "provided information that assisted ... decision-making process"); *California Independent System Operator Corporation*, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process); *N.Y. Indep. Sys. Operator, Inc.*, 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process).

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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 Eagleville, Pennsylvania,
this 25th day of July, 2014.



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