

November 5, 2012

VIA ELECTRONIC FILING

The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426-0001

Re: *PJM Interconnection, L.L.C.*, Docket No. ER11-3322-000

Dear Secretary Bose:

PJM Interconnection, L.L.C. ("PJM") hereby submits the report required by the Commission in its order of November 4, 2011, in the captioned proceeding.¹ Should you or the Commission have any questions about this submission, or require additional information, please contact the undersigned at your convenience.

Background

On April 7, 2011, PJM filed in this docket, pursuant to section 205 of the Federal Power Act ("FPA"),² proposed changes to the PJM Tariff and other governing documents to clarify an ambiguity in the PJM market rules regarding the manner in which the performance of demand response ("DR") capacity resources is measured during emergency dispatch and performance verification testing. PJM explained that the rules of its RPM³ capacity market allow generation and DR "to compete to meet the region's

¹ *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,108, at P 88 (2011) ("November 4 Order"). The Commission noted that "this report is for informational purposes only and will neither be noticed, nor require Commission action." *Id.* at n. 86.

² 16 U.S.C. § 824d.

³ RPM is PJM's Reliability Pricing Model, the mechanism through which PJM procures forward capacity commitments to assure reliable service to loads in the PJM Region.

installed capacity needs" for each delivery year,⁴ but PJM's then-existing market rules were ambiguous with respect to measuring the performance of demand response capacity resources.

The Commission initially accepted and suspended the proposed changes for five months, subject to refund and further order following a technical conference.⁵ By order issued on November 4, 2011, after review of the record of the technical conference, the Commission accepted PJM's proposal to become effective on November 7, 2011, subject to certain conditions, and required PJM to submit a compliance filing to modify and clarify its proposal in certain respects.⁶ The Commission also directed PJM to make this informational filing within one year the date of its order.⁷

On January 5, 2012, PJM submitted revisions to the PJM Tariff and Operating Agreement, as well as other materials, to comply with the November 4 Order ("January 5 Compliance Filing"). By order dated February 24, 2012, the Commission accepted PJM's compliance filing, conditioned on PJM making limited further changes in its tariff and other revisions to its proposal.⁸ The Commission accepted PJM's subsequent compliance filing of March 12, 2012, by letter order issued August 2, 2012.⁹

⁴ See *EnerNOC, Inc.*, 134 FERC ¶ 61,158, at P 2 (2011).

⁵ *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,212 (2011).

⁶ November 4 Order at Ordering Paragraph A.

⁷ See *id.* at P 88.

⁸ *PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,138, at PP 40, 47, 49, 58, 67 (2012).

⁹ *PJM Interconnection, L.L.C.*, Letter Order, Docket No. ER11-3322-002 (Aug. 2, 2012).

Ongoing PJM Stakeholder Process

Paragraph 88 of the November 4 Order directs PJM to inform the Commission in this report of the status of stakeholder discussions regarding four topics. PJM addresses each of those subjects in sequence below.

1. The accuracy of the PLC in estimating a resource's contribution to the reliability requirement.

In March 2012, PJM's Markets and Reliability Committee ("MRC") created the Capacity Senior Task Force ("CSTF") to consider a variety of current and longer-term issues regarding PJM's capacity market. Contemporaneous with approval of the CSTF's formal charter in August 2012, the MRC endorsed an issue charge for the CSTF to address several questions related to demand response capacity resources.¹⁰ Further, PJM staff made a presentation regarding the requirements for this informational filing and the MRC's issue charge for the CSTF at the August 8, 2012, meeting of the PJM Market Implementation Committee ("MIC"), which oversaw development of the proposed tariff and other changes that the Commission approved in this proceeding. PJM noted that various items then already under consideration by the CSTF overlapped with the topics the Commission outlined for this informational filing and, therefore, recommended that those issues should be addressed by the CSTF.¹¹ Included among these items is the issue of "Interaction of Peak Load Contribution ('PLC') with end-user RPM cost assignment and DR Resource RPM revenue, and implication to DR resource auction participation."¹²

¹⁰ See PJM Markets and Reliability Committee, *RPM Longer-Term Issues – Demand Response*, (August 14, 2012), <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20120814/20120814-item-02-rpm-dr-issue-charge.ashx>.

