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

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PJM Interconnection, L.L.C.

Docket No. ER25-1525-000

## ANSWER AND MOTION FOR LEAVE TO ANSWER OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rules 212 and 213 of the Commission's Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),<sup>2</sup> submits this answer to the comments submitted on March 27, 2025, by Advanced Energy United ("AEU"), and by PJM Industrial Customers Coalition ("PJMICC"). AEU and PJMICC filed comments supporting PJM's filing on March 6, 2025 ("March 6<sup>th</sup> Filing") proposing revisions to the rules that would (i) require that Annual Demand Resource and Summer-Period Demand Resource provide for a 24-hour availability window throughout the year effective with the 2027/2028 Delivery Year, (ii) define Winter Peak Load based on each customer's load during a specified consistent peak hour across five coincident peak days in winter, and (iii) increase PJM's calculation of the ELCC rating of demand resources (DR). The Market Monitor supports the first change to the rules but does not support the comments of AEU or PJMICC in support of the March 6<sup>th</sup> Filing because the changes ignore the fact that the performance of demand resources does not require actual load reductions. The Market Monitor supports the logic of

<sup>&</sup>lt;sup>1</sup> 18 CFR §§ 385.212 & 385.213 (2024).

<sup>&</sup>lt;sup>2</sup> 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").

the second change to the rules but does not support the comments of AEU or PJMICC in support of the March 6<sup>th</sup> Filing because the change to using five days is not adequate and because the change does not extend the logic to the summer in addition to the winter. The Market Monitor does not agree that the result of PJM's proposed changes would be to increase the correctly calculated ELCC value of demand resources as asserted by AEU and PJMICC in support of the March 6<sup>th</sup> Filing.

PJM's filing selectively addresses limited issues related to demand resources rather than the more comprehensive review of the role of demand resources in providing reliability that is required. PJM selectively addresses issues related to demand resources rather than the generation resources that are dispatchable and fundamental to reliability. PJM has rushed through these one off changes to benefit demand resources while ignoring, for example, long identified issues related to the winter ratings of thermal resources that are more significant for reliability than demand resources. Because the flaws in the March 6<sup>th</sup> Filing are core to the proposal, and given the inability of the Commission to accept parts of a Section 205 filing, the March 6<sup>th</sup> Filing should be rejected because it has not been supported.<sup>3</sup> Taken as a package, the proposed rules are unjust and unreasonable.

A thorough review of whether and how demand resources contribute to reliability as measured by ELCC values is needed. PJM's proposed changes fall short of addressing the multitude of issues surrounding the design of the demand response program and should be addressed through a comprehensive stakeholder approach rather than being done piecemeal. The Commission should direct PJM to undertake that review in a timely manner. DR ELCC modifications should be part of the overall ELCC review currently underway in the PJM

<sup>&</sup>lt;sup>3</sup> See NRG Power Mktg., LLC v. FERC, 862 F.3d 108, 114 (2017) (An order on a Section 205 cannot be conditioned on the adoption of an "entirely different rate design," even if the utility agrees, but "FERC has some authority to propose modifications to a utility's proposal if the utility consents to the modifications").

stakeholder process.<sup>4</sup> There is no reason to make an expedited and inadequately supported change to DR ELCC while ignoring other ELCC issues. Rather than making patches to the PJM implementation of ELCC, the Commission should direct PJM to address the underlying flaws that resulted from the rushed introduction of ELCC.

### I. ANSWER

# A. Expansion of Obligation to All Hours Is Correct But Ignores that Actual Load Reductions Are Not Required.

The Market Monitor supports the proposed extension of demand resource availability to all hours, including summer and winter periods, consistent with all other capacity resources. However, this change can only be effective if there is a requirement to actually reduce load by a defined MW amount when called. That requirement does not exist. For that reason, and contrary to the assertions of AEU and PJMICC, this extension of hours does not increase reliability or result in a larger contribution from demand resources. Given that demand resources are defined to have performed if their load is below their summer Peak Load Contribution ("PLC") or Winter Peak Load ("WPL"), adding additional hours overnight when load is already reduced would result in increased measured and compensated performance but no actual change in behavior or reliability.

## B. The Definition of Potential Load Reductions Ignores the Summer.

The Market Monitor supports the logic but not the details of PJM's proposal to update the Winter Peak Load definition to be based on a single coincident hour to more accurately reflect the winter period reduction value of demand resources. The current practice of adding together noncoincident peak loads does not make sense as a metric of potential demand reductions and overstates such reductions, as stated by PJM. However, the selected hour is insufficiently supported. The Winter Peak Load coincident peak hour used should be based

<sup>&</sup>lt;sup>4</sup> *See* PJM, Effective Load Carrying Capability Senior Task Force <https://www.pjm.com/committees-and-groups/task-forces/elccstf>.

upon an ongoing analysis of load data for all DR customers for all hours. The relevant DR hours should be based on high risk Expected Unserved Energy ("EUE") hours and not be limited to five coincident peak days.

