

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

)))
PJM Interconnection, L.L.C.) Docket No. ER16-2460-000
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**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 PJM² (“Market Monitor”), submits this answer to the answers submitted on September 27, 2016, by PJM Interconnection, L.L.C. (“PJM”) and Advanced Energy Management Alliance (“AEMA”) (“September 27th Answers”). Neither answer justifies reliance on needlessly inaccurate measurement and verification rules for the energy savings from Demand Resources.

I. ANSWER

A. The Energy and Capacity Savings of Demand Resources Are Two Separate Issues.

Arguments raised in the September 27th Answers incorrectly conflate the energy and capacity savings of Demand Resources.³ Demand side resources that are capacity resources are Demand Resources. Demand resources are paid for reductions in capacity used and for

¹ 18 CFR §§ 385.212 & 385.213 (2016).

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

³ Demand Resources refer to the pre-emergency and emergency load response programs.

reductions in energy used. PJM appropriately proposes to apply the same method to measure the energy savings associated with Demand Resources that is used to measure the energy savings associated with Economic Resources.⁴ But PJM fails to propose that the accuracy of that method be verified consistently. The reductions in energy usage associated with Demand Resources are different than the reductions in capacity usage. Reductions in capacity usage are measured to ensure compliance during a PJM pre-emergency or emergency event. Reductions in energy usage are measured to ensure actual load reductions during a PJM pre-emergency or emergency event.

The Commission recently ruled that it is acceptable to not verify the method of calculating capacity savings in the nonsummer months. The Commission ruled that sellers of Demand Resources did not need to verify the accuracy of this measurement using the Relative Root Mean Squared Error (RRMSE) test.⁵

The current PJM filing pertains to the calculation of the energy savings of Demand Resources. Prior decisions on the RRMSE test requirement for the capacity savings of Demand Resources do not automatically apply to the energy savings. The energy savings of Demand Resources and Economic Resources are both paid for energy reductions based on Customer Baseline Load (CBL). The rules should ensure a consistent and accurate selection of CBL. The Market Monitor does not argue here for application of the RRMSE test requirement to measure capacity compliance of Demand Resources. This filing raises a different issue.

⁴ Economic Resources refer to the economic load response program.

⁵ *PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,004 at PP 35–30 (2016).

B. Administrative Costs Are Required for Participation in PJM Markets.

AEMA states, “While it is true that there is added cost to conducting an RRMSE test, it is unlikely that the cost would deter registration as an Economic Resource.”⁶ AEMA does not provide a plausible explanation for why RRMSE testing costs would deter registration of Demand Resources if it does not deter registration of Economic Resources. This assertion is even less plausible when the fact that Demand Resources are substantially more profitable than Economic Resources is accounted for. AEMA points to the relatively higher amount of registered Demand Resources compared to Economic Resources. This higher level of registrations reflects the higher profitability. The volume of the registrations has nothing to do with the administrative costs of each registration.

The administrative costs of accurate measurement and verification based on RRMSE are not a burden on Demand Resources as AEMA and PJM purport. All markets have costs associated with participation. Efficient and competitive markets require accurate measures of all participants, whether energy output or demand side savings. The administrative cost put on curtailment service providers (CSP) to calculate the RRMSE test is required for accurate measurement and verification of the Demand Resource’s energy savings. While many market participants might prefer weaker measurement and verification standards and correspondingly lower costs, an efficient and reliable market requires all participants in PJM to face the administrative costs required to provide accurate information. Accurate measurement and verification of Demand Resource participants is no different than the accurate measurement and verification of generation resources. The only administrative burden that should concern the Commission is a burden that would have some significant detrimental impact on the market. That is clearly not the case here.

⁶ *Id.* at 3.

The RRMSE test is designed to select the best CBL to measure load reductions. The AMEA explains that “at least 2 months’ worth of hourly load data for each registration,” is required to calculate the RRMSE value.⁷ The RRMSE test is designed to evaluate a participant over a sufficient time frame to ensure the correct CBL is selected. There is not an alternative test available to help select an accurate CBL for measuring load reductions of demand response customers. The administrative cost of the RRMSE test is required for selecting the most accurate CBL. The cost CSPs face to calculate an RRMSE test is not an administrative burden.

C. Consistency Is Required between Economic and Demand Resources.

Table 1 shows the conditions under which a resource must complete an RRMSE test for the energy reduction metric.⁸ All registration options require the economic CBL to measure energy reductions. A registration must complete the RRMSE test when registering as an Economic Resource. A registration must complete the RRMSE test when registering as an Economic and Demand Resource. A registration does not complete the RRMSE test when registering only as a Demand Resource. The CBL is used for both Economic and Demand Resources, but the RRMSE is only required when a registration is for an Economic Resource or an Economic Resource and a Demand Resource. Table 1 makes clear that PJM’s proposal would create a discriminatory exception from the application of the RRMSE.

Table 1 Demand response options that require the RRMSE test.

Time Period Applicable	Registered as a Demand Resource	Registered as an Economic Resource	Capacity Compliance Metric	Energy Reduction Metric	Requires RRMSE test
June through September	Yes	No	FSL/GLD	PJM Proposed Economic CBL	No
	Yes	Yes	FSL/GLD	Economic CBL	Yes
	No	Yes	N/A	Economic CBL	Yes
October through May	Yes	No	Economic CBL	PJM Proposed Economic CBL	No
	Yes	Yes	Economic CBL	Economic CBL	Yes
	No	Yes	N/A	Economic CBL	Yes

⁷ *Id.* at 5.

⁸ This is the same data reported in our initial filing.

AMEA criticizes the Market Monitor's chart explaining participation in the various demand-response programs and the application of the RRMSE test. AEMA's argument, based on a backward looking perspective, misses the point.⁹ Table 1 demonstrates that under the new Capacity Performance (CP) design and PJM's proposal, all demand response participants would use the economic CBL to measure energy savings. Economic Resources are required to use the RRMSE test but Demand Resources are not required to use it when registered solely as a Demand Resource. There is no basis for excusing Demand Resources from a requirement for accurate measurement and the associated administrative costs that are required for similarly situated Economic Resources.

AMEA states (at 3) that "[i]t is possible that the Market Monitor is concerned that Emergency Energy compensation for non-Economic resources is somehow unjust, however, there is no cogent explanation of this alleged concern." AMEA appears to be confused about the relationship of the RRMSE test to just and reasonable pricing in the energy markets. Supply from all sources must be accurately measured or the result is distorted pricing. Markets regulated through competition require efficient prices to be just and reasonable.

⁹ AEMA at 4 ("There are currently two methods for capacity compliance. The legacy Annual Demand Response ("DR") products utilize the same method that is used for Summer, Firm Service Level relative to the Summer Peak Load Contribution ("PLC"). The DR Capacity Performance product uses the CBL as the Market Monitor notes.").

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.¹⁰ 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.

¹⁰ 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: October 7, 2016

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 7th day of October, 2016.



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