

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

PJM Interconnection, L.L.C.	)	
	)	Docket No. ER14-504-000
	)	

**COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 211 of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”),<sup>2</sup> submits these comments on the filing submitted in the above captioned proceeding by PJM Interconnection, L.L.C. (“PJM”) on November 29, 2013 (“November 29<sup>th</sup> Filing”). The Market Monitor supports the November 29<sup>th</sup> Filing because it would mitigate in part the harmful impact on reliability and markets of the continued inclusion of limited Demand Resources (“DR”) in the capacity market as comparable to other capacity products when it is inferior.<sup>3</sup> The November 29<sup>th</sup> Filing does not propose the direct and complete solution, which is the elimination of limited DR, including both Limited Demand Resources

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<sup>1</sup> 18 CFR § 385.211 (2013).

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

<sup>3</sup> The term “limited DR” as used here refers to both of the limited DR products currently defined in the rules: “Limited Demand Resource,” which means “a resource that is placed under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 times during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration,” and “Extended Summer Demand Resource,” which means “a resource that is placed under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time.” PJM Reliability Assurance Agreement §§ 1.20C & 1.43A.

and Extended Summer Demand Resources and the elimination of the 2.5 percent demand offset (Short Term Resource Procurement Target). The November 29<sup>th</sup> Filing instead limits the amount of limited DR that can be committed for a Delivery Year.<sup>4</sup> The Market Monitor supports the November 29<sup>th</sup> Filing because it reduces the harm to reliability and the markets from continuing to allow limited DR. Approval of this measure does not remove the need to eliminate limited DR. PJM should be directed to investigate the elimination of limited DR and the associated Short Term Resource Procurement Target, which is the arbitrary reduction of demand by 2.5 percent in RPM Base Residual Auctions to allow for subsequent procurement of limited DR (“2.5 Percent Holdback”).<sup>5</sup>

## I. COMMENTS

In the November 29<sup>th</sup> Filing, PJM proposes to replace a minimum requirement on the procurement of the Annual DR product and instead implement a hard MW cap on procurement of the inferior limited DR products. PJM argues that this will correct a flaw in the current market design, which caps Annual DR with a vertical demand curve but has only a flexible cap for limited DR based on the downward sloping Variable Resource Requirement (“VRR”) curve. One result of limiting Annual DR and buying more limited DR is that limited DR suppresses the final clearing price downward for all capacity resources more than it would with a hard cap.<sup>6</sup> As PJM explains (at 2), “a price premium for Annual Resources *is a sure sign that the resulting price signal is being suppressed*, because it is

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<sup>4</sup> PJM’s specific summary description of its proposal (at 21) remains rather complicated: ...“PJM proposes a Sub-Annual Resource Constraint to limit the total amount of capacity that can be committed as either Extended Summer DR or Limited DR for each Delivery Year<sup>58</sup> and that equals the Sub-Annual Resource Reliability Target less the STRPT. Similarly, PJM proposes a Limited Resource Constraint to limit the quantity of Limited DR that can be cleared in the auctions, which is equal to the Limited DR Reliability Target less the Short Term Resource Procurement Target.”

<sup>5</sup> See OATT Attachment DD § 2.65A.

<sup>6</sup> The Market Monitor has documented the price suppressive effects of limited DR. See, e.g., IMM, Analysis of the 2015/2016 RPM Base Residual Auction (September 24, 2013).

an unerring indication that the auction algorithm is preferentially clearing lower-cost, lower availability products for the region's capacity needs between the vertical line at the minimum requirement for Annual Resources and the total cleared capacity quantity at the Commission-approved sloped demand curve" [emphasis original]. PJM explains (at 2) that "by definition the lower-availability products have a lower cost." If the supply of limited DR determines or influences the final clearing price, then the price of capacity in PJM will be valued on the basis of the influence of a product that does not meet the necessary standards (i.e., availability 60 hours/year rather than the 8,760 hours/year). PJM hopes to correct this outcome and allow resources that meet the definition of capacity resources, including Annual DR, to set the final clearing price.