PJM's proposal is incomplete. PJM fails to apply the same logic to the summer that PJM proposes to apply to the winter. PJM should apply a symmetric approach to the summer period. There is no reason to file an incomplete proposal.

The immediate effect of PJM's proposed second change would be to reduce the MW of capacity available from existing demand resources. Yet PJM claims that the extended 24-hour window will incent Curtailment Service Providers to sign up new customers capable of responding during any hour of reliability risk and will incent new entry due to the resultant increase in ELCC Class Rating for demand resources.<sup>5</sup> These claims are speculative. PJM acknowledges that the alleged reliability enhancements are based on the assumption that committed demand resources will curtail to a lower Winter Firm Service Level ("WFSL") in the winter to receive the same Winter Nominated Value they receive today.<sup>6</sup>

# C. The Support for PJM's Proposed Changes Ignores Broader Market Design Issues.

In its supporting comments, AEU posits (at 7) that PJM's proposed changes will immediately and at no cost increase capacity availability from resources that already exist on the PJM grid. AEU's suggested alchemy reflects underlying issues with the ELCC calculations rather than reality.

The actual effect of PJM's proposed changes would be to make qualifying DR appear more valuable based on the impact of those changes on PJM's calculation of ELCC for demand resources. AEU touts the "improved performance" of demand resources resulting

<sup>&</sup>lt;sup>5</sup> March 6<sup>th</sup> Filing at 10.

<sup>&</sup>lt;sup>6</sup> March 6<sup>th</sup> Filing at 2.

from PJM's changes as driving increases in the ELCC value of DR and in the ELCC value of other resource types.<sup>7</sup> Clearly, PJM's proposed changes do not improve the performance of DR or any other technology class. PJM's proposed changes, on their own, do nothing to increase the performance or efficient use of demand resources or any other resources.

PJM's proposed changes, absent addressing other structural shortcomings in the market design, accomplish nothing more than to create paper capacity and shift money to demand response providers. The asserted reliability benefits are illusory because fundamental deficiencies in the current rules governing offers, accreditation, dispatch and measurement of demand response performance are ignored.

If PJM's first proposed change had been in effect during Winter Storm Elliott, demand response resources that had already reduced load because it was a weekend evening would have been credited with better performance simply as a result of including more hours in the definition of performance. No additional demand reductions would have occurred, but demand resources would have been paid more for the illusory increase in performance. There were very low actual demand response load reductions during Winter Storm Elliott.<sup>8</sup> The rule change would not have changed that fact but would have increased payments to demand resources.

The impact of the proposed changes on PJM's ELCC approach for demand resources would increase the value of demand resources by almost a billion dollars (\$880.7M) without any actual change in the physical reality and without the type of detailed performance analysis applied to other capacity resources.<sup>9</sup>

<sup>7</sup> Id.

<sup>&</sup>lt;sup>8</sup> 2022 Annual State of the Market Report for PJM, Volume 2, Section 6: Demand Response, p 390.

<sup>&</sup>lt;sup>9</sup> See PJM, DR Availability Window – IMM Proposal, <https://www.pjm.com/-/media/DotCom/committeesgroups/committees/mic/2025/20250205/20250205-item-02-2---dr-availability-window---imm-proposal.pdf> (February 5, 2025).

## D. Demand Resources Are Not Treated Equivalently with Other Capacity Resources.

The PJMICC notes that PJM's ELCC approach to capacity accreditation is intended to reflect the reliability value of each resource and that this goal is undercut when one resource type is artificially limited compared with other capacity resources. PJMICC's point is correct, although PJMICC forgets that the time limits on demand response obligations were included to protect demand response and not to limit it. PJM's proposed changes in combination with PJM's approach to measuring ELCC for demand resources is inconsistent with PJMICC's goal and exacerbate the existing mismatch between the treatment of generation and demand resources as capacity resources. PJM's ELCC accreditation method, offer requirements, market power mitigation, dispatch practices, and measurement of performance differ significantly in how they are applied to demand resources and generation capacity resources.

PJM's assertion that its changes will increase the ELCC of demand resources is based on a combination of speculation and incorrect ELCC modeling of demand response. PJM's proposed significant increase in the ELCC value for demand response as a result of this filing is based on assumptions rather than the same type of performance analysis used for other capacity resources. PJM states that the demand response ELCC rating will increase by 16 percent, but the PJM increase from 77 percent to 93 percent is actually an increase of 21 percent.

PJMICC notes (at 6) that the overriding goal of PJM's ELCC approach is to review all capacity resources and assign a value based on statistical modeling showing the likelihood the resource will be available during an event. While PJM's accreditation method as applied to generation resources takes into consideration actual past performance during an event, the same method is not applied to demand resources.

