UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)	Docket No. ER14-822-001
Independent Market Monitor for PJM	)	
v.	)	Docket No. EL14-20-000
PJM Interconnection, L.L.C.	)	
	)	(Not consolidated)

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations,[1] and the Commission's notice of deficiency in Docket No. ER14-822, dated March 6, 2014 ("March 6th Notice"), Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM ("Market Monitor"),[2] submits these comments on the filing submitted in response to the March 6th Notice by PJM Interconnection, L.L.C. ("PJM") on March 12, 2014. Docket No. ER14-822 and the Market Monitor's complaint filed in Docket No. EL14-20 (requesting application of the daily must offer rule to DR and a uniform offer price cap for generation and DR) involve closely interrelated issues. A motion to consolidate these proceedings is pending. Accordingly, the Market Monitor also submits this pleading in Docket No. EL14-20 as a supplement to its answer and motion for leave to answer that it submitted in that proceeding on March 11, 2014.

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1 18 CFR § 385.211 (2013).

2 Capitalized terms used herein and not otherwise defined have the meaning used in, or proposed by PJM in this proceeding for use in, the PJM Open Access Transmission Tariff ("OATT") and/or PJM Operating Agreement ("OA").

I. COMMENTS

A. Pre-Emergency Procedures (Request No. 1)

PJM proposes revisions in the Tariff, Operating Agreement, and Reliability Assurance Agreement, to establish a Pre-Emergency Load Response Program.

i. Please compare and contrast PJM's current emergency procedures, including alerts, warnings, and actions with any additional alerts, warnings, and actions that will be added to support the proposed Pre-Emergency Load Response Program.

While PJM indicates (at 3) that no emergency procedures are required prior to the use of Pre-Emergency DR, PJM also indicates that they want to provide as much lead time as possible. While that objective is reasonable, it is not reasonable that there be any non-price criteria other than notification time in order to call Pre-Emergency DR. PJM has not clearly stated that they do not plan to require the proposed new Alert to be called prior to called Pre-Emergency DR. To do so would contradict the purpose of the program.

ii. Please compare the treatment of PJM capacity resources, including Demand Resources, dispatched under PJM's current emergency procedures with how Demand Resources and other capacity resources will be dispatched under the Pre-Emergency Load Response Program.

Generation capacity resources must submit daily offers on an economic basis. Limited DR and Annual DR do not provide daily economic offers and therefore are not comparable to or full substitutes for Generation Capacity Resources although PJM customers pay the same for DR and generation capacity. This is true regardless of whether DR is Pre-Emergency. It is an improvement for some DR to not require an emergency notification and the same should be true for all DR. DR is sold as a substitute for generation capacity and is therefore an economic and not an emergency resource.

B. Demand Resources Notification Times (Request No. 2)

PJM states that its proposal will set a default notification time for Demand Resources of 30 minutes, but it proposes an exception process so as not to altogether prevent longer lead time Demand Resources from participating in PJM's forward capacity market.

i. Please describe PJM's experiences with Demand Resources that are capable of fully deploying within 30 minutes.

The Market Monitor agrees with PJM's statements (at 4) indicating that a substantial amount of DR is capable of response times of 30 minutes and less.

ii. How does PJM propose to treat resources that are currently eligible to provide demand response, but are physically unable to respond in 30 minutes (e.g., adsorbtion chillers), and do not qualify for one of the current exceptions?

The Market Monitor agrees with PJM (at 5): "Resources that are unable to respond within 30 minutes and do not qualify for one of the exceptions would not be considered Capacity Resources in PJM. Such resources can still participate in the Economic Load Response Program as energy-only resources."

But PJM's statement does not go far enough. Resources that are physically unable to respond in 30 minutes can participate in the Economic Load Response Program without condition. Resources that are physically unable to respond in 30 minutes can also participate in the Emergency Load Response Program if they are included in a properly balanced portfolio managed by a Curtailment Service Provider. For example, customer MW of fast responding but short lived DR could complement customer MW of slow responding but long-lived DR.

