

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

PJM Interconnection, L.L.C.)
) Docket No. ER14-822-002
)

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”),² submits these comments on the filing submitted in the above captioned proceeding by PJM Interconnection, L.L.C. (“PJM”) on June 2, 2014 (“June 2nd Filing”) in compliance with the order issued in this proceeding May 9, 2014 (“May 9th Order”).³ One element of PJM’s proposal is outside the scope of what the Commission directed in the May 9th Order and should be rejected.

I. ONE ELEMENT OF PJM’S FILING IS OUTSIDE THE SCOPE OF THE COMMISSION’S ORDER

The May 9th Order (at P 129) required PJM to do the following on compliance:

Accordingly, we accept PJM’s proposal, subject to PJM’s submission of revised tariff language, in its compliance filing, to allow all demand response assets dispatched by PJM on the same operating day and *within the same zone*, regardless of type, to aggregate their performance for the purpose of compliance calculations as agreed to by PJM [emphasis added].

¹ 18 CFR § 385.211 (2013).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”).

³ *PJM Interconnection, L.L.C.*, 147 FERC ¶ 61,103 (2014).

PJM explains in the transmittal letter for the June 2nd Filing that its compliance filing does not comply with the above directive:

PJM believes that the Commission's reference to Demand Resources being dispatched "within the same zone" is an inadvertent oversight because PJM actually agreed to aggregate resources dispatched in electrically contiguous areas (which could be comprised of Zones or sub-Zones) as described in PJM's January 31, 2014 Answer. Given that the Commission has acknowledged that PJM should implement the proposal it agreed to, PJM's proposed Tariff, Operating Agreement and RAA revisions will reflect the proposal it agreed to with EnerNOC, as clarified by PJM in its January 31, 2014 Answer, and as further refined through discussions with stakeholders.

The Market Monitor does not object to the compliance directive included in the May 9th Order, and does not propose to revisit or clarify it. The Market Monitor does object to PJM's agreement with EnerNOC to which PJM refers and the compliance filing based on PJM's agreement with EnerNOC because that agreement is not within the scope of the compliance order, either with respect to its substance or with respect to the party with whom PJM agreed.

The June 2nd Filing's proposal is not within the scope of compliance.⁴ Moreover, the compliance proposal is not even within the proper scope of the section 205 proceeding that

⁴ See, e.g., *PJM Interconnection, L.L.C.*, 139 FERC ¶ 61,256 at P4 (2012) ("[T]he Commission found that PJM's proposal to eliminate its existing payment of LMP less certain generation and transmission (LMP-(G+T)) in the hours that were not covered by the net benefits test went beyond the scope of compliance with Order No. 745. Accordingly, the Commission directed PJM to reinstate its existing tariff provisions..."); *California Independent System Operator Corp.*, 93 FERC 61,105 at 61,289 (2000) (holding that the appropriate scope of compliance filings does not allow the proposed filing of additional sheets that are unrelated to the original submittal); see also *Central Hudson Gas & Electric Co.*, 90 FERC 61,045 (2000); *El Paso Electric Co.*, 89 FERC 61,181 (1999) (each holding that proposed revisions not required to be filed by the earlier order were beyond the scope of the compliance filing and were rejected).

PJM initiated.⁵ If PJM wants to pursue this course, which is precisely opposite to its original intent when this proceeding commenced, it should take the proposal through the stakeholder process in accordance with the applicable process.^{6 7} Accordingly, the proposal should be rejected.

II. PJM'S PROPOSAL ON SUB-ZONAL COMPLIANCE WOULD HARM THE MARKET DESIGN

In addition, the compliance proposal would harm the market design while PJM's original proposal, as filed, would have improved it. Because the May 9th Order does not require the negative components of the compliance filing when read according to its plain meaning, the Market Monitor did not have fair opportunity to raise with the Commission its concerns about harm to the PJM market design at that time. The Market Monitor's concerns relate entirely to PJM's unauthorized rewrite of the Commission's compliance directive.

