UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
PJM Interconnection, L.L.C.	)	Docket No. ER11-3322-000
	)	

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations, 18 CFR § 385.211 (2011), Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM ("Market Monitor"), submits these comments on the filing submitted by PJM Interconnection, L.L.C. ("PJM") in the above captioned proceeding on April 7, 2011 ("April 7th Filing") proposing to revise and clarify the rules applicable to the measurement and verification of service interruptions by end-use customers providing capacity through Curtailment Service Providers ("CSPs," also known as "aggregator of retail customers" or "ARC"). Specifically, PJM proposes to ensure that the basis of such measurement and verification is Peak Load Contribution or "PLC." The Market Monitor agrees that PLC is the only appropriate reference for determining whether a customer has reduced its use of the capacity for which it has paid and strongly supports PJM's proposal.

I. BACKGROUND

The Market Monitor has explained in its pleadings filed in Docket No. EL11-23 the issue that motivated the April 7th Filing and incorporates those pleadings here in their entirety by reference.[1] The essential issue is the relationship between PLC and definition of the capacity product that PJM purchases on behalf of load from demand side resources. This relationship is the reason that PLC is the appropriate reference point against which to measure and verify the delivery of capacity when PJM calls for interruptions from Demand Resources.

The delivery of and payment for capacity from demand side resources in the Capacity Market is entirely separate from the delivery of and payment for energy from demand side resources in the Energy Market.[2] The same customer providing capacity may also participate and receive payment for a reduction in energy usage. The applicable compliance metrics are different, however, as they pertain to different products. The same customer providing capacity may also participate and receive payment for a reduction in energy usage in the Energy Market. Any reduction from baseline usage, including a reduction from a level of consumption above PLC, may have value and can be appropriately compensated in the Energy Market because it has provided a real-time response in energy consumption relative to what it would have consumed.

---

[1] *See* Comments and Motion for Hearing of the Independent Market Monitor for PJM dated March 2, 2011; Motion for Leave to Answer and Answer of the Independent Market Monitor for PJM dated March 3, 2011.

[2] The issue presented here is fundamentally different from the issue that the Commission confronted in its decision regarding compensation of demand-side resources in the energy market. *See Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, 134 FERC ¶61,187 (March 15, 2011). That proceeding concerned the appropriate level of payment (LMP) in the energy market for a demand resource, provided that such demand resource "has the capability to balance supply and demand as an alternative to a generation resource and when dispatch of that demand response resource is cost-effective as determined by [a] net benefits test." *Id*. at P 2. RPM Auctions determine the level of payment received for capacity provided by Demand Resources. The issue here concerns measurement and verification that a Demand Resource has curtailed in a manner consistent with the rules governing the Capacity Market and system capacity requirements.

II. COMMENTS

End use customers that sell Demand Resources in the PJM Capacity Market are selling interruptibility. The PJM Load Management Program provides a mechanism for end use customers to avoid paying the Capacity Market clearing price for a defined amount of capacity which they would otherwise pay for and have a right to use, in return for agreeing to not use capacity when it is needed by customers who have paid for the capacity. This is a logical, reasonable and valuable product. In order to implement this product, the level of interruption must be quantifiable because it is the basis on which end use customers are paid for interruptibility or Demand Resources in the Capacity Market. In particular, the amount of capacity that a customer would otherwise have to pay for must be quantifiable. In particular, the amount of such capacity that a customer chooses to not pay for, and to not use when called, must be quantifiable. PJM' proposal is designed to ensure the most accurate quantification possible and to prevent manipulation of this capacity metric.

The amount of capacity that a customer would otherwise have to pay for, but for the cleared DR offer in the Capacity Market, is the customer's PLC. The amount of such capacity that a customer chooses to not pay for and to not use when called is the Nominated Value.[3]

A customer cannot offer to not pay for a level of capacity for which it has no obligation to pay. Such an offer would be meaningless and without value. The current rules

---

3 The term "Nominated Value" is used in Schedule 6 of the RAA and Attachment DD-1 of the OATT, and this is apparently a short form of the term, "Nominated Demand Resource Value." The tariff includes this definition: "Nominated Demand Resource Value" shall mean the amount of load reduction that a Demand Resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For existing Demand Resources, the maximum Nominated Demand Resource Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the Base Residual Auction or Incremental Auction is being conducted." OATT Attachment DD § 2.43.

thus require, "The Nominated Value of each Demand Resource … shall be determined consistent with the process for determination of the capacity obligation of the customer.[4] When a customer relies on Firm Service Level or Guaranteed Load Drop as the method for measurement and verification, the current rules provide, "The maximum credit nominated shall not exceed the customer's Peak Load Contribution."[5] Accordingly, PJM proposes to clarify in the April 7th Filing that when it calls on a Demand Resource, the basis to measure and verify compliance is whether the Demand Resource has provided the reduction below PLC by an amount equal to the Nominated Value. Only a Demand Resource that can verify such a reduction is entitled to a capacity payment.

PJM procures capacity for LSEs in RPM auctions based upon PJM's forecast of customers' peak loads in the relevant Delivery Year, three years ahead in the case of a Base Residual Auction. PJM forecasts load three years ahead, but it is not until five months prior to the Delivery Year that end use customers' contributions to LSEs' Obligation Peak Loads (i.e., PLCs) are established, and specific customers incur obligations to make capacity payments.[6] Obligation Peak Load, and, therefore, PLCs, are defined as based the customer's "5 CP" (i.e., customers' load on the five coincident peak load days during the prior year).[7] The RAA states that customers' obligation to pay for capacity is defined by their PLC. Each customer must pay for its share of the total capacity procured to meet load in the LSE based on its share of all customers' PLCs.

