

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

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

**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,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”), submits this answer to certain pleadings filed December 20, 2013, in response to revisions to the rules proposed November 29, 2013 by PJM intended to limit the amount of limited DR that can be committed for a Delivery Year. (“November 29th Filing”).² Among the most significant flaws in the PJM market design are the continued inclusion of limited DR³ and the associated 2.5 percent holdback rule (Short Term Resource

¹ 18 CFR § 385.212 & 213 (2013).

² These include comments or protests of: Maryland Public Service Commission (“Maryland PSC”); Delaware Public Service Commission (“Delaware PSC”); Old Dominion Electric Cooperative (“ODEC”); Nucor and Steel Dynamics, Inc. (“Steel Producers”); the Pennsylvania Office of Consumer Advocate, the Maryland Office of People’s Counsel, the New Jersey Division of Rate Counsel, the Office of the Ohio Consumers’ Counsel, the District of Columbia Office of People’s Counsel, the Delaware Division of the Public Advocate, and the Pennsylvania Office of Consumer Advocate, the Consumer Advocate Division of West Virginia and the Citizens Utility Board of Illinois (“Joint Consumer Advocates”), and the Environmental Law Policy Center, Sierra Club, Pace Energy & Climate Center, the Sustainable FERC Project, Environmental Defense Fund², National Audubon Society, and Union of Concerned Scientists (collectively “Public Interest Organizations”); the PJM Industrial Customer Coalition, Southern Maryland Electric Cooperative, Inc., North Carolina Electric Membership Corporation, Pepco Holdings, Inc. and its affiliates Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, Comverge, Inc., EnergyConnect/JCI and EnerNOC, Inc. (collectively, “Coalition of Diverse Stakeholders”); and Rockland Electric Company (“Rockland”).

³ 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

Procurement Target). Together, these rules create significant (billions of dollars) price suppression and unjustly and unreasonably undermine the efficiency of RPM Base Residual Auctions. These rules should be eliminated.

In this proceeding PJM has proposed to cap limited DR to address one of the ways that limited DR suppresses prices. A number of parties object on various grounds to this modest step. In order to promote a complete and accurate record, the Market Monitor responds to these parties primarily to the extent that the arguments raised suggest that the need to eliminate DR is not evident and that customers who provide limited DR cannot participate in the RPM Base Residual Auctions if limited DR is eliminated.

The November 29th Filing should be approved as a first step towards correcting PJM's capacity market design. The Market Monitor supports the November 29th 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 2.5percent holdback rule.⁴

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.

⁴ See OATT Attachment DD § 2.65A.

I. ANSWER

A. Limited DR is Inferior by Definition and Should Be Eliminated (and Capped in the Interim as PJM Proposes) Even If PJM Had Not Provided Ample Evidence of Current Harmful Impacts to Reliability and Efficient Pricing.

A number of parties suggest further study of the harmful impact of limited DR on reliability and market performance, and some suggest coordination with other stakeholder processes and proceedings addressing other issues with DR.⁵ These suggestions are only stalling tactics given that there is substantial unrefuted evidence of the negative impacts of limited DR on the PJM capacity markets.⁶ Including an inferior and non substitutable product in the capacity market as if it were a substitute is a market design flaw.

PJM has amply documented specific issues that result from limited DR both with respect to reliability and efficient pricing.⁷ The price suppression effect of limited DR in the 2015/2016 RPM Base Residual Auction was nearly \$4 billion.⁸ The Market Monitor has also analyzed and provided information on this issue in the state of the market reports.⁹

⁵ See Joint Consumer Advocates/Public Interest Organizations at 16–19, Maryland PSC *passim*, Delaware PSC at 5–7, Steel Producers at 5–6; ODEC at 5–7; Coalition of Diverse Stakeholders 5–16 and Rockland at 4–6.

⁶ See, e.g., Market Monitor, Analysis of the 2015/2016 RPM Base Residual Auction (September 24, 2013) at 32–38 (“2015/2016 BRA Report”).