Procuring less limited DR also reduces the reliability of risk of relying on limited DR. The Limited DR product is available for only 60 hours. Extended Summer DR is only available May–October. DR may be needed in any of the 8,760 hours of the Delivery Year or November–April. ("Peak-Hour Periods" are defined to include January–February.)<sup>7</sup> Limited DR will not be available during those hours not required for limited DR even though it displaces from the market resources that would be.

The more limited DR is purchased in the capacity market, the higher the probability that limited DR will be called. PJM explained in a prior proceeding for rule changes involving the limited DR problem, that greater proportional reliance on limited DR increases the likelihood that PJM will call on limited DR.<sup>8</sup> By capping the amount of limited DR, PJM limits but does not eliminate its exposure to this reliability issue.

The rule changes proposed here, if approved, will not eliminate the price suppressing effects of limited DR. Even in restricted quantity, limited DR is an inferior

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<sup>7</sup> OATT Attachment DD § 10(b).

<sup>8</sup> See PJM filing, Docket No. ER13-486 (November 30, 2012) at 7; *PJM Interconnection, L.L.C.*, 143 FERC ¶ 61,076 (2013).

product which suppresses capacity market prices and directly displaces generating units and Annual DR. Reliability will continue to fall short of PJM's estimate of what is needed to meet applicable industry standards.

In the November 29<sup>th</sup> Filing, PJM proposes to subtract the 2.5 Percent Holdback entirely from the cap on limited DR. This would be a positive step and would help mitigate the negative impacts of limited DR and the 2.5 Percent Holdback. The 2.5 Percent Holdback is a rule that distorts the level of demand in RPM Base Residual Auctions by arbitrarily reducing demand by 2.5 percent.<sup>9</sup> The 2.5 Percent Holdback unreasonably and unjustly suppresses prices in the Base Residual Auctions, reducing the level of total revenues for capacity resources by billions of dollars below the efficient level.<sup>10</sup> The rationale for the introduction of the 2.5 Percent Holdback was that it would ensure that DR had the ability to offer in the RPM Auctions given that DR was asserted to have a shorter development time than generation resources. Limited DR was the only DR product at the time the Holdback was introduced. This has not been necessary as large amounts of limited DR have cleared in Base Residual Auctions. The price suppression that has resulted from the 2.5 Percent Holdback rule has also reduced the prices received by DR.

Limited DR is bad for PJM for both reliability and market reasons, and it should be eliminated from the market design as should the related 2.5 Percent Holdback rule. This

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<sup>9</sup> OATT Attachment DD § 2.65A.

<sup>10</sup> *See, e.g.,* IMM, Analysis of the 2015/2016 RPM Base Residual Auction (September 24, 2013) at 4 (“The Short-Term Resource Procurement Target had a significant impact on the auction results. The removal of 2.5 percent of demand significantly reduced the clearing prices and quantities for all the RPM LDA markets. The clearing quantities of Annual Resources, including generation and DR, were reduced as a result of the 2.5 percent demand reduction. Based on actual auction clearing prices and quantities and make-whole MW, total RPM market revenues for the 2015/2016 RPM Base Residual Auction were \$9,734,336,627. If the VRR curves had not been reduced by the Short-Term Resource Procurement Target, total RPM market revenues for the 2015/2016 RPM Base Residual Auction would have been \$12,386,531,361, an increase of \$2,652,194,735, or 27 percent, compared to the actual results. The use of the Short-Term Resource Procurement Target resulted in a 21 percent reduction in RPM revenues for the 2015/2016 Base Residual Auction.”).

simple solution would allow DR to meet its true potential in PJM markets without compromising reliability, sacrificing market efficiency and over complicating what could be more simple and effective market rules. Capping limited DR does not remove the need to eliminate limited DR.

If limited DR is not eliminated then it should be reduced. The November 29<sup>th</sup> Filing caps limited DR and reduces its harmful impact. Accordingly, the November 29<sup>th</sup> Filing should be accepted and approved; but, in recognition that capping limited DR will not solve the problem of limited DR, PJM should be directed to investigate the elimination of limited DR and the associated 2.5 Percent Holdback rule.

## II. 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: December 20, 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 20<sup>th</sup> day of December, 2013.



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