Unlike other resources, the ELCC calculation for DR is not premised on past resource operational performance during critical hours. PJM's proposed ELCC for DR is based on assumed behavior and not based on the actual performance of demand resources during the same high EUE (expected unserved energy) hours used for other capacity resources. The ELCC analysis assumes DR customers reduce from their Winter Peak Load to their Winter Firm Service Level. Experience during Winter Storm Elliott demonstrated that DR customer loads were already significantly reduced when called upon and as a result, the observed energy reduction was far less than what was expected based on this assumption.<sup>10</sup>

#### E. The Definition of DR is Flawed.

PJM's proposed ELCC value for DR is not consistent with the definition of DR or the way in which PJM actually uses DR as a capacity resource. The demand resources are rarely used. While PJM may call on demand resources as part of its emergency actions, there are no comprehensive PJM rules governing the overall commitment and dispatch of demand resources as there are for all other capacity resources.<sup>11</sup> PJM rules do not indicate when and how demand resources should be called on as economic resources for nonemergency events like all other capacity resources. PJM rules do not require that demand resources be called on during emergency events but leave all emergency actions to the discretion of PJM dispatchers. PJM's emergency procedures reference calling on demand response resources but there is no defined order of emergency procedures and calling on demand response resources is not mandatory.<sup>12</sup> For example, despite extreme cold weather and PJM reaching a new all time winter peak in January 2025, PJM did not call on demand resources.

The proposed changes would simply pay demand response more for capacity without any increase in the actual use of these resources and without any rules governing when demand response can or will be used by PJM and without a must offer obligation and without any market power mitigation rules, without resource specific performance adjustments, and

<sup>&</sup>lt;sup>10</sup> See the 2023 *Quarterly State of the Market Report for PJM: January through June,* Section 6: Demand Response, Figures 6-3 and 6-4.

<sup>&</sup>lt;sup>11</sup> PJM Manual 13 (Emergency Operations) § 2.3.2, Rev. 95 (February 20, 2025).

<sup>&</sup>lt;sup>12</sup> PJM Manual 13 (Emergency Operations) § 2.3.2, Rev. 95 (February 20, 2025).

without addressing that performance simply ignores increases in load above the WPL when called.

If demand resources are to continue competing directly with generation capacity resources in the PJM Capacity Market, the product must be defined such that it can actually serve as a substitute for generation. That is a prerequisite to a functional market design.

In order to be a substitute for generation, demand resources should have a must offer requirement in the day-ahead energy market.

In order to be a substitute for generation, demand resources should face the same offer rules faced by all other capacity resources, including offer caps and other market power power mitigation rules. Demand resources can and do offer above \$1,000 per MWh without providing a fuel cost policy, or any rationale for the offer. More than 98 percent of demand response resources have a dispatch price above \$1,000 per MWh.<sup>13</sup> Demand resources are paid their strike price regardless of LMP.<sup>14</sup>

In order to be a substitute for generation, demand resources, load increases and load decreases should be accounted for when the resource is called on to reduce. When the load of demand resources increases rather than decreases during an event, that increase is ignored. Only decreases are counted.<sup>15 16</sup>

In order to be a substitute for generation, demand resources should have telemetry requirements similar to other capacity resources.

<sup>&</sup>lt;sup>13</sup> 2024 Annual State of the Market Report for PJM, Volume 2, Section 6: Demand Response, Table 6-21.

<sup>&</sup>lt;sup>14</sup> 2024 Annual State of the Market Report for PJM, Volume 2, Section 6: Demand Response, Emergency and Pre-Emergency Load Response Energy Payments

<sup>&</sup>lt;sup>15</sup> 2024 Annual State of the Market Report for PJM, Volume 2, Section 6: Demand Response, Emergency and Pre-Emergency Load Response Programs

<sup>&</sup>lt;sup>16</sup> See PJM, MC Webinar, Market Monitor Report <https://pjm.com/-/media/committeesgroups/committees/mc/2023/20230620-webinar/item-04---imm-report.ashx> (June 20, 2023).

In order to be a substitute for generation, demand resources offering as supply in the capacity market should be required to offer a guaranteed load drop (GLD) below their WPL/PLC to ensure that demand resources provide an identifiable MW resource to PJM when called.

In order to be a substitute for generation, demand resources should be subject to robust measurement and verification techniques. The methods used in PJM programs today are not adequate to determine and quantify deliberate actions taken to reduce consumption.

In order to be a substitute for generation, demand resources should provide a nodal location and should be dispatched nodally to enhance the effectiveness of demand resources and to permit the efficient functioning of the energy market.

#### **II. MOTION FOR LEAVE TO ANSWER**

The Commission's Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answers to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.<sup>17</sup> In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

See, e.g., PJM Interconnection, L.L.C., 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that "provided information that assisted … decision-making process"); California Independent System Operator Corporation, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); New Power Company v. PJM Interconnection, L.L.C., 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process); N.Y. Independent System Operator, Inc., 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process).

#### **III. CONCLUSION**

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

Respectfully submitted,

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Dated: April 14, 2025

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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 14<sup>th</sup> day of April, 2025.

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