

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

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| Joint Consumer Advocates |) | Docket No. EL24-118-000 |
| |) | |
| 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 (“Market Monitor”) for PJM Interconnection, L.L.C. (“PJM”),² submits these comments responding to Supplement to the Complaint of the Joint Consumer Advocates filed on September 27, 2024, by the Joint Consumer Advocates³ (“Complaint”).

The Complaint alleges (at 2) that the PJM Tariff’s unjustified addback mechanism has artificially increased auction demand because PJM adds back to its peak load forecast the number of megawatts of Energy Efficiency Resources cleared in the auction. The Complaint further alleges that the increased demand resulted in approximately \$120 million in excess capacity costs to customers for the 2023/2024 Delivery Year. The

¹ 18 CFR § 385.211 (2024).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), the PJM Operating Agreement (“OA”) or the PJM Reliability Assurance Agreement (“RAA”).

³ The Joint Consumer Advocates include: the New Jersey Division of Rate Counsel, the Maryland Office of People’s Counsel, and the Illinois Citizens Utility Board.

Complaint then draws the conclusion with regard to the recently completed 2025/2026 auction that, not only did the addback increase the auction demand, which increased the auction clearing price, but customers will have to pay nearly 10 times the dollar per MW-day rate for that excess demand.

The allegations in the Complaint are incorrect and reflect a fundamental lack of understanding of how the addback mechanism works. The entire goal of the addback mechanism is to ensure that EE resources do not affect the price for capacity in the capacity markets. The addback mechanism is a provision in PJM Manual 18 (§ 2.4.5) (“Addback Rule”) intended to facilitate paying EE resources the capacity market clearing price while recognizing that EE resources are not capacity resources and ensuring that EE resources do not affect capacity market clearing prices or quantities.⁴ EE offers have no effect on the supply of capacity or the demand for capacity in the PJM Capacity Market. If PJM had simply paid all EE resources a subsidy when their offer prices were less than or equal to the capacity market clearing price, the outcome would have been identical to a correctly implemented addback. The overly complex addback mechanism accomplishes only that while making it harder to understand.

Payments to EE resources are a subsidy paid directly by load via an uplift charge, through the capacity market mechanism. The addback violates the Federal Power Act and is inconsistent with the tariff definition of EE Resources. Nonetheless and contrary to the Complaint, the addback rule was designed to ensure that EE resources did not clear as capacity resources and did not affect capacity market prices. EE resources are not capacity resources and are not treated as capacity resources in the capacity market. EE resources do not contribute to meeting the RPM Reliability Requirement. EE resources are not fungible

⁴ Presentation to the MIC, “IMM EE Package Proposal,” July 10, 2024 <https://www.monitoringanalytics.com/reports/Presentations/2024/IMM_MIC_EE_Package_Proposal_2024_0710.pdf>.

and may not serve as a replacement for the commitment of any other RPM Capacity Resource type.⁵ Contrary to the Complaint, the addback does not change PJM's load forecast. PJM's load forecast incorporates the impacts of Energy Efficiency as a demand side reduction.⁶

The Addback Rule harms customers because it requires customers to pay for EE resources at the capacity market clearing prices despite the fact that PJM recognizes that EE resources are not capacity resources.

As a factual matter and contrary to the Complaint, the subsidies paid to Energy Efficiency in the 2023/2024 Delivery Year were \$93.6M, not \$120M.⁷

The statement attributing the level of the clearing prices in the 2025/2026 Base Residual Auction to the addback are not correct. The addback mechanism, when properly implemented, does not affect the auction clearing prices or quantities in the capacity market.⁸

The Complaint repeatedly mischaracterizes Energy Efficiency as a Capacity Resource. This is incorrect and is the underlying reason for PJM's institution of the addback mechanism once Energy Efficiency was incorporated into the load forecast. The Complaint (at 3) makes reference to PJM's September 6th filing to comply with its existing Tariff and to remove Energy Efficiency from the capacity market as a step in the wrong direction. The Complaint makes the incorrect claim that PJM is asking the Commission to eliminate

⁵ See PJM Manual 18: PJM Capacity Market," § 8.8, Rev. 59 (June 27, 2024).

⁶ See *Answer of PJM Interconnection, L.L.C.*, Docket No. EL24-118-000, Gledhill Affidavit ¶ 37 (July 10, 2024).

