UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Viridity Energy, Inc.	)	
	)	Docket No. EL12-54-000
v.	)	
	)	
PJM Interconnection, L.L.C.	)	

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 [2] ("Market Monitor"), submits these comments responding to the complaint by Viridity Energy, Inc. ("Viridity") filed March 29, 2012. Viridity complains that the PJM market rules require that a customer have a single Curtailment Service Provider ("CSP") represent the customer for its demand-side participation in the energy and capacity markets even in circumstances where both customer and CSPs may prefer to divide that representation. Viridity's complaint draws attention to a flaw in the PJM market design that results in overpayments by customers in the PJM market. Correcting this flaw would both improve the PJM market design and effectively provide the relief sought by Viridity.

Viridity argues (at 3–7) that in circumstances where a customer and two CSPs may all desire to enter into an arrangement where one CSP would represent the customer in the

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1 18 CFR § 385.211 (2011).

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

capacity market, handling both capacity payments and emergency energy payments (i.e., the PJM Emergency Demand Response Program–Full Program Option), and another CSP would represent the customer in the energy and ancillary services markets for purposes other than emergency energy payments, the rules unreasonably forbid it. Viridity explains (at 5 & n.13) that although the rules actually provide for a customer to divide its representation between a CSP for capacity and a CSP for energy and ancillary services (i.e., by enrollment in the PJM Emergency Load Response Program–Capacity Only Option), there are strong incentives in the rules for a customer to participate in the PJM Emergency Load Response Program–Full Program Option. The result is that by opting for the Full Program Option, the customer is precluded from having a second CSP represent it for energy and ancillary services.

Viridity proposes (at 14–15) a narrow solution that would allow two CSP representatives in those circumstances. The Market Monitor understands that Viridity's solution would avoid double payments for energy during emergency hours. Only the CSP for capacity would receive emergency energy payments for compliance during emergency hours. The energy and ancillary services CSP would receive no payment for such hours. Based on this understanding, the Market Monitor agrees that Viridity has identified a market design issue.

However, Viridity's complaint involves much more than whether, as a practical matter, customers can divide their representation between two CSPs. The complaint calls attention to a much more serious flaw in the design of the PJM market rules that Viridity's proposed relief does not directly address. The real problem is the fact that the rules require payment at levels significantly above market prices for energy during emergency events to Demand Resources participating in the PJM Emergency Load Response Program—Full

Program Option when those resources select a high strike price. This overpayment results in strong incentives to retain a single CSP for both the capacity market and energy market participation because the overpayment depends on being in the Full Program Option.

During an emergency event, participants registered in the Full Emergency option and the Emergency Energy Only option will be paid the higher of the submitted minimum strike price or the zonal real-time LMP for emergency reductions. The minimum dispatch price, which is submitted by the participant, acts as a floor for energy compensation during an emergency event. Given the current program rules, market participants have an incentive to submit a minimum dispatch price at the maximum threshold for energy bids of $1,000 per MWh. For the 2011/2012 delivery year, approximately 73 percent of registered sites representing 64 percent of registered MW in the Emergency Full Capacity option submitted a minimum dispatch price of either $999 or $1,000 per MWh.

There is no economic reason to compensate load reductions up to $1,000 per MWh during an emergency event regardless of the hourly LMP. Compensation in the Emergency Program should be directly aligned with the RPM market clearing price. The appropriate energy market price signal for load reduction in any hour is the hourly LMP. This means that the appropriate compensation in any PJM Program is the LMP, which is already made available through participation in the Economic Program. There is no need for energy payments through the Emergency Program. The current design of the Emergency Program incents resources to seek overcompensation through Emergency Energy payments equal to the greater of LMP or a submitted minimum dispatch price, which, in most cases is set at $1,000 per MWh.

There is no relationship between the minimum dispatch price and the locational price of energy or the participant's costs associated with not consuming energy. The minimum dispatch price is also not a meaningful signal from the participant about its willingness to curtail. In the Emergency Full option, end use participants are already contractually obligated to curtail during an emergency event because they are capacity resources and receive capacity payments. Thus, the ability to submit a minimum dispatch price is a guarantee of an energy payment for resources that are already required to curtail, regardless of their minimum dispatch price. The appropriate energy payment for a load reduction during an emergency event is the hourly LMP.[3]

In the Economic Program, customers also have the opportunity to submit a minimum price at which they will curtail. However, customers in the Economic Program will be dispatched economically and paid the real-time LMP only if they are dispatched.[4] Under the Emergency Energy Only option and the Emergency Full option, participants are made whole to a minimum strike price offer regardless of the hourly LMP. There is no economic reason to compensate load reductions up to $1,000 per MWh during an emergency event regardless of the hourly LMP.

The Market Monitor recommends that the option to specify a minimum dispatch price under the Emergency Program Full option be eliminated and that participating resources receive the hourly real-time LMP.

The best solution to the problem Viridity identifies is not a minimal approach that carefully works around what is an unjust, unreasonable and unduly discriminatory aspect

3 Energy Only participants are also paid the higher of the real-time LMP and the submitted minimum dispatch price. However, there are currently no participants registered under this option.

4 OA Schedule 1 § 3.3A.4(a).

of PJM's market design. The appropriate solution is to eliminate inefficient above-market payments for emergency energy.

If Demand Resources received the market-based energy payment instead of an emergency price based on strike prices set at or near the system-wide offer cap, then there would be no incentive for enrollment in the PJM Emergency Load Response Program–Full Program Option. In that case, customers would be able, with no countervailing, non-competitive incentive, to have one CSP represent them for capacity only and another CSP represent them for energy and ancillary services. Order No. 745 enhanced the incentives for load to participate in the PJM Economic Load Response Program.[5]

This proceeding provides an opportunity for the immediate elimination of a flaw in the PJM market design. There is no reason to defer solving the problem identified here by requiring further stakeholder process or requiring a new complaint. Requiring load in PJM to pay prices that greatly exceed market prices for emergency energy is unsupportable. The Market Monitor requests resolution of the issue raised by Viridity in this proceeding by eliminating above-market emergency energy payments. This approach solves both the administrative issue that concerns Viridity and the fundamental market flaw that Viridity identifies.

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

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55 *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, FERC Stats. & Regs. ¶ 31,322 (2011), *order on reh'g*, 137 FERC ¶ 61,215 (2011).

Respectfully submitted,

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Dated: April 18, 2012

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 18th day of April, 2012.

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