C. Offer Price Stratification and Generation Capacity Resources (Request No. 3)

PJM states that it explored the means to address operational needs in a manner that also reasonably accommodates the needs of Demand Resources, and that "the revisions will bring Demand Resources more in line with Generation Capacity Resources."

i. Will the proposed offer caps reflect the value of Demand Resources in situations when PJM (a) is short of reserves and (b) is not short of reserves?

In this response (at 5–6), PJM fails to justify higher system offer price caps for DR than for Generation Capacity Resources. PJM's arguments about DR apply with equal force to Generation Capacity Resources. The purpose of the system offer price cap is to provide an upper bound to the potential exercise of market power in extreme conditions. It should apply uniformly to all resources.

Shortage pricing is designed to reflect the value of all resources when PJM is short of reserves. Shortage pricing applies to generation and demand resources. No special treatment for demand resources is required to reflect the value of resources when PJM is short of reserves or is not short of reserves. When PJM is not short of reserves, LMP is designed to provide the appropriate price signal to all resources.

When PJM dispatches DR and sets LMP above $1,000 per MWh, that incorrectly signals to the market that PJM is in a shortage condition. PJM recognizes this problem. The dispatch of capacity resources should not trigger shortage conditions. PJM procures capacity to avoid scarcity conditions.

PJM itself (at 5) notes that PJM's pricing rules for DR permit DR to set prices at or greater than appropriate shortage prices. PJM notes that this is counter intuitive and confusing. The Market Monitor agrees.

PJM fails to follow its own logic which would dictate that all capacity resources face the same offer cap because the value in the energy market is no greater for a demand resource than for a generation resource. If anything, the reverse is true.

PJM's arguments are not supported. The assertion that customer curtailment has a high cost is not based on any data and none is cited. DR displaces generation resources in the capacity market that are offer capped at $1,000 per MWh. This is one more way in which DR is not a substitute for generation under the current rules but should made more comparable by requiring the same offer cap. Capacity is inextricably linked to the energy that it provides when needed. If generation capacity cannot offer energy at a price greater than $1,000 per MWh, that provides a value to customers who pay for capacity. Demand Resources should also be required to provide that value. When offer caps are increased for generation, they should be increased for all resource types.

When PJM customers pay for capacity they are also paying for the associated requirement to provide an energy offer in the day-ahead market, when the resource is a generator. The same requirement should apply to demand resources.

PJM's assertion that the offer levels are consistent with how PJM dispatches the resources now is entirely circular. The point is to dispatch DR differently.

PJM's assertion that stratified offer caps incent flexibility may be correct but it is not correct that PJM's approach is the most effective way to incent flexibility. A better way would be to require all DR to have a notice time of 30 minutes or less, consistent with its role as demand reductions in response to price.

Using any capacity resource, including DR, to signal that PJM is in shortage conditions is illogical and inconsistent with DR's proper role. DR and generation resources should have the same offer cap to avoid sending incorrect signals to the market. For all these reasons, the offer cap on all resources participating in the RPM should have a uniform price cap.

ii. How does the proposed stratification of offer prices compare to rules that apply to generators?

PJM explains (at 6) that under its proposal Generation Capacity resources are (i) subject to cost-based offer price caps when the three-pivotal supplier test, a market structure test, identifies periods when the market is most at risk of an exercise of market power, and (ii) subject to an $1,000 per MWh system offer cap at all times. Demand Resources are subject only to a higher system offer cap (now $1,800 per MWh, rising to $2,700 per MWh as of the 2015/2016 delivery year). PJM explains that this disparate treatment (*Id*.) reflects "an inherent assumption that Demand Resources do not have any incentive to exercise market power."

Such an assumption is unreasonable and unwarranted.

Demand Resources, like generation resources, have an interest in raising prices to receive additional revenue. This is an incentive to exercise market power. Demand Resources, like generation, have an interest in raising prices to avoid being dispatched. This is economic withholding, a form of market power.