⁷ PJM documented specific short term reliability impacts in its filing submitted December 2, 2010, in Docket No. ER11-2288. The issues raised in that proceeding have not been addressed and cannot be addressed as long as limited DR is included in the market design and treated as a comparable resource when it is not comparable. The issue raised in this proceeding concerns specific price suppression as result of the flawed approach adopted in ER11-2288. See PJM *passim* and Attachment A (Affidavit of Professor Hobbs). Persistent price suppression in the capacity market creates a long term reliability issue because the combination of a failure to incent new entry at the efficient level and premature encouragement of market exit above the efficient level may result in an inadequate level of resources available to PJM.

⁸ 2015/2016 BRA Report at 35.

⁹ See, e.g., Market Monitor, 2011 State of the Market Report for PJM (March 15, 2013) at 127–128.

PJM's conclusion that limited DR has harmful impacts simply reinforces the need to take immediate corrective action.

B. Customers That Cannot Individually Meet the Requirements for Annual DR Can Participate in Portfolios Managed by Curtailment Service Providers (CSP) at Prices Negotiated by the CSP and the Customer.

A number of parties argue that capping or eliminating limited DR and requiring an annual DR product will exclude some customers from participating in PJM markets and providing a contribution to resource adequacy even if that contribution is not of equivalent value to the annual DR product.¹⁰ PJM presents evidence (at 15) that in many cases customers offer both annual DR and limited DR. This demonstrates that such customers can provide annual DR if the PJM rules require it.

CSPs can aggregate customers to create a portfolio of DR which is an annual resource. Such aggregation is more expensive than treating limited DR as if it were annual DR, but that is the point. Limited DR is not only an inferior product but it has a corresponding advantage in displacing annual products in the markets precisely because it is cheaper to provide an inferior product.

By continuing to accept some limited DR, PJM is effectively creating a portfolio of DR resources. But CSPs are in a much better position than PJM to assess the value that customers contribute to a portfolio. A CSP has a strong incentive to continually readjust its determinations as its gains experience and expertise in the markets. This is the value that CSPs potentially bring to PJM. Performance of this role requires flexibility and the correct alignment of incentives. PJM should leave portfolio aggregation to CSPs, and direct its efforts to ensuring that portfolios meet comparable standards for a uniform capacity product.

¹⁰ See Joint Consumer Advocates/Public Interest Organizations at 8–16, Coalition of Diverse Stakeholders at 17–19, Steel Producers at 3–5, and Rockland at 2–4.

Requiring an annual DR product and eliminating the limited DR products is a market solution. CSPs will assemble portfolios and offer the annual product into the capacity market. The risk and rewards will belong to the CSPs as appropriate.

C. Allocating 2.5% Holdback to Limited DR and Not Extended Summer DR Protects PJM Customers Until Both Products Can Be Eliminated.

ODEC argues (at 10-12) that allocating the 2.5 percent holdback entirely to Limited Demand Resources rather than splitting the allocation between Limited Demand Resources and Extended Summer Demand Resources has a larger cost impact to load. Limited Demand Resources provide significantly less value to PJM customers and undermine the efficiency of the market much more than Extended Summer Demand Resources. For as long as both forms of limited DR and the 2.5 percent holdback are allowed to remain in the rules, the priority is to contain the damage to the market inflicted on customers by choosing to retain Limited DR. Sharing the allocation of the 2.5 percent holdback between Limited DR and Extended Summer DR reduces the potential for PJM's proposal to reduce the harm to the efficient operation of its markets prior to the elimination of all forms of limited DR. Accordingly, ODEC's argument should be rejected.

The flip side of arguing that assigning the entire 2.5 percent holdback to limited DR increases the capacity market price is that limited DR has the largest price suppressing impact of any product. That is correct, and it is one reason that it makes sense to assign the 2.5 percent to the limited DR product for which the 2.5 percent holdback was first implemented.

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.¹¹ 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.

III. CONCLUSION

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

Respectfully submitted,



Jeffrey W. Mayes

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

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

Dated: January 8, 2014

¹¹ See, e.g., *N.Y. Indep. Sys. 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); *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).

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 8th day of January, 2014.



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