⁷ See the *2024 Quarterly State of the Market Report for PJM: January through June*, Vol. 2, Section 6: Demand Response, Table 6-36.

⁸ See IMM EE Education presentation the Market Implementation Committee, "EE Education," <<https://pjm.com/-/media/committees-groups/committees/mic/2024/20240501/20240501-item-07b---imm-education-on-ee.ashx>> (May 1, 2024).

another source of capacity from the PJM Capacity Markets thus contributing to record PJM capacity prices. To the contrary, PJM's filing of revisions to the PJM OATT and RAA on September 6, 2024 ("September 6th Filing") seeks to prospectively remove the subsidy paid to energy efficiency resources under rules that are not and never were in the tariff. The Complaint's repeated characterizations of Energy Efficiency as a Capacity Resource are simply incorrect as the defining language in the PJM Tariff and RAA makes clear. Under the current PJM market rules EE resources are not capacity resources and have not been since 2016.⁹ EE resource MW are not included in the supply of capacity in any PJM capacity market auction. EE resource MW cannot be used to replace capacity resources. EE MW do not contribute to PJM system reliability as defined by the capacity market.

On March 26, 2009, FERC approved Tariff and RAA changes to allow EE Resources to participate in PJM Capacity Markets beginning with the Base Residual Auction conducted in May 2009 which committed capacity for the 2012/2013 Delivery Year.¹⁰ The Commission approved PJM's request to allow EE Resource participation beginning June 1, 2011, in the remaining 2011/2012 Incremental Auctions.¹¹ The only reason that EE was included in the capacity market in the first place was that EE was asserted to not be included in the PJM load forecast used in the capacity market. PJM stated that EE was not fully reflected in the load forecast for four years based on the method in place at the time.¹²

⁹ See also OATT Attachment DD-1 § L.1.

¹⁰ See PJM Interconnection, L.L.C., 126 FERC ¶ 61,275 (2009)

¹¹ See Delegated Letter Order, Docket No. ER10-366-000 (January 22, 2010).

¹² See PJM Filing, Docket No. ER09-412-000 (December 12, 2008) at 32 ("An EE Resource is permitted to be offered as a Capacity Resource in the Base Residual or Incremental Auctions for four (4) consecutive Delivery Years. [footnote omitted] As discussed above, this ensures that a party contemplating an energy efficiency investment realizes the benefit of the investment's reduction in the PJM region's capacity needs before that reduction can be reflected in the load forecast used for RPM's forward auctions. After that reduction is reflected in the load forecast, the customer's load obligation, and capacity requirements, are reduced even without the changes proposed in this docket.").

As soon as PJM explicitly included EE in the load forecast used in the capacity market, PJM followed its tariff language and logic and eliminated EE from the capacity market effective with the 2016/2017 Delivery Year. EE resources are not capacity resources and are not treated as capacity resources in the capacity market. EE resources do not contribute to meeting the RPM Reliability Requirement. EE resources are not fungible and may not serve as a replacement for the commitment of any other RPM Capacity Resource type.¹³

The Joint Consumer Advocates propose a technical conference.¹⁴ There is no need for a technical conference on this matter. The facts are clear and straightforward and have been presented to the Commission. The proposed agenda for a technical conference would simply repeat the same subject matter that has been extensively debated since November 2023 at the PJM Market Implementation Committee (MIC), Markets and Reliability Committee (MRC) and Members Committee (MC). PJM stakeholders initiated a holistic review of Energy Efficiency Resources in the PJM capacity construct in November 2023. There were numerous meetings, including several special sessions of the Markets and Implementation Committee, where a broad range of stakeholders provided various proposals to amend the existing participation of Energy Efficiency Resources in PJM's wholesale markets. Ultimately, these meetings culminated in a supermajority endorsement of the proposal advanced in PJM's September 6th filing.

I. CONCLUSION

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

¹³ See PJM Manual 18: PJM Capacity Market," § 8.8, Rev. 59 (June 27, 2024).

¹⁴ See Supplement to the Complaint of the Joint Consumer Advocates, Docket No. EL24-118-000 at Appendix A (Sept. 27, 2024).

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Dated: October 18, 2024

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 18th day of October, 2024.



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