In addition to the direct incentives to raise prices and exercise market power, some generation owners have DR affiliate CSPs and therefore have an incentive to raise prices for the entire portfolio including generation and demand resources.

D. Dispatch of Demand Resources (Request No. 4)

> *PJM states that "the dispatch of Demand Resources may not be based solely on the least-cost resources since such dispatch shall be based not only on price, but also on availability, location, minimum notification time and/or quantity of megawatts of load or load reduction needed." Please explain how PJM intends to weight these (and any other relevant) factors when deciding which resources to dispatch.*

PJM indicates in response to the Commission's Request No. 4, that there are multiple factors that influence the dispatch of pre-emergency DR. PJM indicates that it takes into account the factors listed by the Commission in this question. PJM does not provide transparent criteria to explain how it will dispatch DR. This approach fails to provide an economic and auditable approach for dispatch.

PJM will not have daily economic offers available to them because the current rules do not require such offers. Without clear economic criteria for dispatching DR, DR may be used more frequently or less frequently than optimal. Without clear and auditable criteria, it will be difficult to determine whether dispatch is reasonable. Given the limited number of calls available for limited DR, it is especially critical that the use of DR be optimized over the year and that full use be made of these resources. That is the purpose of economic offers in the day-ahead market.

PJM's response also highlights the fact that DR is not a locational resource but is inappropriately limited to zonal and, in the future, subzonal dispatch, rather than nodal. Minimizing the costs to DR and minimizing confusion as PJM argues (at 7) are not legitimate objectives.

The better approach is to require daily economic offers from DR to guide the dispatch using economic as well as locational criteria, per the Market Monitor's complaint in Docket No. EL14-20.

E. Day-of Sub-Zonal Dispatch (Request No. 5)

Under PJM's proposal, Demand Resources will be required to provide load response in sub-Zones defined inside the operating day.

i. Please provide additional information on PJM's experience with how Demand Resources have responded to voluntary, day-ahead sub-Zonal dispatch requests.

ii. Please explain how "Demand Resources have shown that they have the capability to comply with PJM's sub-zonal requests when the sub-Zone is established during the same Operating Day."

iii. EnergyConnect and Comverge argue in their protests that day-of sub-Zonal dispatch imposes significant costs on Demand Resource Providers and their customers. Please explain PJM's statement that day-of sub-Zonal dispatch will "not impose prohibitive costs on demand resource providers."

The Market Monitor agrees with PJM (at 10) that the costs of notification will not differ by the area of coverage. However, these are not the costs that EnergyConnect and Comverge are complaining about.[3] If the size of the relevant location is reduced, then CSPs will have to sign up more resources within subzones to cover the risk of a registration's underperformance. CSPs currently can aggregate DR performance across an entire dispatch zone, but with more localized dispatch, CSPs will not have all resources in a zone to cover for potential underperforming resources, increasing the operational risk for CSPs. This likely would increase the costs of providing DR, even to the point where some DR is no longer competitive with capacity from alternative sources.

CSPs' argument fails because artificially reducing the costs of DR providers is not a valid objective. The objective is to protect resource adequacy for PJM customers at lowest cost. To achieve that objective, it is necessary that DR provide capacity that is substitutable for and of comparable value to capacity provided by generation resources.

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[3] *See* Protest of EnergyConnect, Inc. and Comverge, Inc., Docket No. ER14-822-000 (January 14, 2014) at 17; *see also* Conditional Protest and Protest of EnerNOC, Inc., Direct Energy Business, LLC and Hess Energy Marketing, LLC, Docket No. ER14-822-000 (January 14, 2014) at 3–5.

Subzonal dispatch is just a small step toward the ultimate goal of nodal dispatch for all resources, consistent with the fundamentals of an LMP system.

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,

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

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

Dated: March 24, 2014

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 24th day of March, 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