¹¹ See PJM Market Implementation Committee, *FERC informational report – DR Capacity M&V order (update)*, (August 8, 2012), <http://www.pjm.com/~media/committees-groups/committees/mic/20120808/20120808-item-09-dr-capacity-follow-up-issues.ashx>.

¹² *Id.* at 4; see also *RPM Longer-Term Issues – Demand Response*, *supra* n.10 at 1.

In PJM's view, the CSTF issue is very similar to, and can be readily interpreted to include, the issue described by the Commission for this report. The MIC concurred that the CSTF should address the matters the Commission identified to be included in this report.¹³

Stakeholders participating in the CSTF subsequently prioritized the task force's assigned issues related to demand response, and ranked this issue as the highest priority item among those items.¹⁴ At the CSTF's meeting of September 20, 2012, PJM staff made a detailed presentation and joined stakeholders in a lengthy discussion of this and several other of the demand response-related issues that the group designated as high priority matters.¹⁵ PJM suggested that stakeholders consider whether there may be a more accurate metric for establishing an end-use customer's reliability requirement than its peak load contribution ("PLC") as currently defined, or a better process to determine the customer's PLC. That and subsequent discussions demonstrate that a small number of curtailment service providers ("CSPs") continue to advocate abandoning reliance on end users' respective PLCs for purposes of measuring and verifying the performance of demand response capacity resources. These members support changing to an energy-based metric for measurement and verification ("M&V") of capacity performance, similar to the position that stakeholders considered at length, and ultimately rejected, in previous stakeholder discussions.¹⁶

¹³ The minutes of the MIC's August 8 meeting state that these issues "will be transitioned to the CSTF." See PJM Interconnection Market Implementation Committee, *Minutes*, at 5 (August 8, 2012), <http://www.pjm.com/~media/committees-groups/committees/mic/20120808/20120808-minutes.ashx>.

¹⁴ See PJM Capacity Senior Task Force, *Importance Ranking of DR Issues: Polling Results*, 2 (Sept. 20, 2012), <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20120920/20120920-dr-issues-important-ranking-poll-results.ashx>.

¹⁵ See PJM Capacity Senior Task Force, *DR RPM Issues*, 16-34 (Sept. 20, 2012), <http://www.pjm.com/~media/committees-groups/task-forces/cstf/20120920/20120920-item-02-dr-issues.ashx>.

¹⁶ Minutes of the PJM Load Management Task Force, which addressed performance measurement and verification issues in 2009-2010 and originally developed the tariff and other revisions that the Commission approved in this docket, illustrate

In PJM's view, however, the performance of demand response resources in 2012 under the PLC M&V metric confirms the merit of the PLC for that purpose. PJM's preliminary analysis shows that, during two emergency dispatch events in July 2012, emergency demand response resources provided 104 percent and 103 percent, respectively, of their applicable capacity commitments.¹⁷ This is in contrast to performance in previous years.¹⁸ It also indicates that, as anticipated in PJM's previous submissions in this docket, implementation of the new M&V rules that the Commission approved in this proceeding did not negatively affect demand response performance, while ensuring the reliability of the PJM system during system dispatch emergencies.

Nevertheless, PJM expects that stakeholders will continue to weigh the accuracy of, and potential alternatives to, PLC for the purpose of establishing the contribution of each demand response resource to the PJM system reliability requirement. The CSTF's work plan anticipates that the task force will present the MRC with its proposed solutions regarding this and the other 2012 demand response issues in approximately April 2013. The work plan further provides for any proposed changes to PJM's tariff and other governing documents that the MRC endorses to be presented to the PJM Members Committee in approximately May 2013. Any proposed changes that the Members Committee endorses will be filed shortly thereafter with the Commission for its approval.

that certain stakeholders also advocated at that time an approach of measuring capacity performance based on actual load reductions during emergency dispatch, regardless of whether a customer's load exceeded its PLC. *See, e.g.,* Load Management Task Force, *Minutes from 3/26/10 meeting*, (April 2, 2010), <http://pjm.com/~media/committees-groups/task-forces/lmtf/20100408/20100408-item-01a-draft-minutes-20100326.ashx>.