PJM's proposal, as filed, would have improved the granularity of its mandatory curtailment dispatch, improving the efficient dispatch of resources and avoiding charges for

⁵ See *PJM Interconnection, L.L.C.*, 147 FERC ¶ 61,103 (2014) ("Exelon requests that PJM modify the scope of its Pre-Emergency Load Response Program to allow PJM to declare a Pre-Emergency event the day before the operating day. This request goes beyond the scope of PJM's section 205 filing and Exelon has not argued that PJM's filing is unjust and unreasonable and should be rejected. PJM's proposal is designed to provide PJM greater flexibility to dispatch demand response resources closer to a projected emergency event, not farther from it. Accordingly, we are not persuaded that Exelon's request for relief is required, given the goal of the Pre-Emergency program.").

⁶ PJM Filing, Docket No. ER14-822-002, at p 13.

⁷ The fact that PJM indicated in the stakeholder process, after deciding how to file in this matter, that it was changing its approach, does not constitute developing a proposal within the stakeholder process as PJM has defined that process.

uplift for demand response that in some cases will result in significant waste.⁸ PJM's proposal, as filed in this proceeding, would have improved the efficiency of the market.

PJM currently can define a sub-zone the day ahead of the operating day and compliance with any related sub-zonal dispatch is mandatory and based on the definition of the sub-zone. That is a reasonable design for sub-zonal dispatch.

PJM cannot currently define a sub-zone in the operating day and therefore any dispatch is zonal and compliance with the zonal dispatch is mandatory and based on the definition of the zone. This is not reasonable and should be modified to permit PJM to create sub-zones during the operating day and enforce compliance on a sub-zonal basis.

PJM's proposal, as filed, would have retained the rules for sub-zonal dispatch for sub-zones defined the day ahead of the operating day and created the parallel ability for PJM to create sub-zones during the operating day with corresponding mandatory sub-zonal compliance.

PJM's compliance proposal, based on its agreement with EnerNOC, would weaken the rules for sub-zonal dispatch for sub-zones defined the day ahead of the operating day by permitting a broader area to be included. PJM does not explain why compliance with the dispatch of demand resources should ignore constraints in the energy market. For example, under the PJM compliance proposal, demand resources on the wrong side of a constraint could be considered for compliance. Demand resources have locational impacts in the energy market that depend on their location and compliance should recognize that. PJM's

⁸ When a DR provider responds with DR at locations where it is convenient for the DR provider to meet the committed MW amount but not where PJM needs the relief MW, for security constrained economic dispatch, PJM must order the generation resources that it would have used to meet the load represented by DR at those locations to back down. The backed down units will be paid uplift in the form of lost opportunity credits for the MWh that they are not permitted to provide because of the DR reduction. These uplift costs will be allocated based on participants' real-time deviations from day ahead across the entire RTO. Meanwhile, less than the dispatched DR would have been delivered at the location where PJM needed it most, with potential consequences to system reliability.

compliance proposal relies on the definition of price separation in the capacity market rather than price separation in the energy market where the resources are being called. The only reason for a capacity market is to help ensure that the energy market works efficiently. Price separation in the three year forward capacity market has almost nothing to do with price separation in the real time energy market.

PJM's proposal in this proceeding was to require compliance by demand resources by sub-zone created during the operating day.⁹ PJM now proposes to define a Compliance Aggregation Area (CAA) as a "geographic area of Zones or sub-Zones."¹⁰ On this issue, PJM's compliance filing is the opposite of its proposal as filed. PJM's compliance proposal would constitute a step backwards relative to the current rules.

In addition, PJM/EnerNOC's proposal to aggregate across product types and across notification periods for compliance is not consistent with the current rules and would weaken compliance incentives. Event compliance testing for DR is currently defined by product type, e.g. Annual, Extended Summer and Limited.