---

4 OATT Attachment DD-1 § J; RAA Schedule 6 § J.

5 *Id*.

6 RAA Schedule 8 § D.1.

7 RAA Schedule 8; PJM Manual 18 (PJM Capacity Market) § 7.4.1; PJM Manual 19 (Load Forecasting and Analysis) § 4.4.

The April 7th Filing states (at 5, 11) that PLC "PLC determines the amount of capacity resources that PJM procures, in compliance with reliability standards, to meet the customer's load" and that "[t]he PLC is the level upon which all PJM transmission and resource adequacy planning is premised;" and that PLC "is the amount of load for which PJM must obtain capacity resources." The Market Monitor agrees with PJM's point and notes that the load forecast is based on customers' peak loads, which is incorporated in the demand curve in the RPM auction, which with the supply curve determines the amount and cost of the capacity acquired in order to meet load for a Delivery Year. However, PJM does not directly use PLC to determine the quantity of capacity procured in RPM Base Residual Auctions because PLC is not yet known. The April 7th Filing is more precise in other passages where it explains (*Id*.) that PLC "represents" what was procured as opposed to determining what was procured.

The amount of capacity that PJM procures three years in advance of the Delivery Year in Base Residual Auctions is based on forecasts of each LSE's peak load. The RPM Auction results determine the clearing price and the clearing quantity for each Zone. The PLC, based on peak loads in the year prior to the Delivery Year, determines each customer's allocated share of that total capacity cost.

PJM calculates PLCs based on the "Zonal weather-normalized RTO-coincident summer peak loads … allocated to the wholesale and retail customers in the zones using EDC-specific methodologies that typically employ the customer's shares of RTO actual peaks."[8] The PLC is defined as the average of the five coincident peak loads for the calendar year prior to the beginning of the delivery year.[9]

The resulting PLCs determine capacity obligations.[10] PLC is the allocator to determine (i) the total cost of that capacity is allocated to Zones, (ii) the cost of capacity within Zones to LSEs, and (iii) the cost of capacity within LSEs to their customers.[11]

PLC is the MW quantity for which customers are responsible.

PJM's proposed revisions are necessary to ensure proper measurement and verification that the capacity provided by Demand Resources can be delivered and has been delivered. These revisions are essential to protecting the integrity of the capacity product and the efficiency of the Capacity Market.

PJM recommends that (1.25 * PLC) be used in place of PLC for one year as a transition. The Market Monitor supports this approach. The Market Monitor recommended this approach as a transition in order to minimize or eliminate the impact on individual customers that may not know their PLCs and as a way to reduce the impact on CSPs and customers. The use of 1.25 should not be a permanent feature of the rules because the PLC defines the amount of capacity paid for by each customer and therefore the maximum amount of capacity that a customer can agree not to use. The fact that load growth occurs from year to year does not affect this argument because a customer is responsible only for its PLC.

---

8 PJM Manual 19 (Load Forecasting and Analysis) at 21.

9 OATT Attachment DD-1 § J.

10 Schedule 8 of the PJM Reliability Assurance Agreement establishes "capacity obligations," including the zonal "Daily Unforced Capacity Obligation" applicable to LSEs participating in RPM and the zonal "Obligation Peak Load" applicable to such LSEs' end use customers.

11 *Id*.

On another issue, April 7th Filing states (at 16) that the Market Monitor requested a one-time waiver to allow changes in ILR nominations. The Market Monitor did not make this request.

III. MOTION TO INTERVENE

The PJM Market Monitoring Plan requires that the Market Monitor, among other things, monitor "[c]ompliance with the PJM Market Rules," "[a]ctual or potential design flaws in the PJM Market Rules" "[s]tructural problems in the PJM Market that may inhibit a robust and competitive market," and "[t]he potential for a Market Participant to exercise market power or violate any of the PJM or FERC Market Rules or the actual exercise of market power or violation of the PJM or FERC Market Rules."[12] As this proceeding involves PJM's proposal to "revise and clarify the rules applicable during emergency and testing conditions for the measurement of capacity curtailment by end-use customers," it implicates matters within the Market Monitor's purview.[13] Moreover, the Market Monitor actively participated in Docket No. EL11-23, which concerned the compliance metrics that the proposed revisions seek to clarify. Consequently, it is in the public interest that the Commission grant this motion. Rule 214 provides that the Commission may grant interventions where "[t]he movant's participation is in the public interest."[14] The Market Monitor has the exclusive duty to perform the market monitoring function for PJM, and no other party can adequately represent it in this proceeding. Accordingly, the Market Monitor

12 OATT Attachment M §§ II & IV.B.1–4.

13 July 7th Filing at 1.

14 18 CFR § 385.214(b)(2)(iii).

moves that the Commission grant it leave to intervene and afford to it full rights as a party to this proceeding.

IV. COMMUNICATIONS

Pursuant to 18 CFR § 385.203(b)(3), the Market Monitor designates the following persons as those to receive all notices and communications with respect to this proceeding:

Joseph E. Bowring
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610)-271-8051
joseph.bowring@monitoringanalytics.com

Jeffrey W. Mayes
General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

V. CONCLUSION

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

Respectfully submitted,

Jeffrey W. Mayes

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

Dated: April 28, 2011

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 28th day of April, 2011.

Jeffrey W. Mayes
General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610)271-8053
jeffrey.mayes@monitoringanalytics.com