¹⁷ *See* PJM Operating Committee, *2012 PJM Demand Response Performance on Summer Event Days (July 17th and 18th) [Preliminary Report]*, (Oct. 9, 2012), <http://www.pjm.com/~media/committees-groups/committees/oc/20121009/20121009-item-09-pjm-dsr-hot-day-report-july-17-th-and-18-th.ashx>.

¹⁸ *See, e.g.,* Response of PJM Interconnection, L.L.C. to Notice of Topics for Staff Technical Conference, Docket No. ER11-3322-000, at 10-14 (July 11, 2011).

2. Applicability of the PLC performance metric for resources with higher performance outside of the summer period.

This issue also remains pending with the CSTF, and is ranked among the three highest-priority demand response issues for 2012.¹⁹ PJM and the CSTF participants also addressed this issue at length in the CSTF's meeting of September 20, 2012.²⁰ As required by its protocols for new stakeholder bodies, PJM has educated the stakeholders on its existing processes, including capacity compliance M&V and determination of penalties for the Summer Extended and Annual Demand Resources. PJM asked stakeholders to identify their interests or issues regarding the existing market rules and processes. For present purposes, PJM notes that this item is related to item 1 above, which includes stakeholder consideration of how the PLC is determined. The CSTF work plan provides the same timetable for resolution of this issue as it does for the item discussed above.

3. Whether the PLC can be adjusted to account for load growth and other trends included in the PJM load forecasts that are used in RPM.

The CSTF is considering this issue in connection with item 1 above, which includes considering the accuracy of the PLC as it is currently determined. Accordingly, this item was part of PJM's presentation and stakeholders' deliberations at the September 20 meeting of the CSTF.

The stakeholders' discussions have noted that PLC is currently calculated on a lagging basis, from the end-use customer's load during the summer prior to each Delivery Year for which demand response must make commitments and perform accordingly. Stakeholders are still defining the current issue, and thus have not yet begun to discuss any potential solutions they may wish to consider. The CSTF work plan contemplates resolution of this issue in the same 2013 time frame discussed in item 1 above.

¹⁹ See *FERC informational report – DR Capacity M&V order (update)*, *supra* n.11, at 2.

²⁰ See *DR RPM Issues*, *supra* n.12, at 37-42.

4. How advanced metering and communications could foster the reliability of the PJM Capacity DR product.

PJM stakeholders have not addressed this issue, and it is not included in the demand response issues that the CSTF has identified for its work during 2012 and 2013. PJM and its transmission owner and CSP members have established robust communications protocols, and continue to look for opportunities to enhance metering and communications capabilities. It seems reasonable to anticipate that advances in metering capabilities would improve the measurement and monitoring of demand response performance in the future.

Service

PJM has served a copy of this report on all parties to this proceeding, and on all PJM members and state utility regulatory commissions in the PJM Region, by posting this filing electronically. In accordance with the Commission's regulations,²¹ PJM will post a copy of this report to the FERC filings section of its internet site, located at the following link: <http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx> with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region²² alerting them that this filing has been made by PJM and is available by following such link. If the document is not immediately available by using the referenced

²¹ See 18 C.F.R. §§ 35.2(e) and 385.2010(f)(3).

²² PJM already maintains, updates, and regularly uses e-mail lists for all PJM members and affected state commissions.

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link, the document will be available through the referenced link within 24 hours of the filing. Also, a copy of this filing will be available on the FERC's eLibrary website located at the following link: <http://www.ferc.gov/docs-filing/elibrary.asp> in accordance with the Commission's regulations and Order No. 714.

Respectfully submitted,



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