⁹ PJM Filing, Docket No. ER14-822-000 at 9, 31-32 (December 12, 2013) (PJM summarizes its proposal "modifying the sub-Zonal dispatch rules such that, after a transition period, PJM will be able to require compliance with a sub-Zonal dispatch provided it is called during the Operating Day of the Load Management event, rather than measuring compliance based on the sub-Zone the day before the Operating Day, thereby greatly increase the ability of PJM dispatchers to react to system conditions in real time.").

¹⁰ PJM at 14-15. The proposed definition, to be codified in a new Section 2.6A to Attachment DD of the OATT, is: "'Compliance Aggregation Area' or 'CAA' shall mean a geographic area of Zones or sub-Zones that are electrically-contiguous and experience for the relevant Delivery Year, based on Resource Clearing Prices of Annual Resources, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction.'"

III. THERE IS NO REASON TO MAINTAIN AN EXCEPTION FOR BEHIND THE METER GENERATION

PJM proposes to continue to provide a discriminatory preference to behind the meter generation. The practical effect of retaining this link for behind the meter generation is to facilitate the continued use of diesel engines, with environmental exceptions, to provide DR.¹¹ There is no economic, reliability or environmental reason to retain this exemption for behind the meter diesel engines. Each argument that PJM makes to support the introduction of the pre-emergency DR category applies with equal force to behind the meter generation.

Typically the behind the meter generating facilities used in DR are diesel engines that do not meet otherwise applicable EPA air quality rules and that have higher emissions than the natural gas resources that they generally displace. The Market Monitor and PJM have explained to regulators that such DR serves no special reliability need.¹² Contrary to

¹¹ See U.S. Environmental Protection Agency (EPA), *National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines; New Source Performance Standards for Stationary Internal Combustion Engines*, Final Rule, EPA-HQ-OAR-2008-0708, 78 Fed. Reg. 6674, 6679–6681 (January 30, 2013). EPA defines emergencies in its rules at 40 CFR § 4211(f)(2), which provides at subsection (f)(2)(ii): “Emergency stationary ICE may be operated for emergency demand response for periods in which the Reliability Coordinator under the North American Electric Reliability Corporation (NERC) Reliability Standard EOP-002-3, Capacity and Energy Emergencies (incorporated by reference, see §60.17), or other authorized entity as determined by the Reliability Coordinator, has declared an Energy Emergency Alert Level 2 as defined in the NERC Reliability Standard EOP-002-3.”

¹² Comments of the Independent Market Monitor for PJM, EPA Docket No. EPA-HQ-OAR-0708 (August 9, 2012); Comments of the Independent Market Monitor for PJM, EPA Docket No. EPA-HQ-OGC-2011-1030 (February 16, 2012); Market Monitor, Comments of the Independent Market Monitor for PJM, Supporting Testimony before the Pennsylvania House of Representatives Environmental and Energy Committee re House Bill 1699, An Act Providing for the Regulation of Certain Reciprocal Internal Combustion Engines (November 20, 2013), which can be accessed at: <http://www.monitoringanalytics.com/reports/Reports/2013/IMM_Comments_to_PA_CERE_1699_20131120.pdf>; Letter from Terry Boston, President & CEO, PJM to Hon. Chris Ross re Pennsylvania House Bill 1999 (November 11, 2013) (“With regards to your inquiry of potential impacts to grid reliability, PJM does not anticipate the emergence of system reliability issues, should HB 1699 become law.”);

PJM's assertion (at 9, 14), these diesels engines are not subject to "strict" environmental rules. The actual effect of PJM's approach will be to continue to provide an exemption for diesel engines in the DR program from otherwise applicable air quality rules. Maintaining the PJM Emergency Load Response Program for the special benefit of diesel engines that do not meet EPA's otherwise applicable air quality regulations, is unduly discriminatory and should be rejected.

IV. CONCLUSION

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

Respectfully submitted,



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Dated: June 23, 2014

Letter from Terry Boston, President & CEO, PJM to Hon. Mary M. Cheh re District of Columbia Bill 20-569 (December 19, 2013).

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 23rd Day of June, 2014.



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