Clearing of Demand Response Products in RPM

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PJM has long recognized the enormous value that Demand Response brings to wholesale markets and reliable operations. Our capacity market has attracted the world’s largest amount of DR resources under a single transmission operator. For over five years Demand Response providers have demonstrated a good record in reliably delivering load reductions when called upon, thereby enhancing grid operations and competition among market participants.

Earlier this year, PJM and its stakeholders identified the need to unlock greater value from DR products by enhancing their operational flexibility and by improving the clearing process within RPM. Stakeholders voted overwhelmingly that changes must be made and have worked extensively to identify ways that grid operators can use DR more efficiently to resolve local constraints. Stakeholders also have developed various proposals for some restrictions on the clearing of limited DR products so that long-term reliability would be improved.

Although stakeholders were not able to achieve a two-thirds consensus in favor of any one method for clearing limited DR products in PJM’s capacity auctions, the PJM Board is impressed with the high quality of the discussion and greatly appreciates the constructive efforts by stakeholders. This has been a valuable and informative debate.

The Board has authorized the filing of the “PJM Staff Proposal” to establish hard caps on the quantity of Limited and Extended Summer DR products in the Base Residual Auction. The Board believes this correction to our prior approach would best maintain reliability and the integrity of RPM, enhance the quality of DR products and improve the RPM structure so that prices are properly differentiated among DR products according to their relative reliability contribution.

The Board also recognizes arguments put forth by the Independent Market Monitor, who has consistently recommended changes in the treatment of DR in the capacity market for many years. While PJM’s filing will not go as far as the IMM recommends, we are confident that RPM would be strengthened and the DR products would be improved by implementation of the Staff Proposal.

The Board wishes to thank stakeholders for their efforts and inputs to this discussion. The Board respects the FERC process where PJM members will be able to address their particular point of view on this issue.