January 10, 2014

Chairman W. Kevin Hughes  
Maryland Public Service Commission  
William Donald Schaefer Tower  
6 St. Paul Street  
Baltimore, Maryland 21202

Dear Chairman Hughes:

Thank you for your letter dated November 25, 2013, regarding PJM’s demand response clearing and operability proposals.

PJM is pleased to support the efforts of the Commission, General Assembly and Governor to establish energy efficiency and demand response programs to satisfy the goals of the EmPOWER Maryland legislation. Utility sponsored and CSP offered programs have benefitted through the various demand response and energy efficiency products offered into and cleared in PJM’s capacity market, the Reliability Pricing Model.

As indicated in your letter, PJM met with your staff and representatives of three Maryland utilities on November 6 in Baltimore to discuss the various proposed changes to demand response clearing and operability rules. This meeting went a long way toward a better understanding of the concerns raised by the Commission and Maryland utilities, as well as how those concerns could be addressed. Subsequently, changes were made to the demand response operability proposal which were then endorsed by PJM stakeholders, and PJM filed these proposed rule changes with the FERC on December 24.

With respect to the demand response clearing rules, the proposal that PJM stakeholders endorsed and which was filed with the FERC remained consistent with the proposal PJM discussed with the Commission and Maryland utilities on November 6. As explained in detail in our November 29 filing at FERC, PJM believes it is critical for the long term reliability of the transmission grid to establish firm caps on the Reliability Targets for the Limited and Extended Summer demand response products.

PJM’s filings to FERC also explained how these demand response clearing and operability rule changes would provide greater economic efficiency in real time dispatch, benefitting consumers in Maryland and across the PJM region. I would also emphasize our commitment to working with the PJM stakeholders, including the Commission and the Maryland utilities, to finalize revisions to the PJM Manuals that prescribe business processes so they are consistent with the proposals endorsed by stakeholders and accepted by the FERC.
Regarding the six concerns listed in the Appendix of your November 25 letter, PJM offers the attached responses.

Thank you and the Commission for engaging constructively on these issues. We really appreciate the time and energy spent contributing to the development of the comprehensive DR operability proposal endorsed by PJM stakeholders.

Sincerely,

Terry Boston
Attachment

PJM offers the following responses to the six concerns listed by the Maryland Commission in the Appendix to its November 25th letter:

1) PJM has proposed in its Demand Response (DR) as an Operational Capacity Resource Package that a new category of “Pre-Emergency” or “Capacity” DR be created (Proposal Matrix Item 1) and be dispatched based upon a selected strike price, but prior to the declaration of a supply emergency by PJM as is the present predicate for dispatching these resources (including EmPOWER Maryland DR). Utilities implementing EmPOWER Maryland programs have expressed concern that the dispatch rules ultimately adopted may fail to treat DR as effectively an “emergency” or “Pre-emergency resource, despite PJM’s assertion that this remains its intent. PJM is understood to be developing Manual and Rule language to clarify and codify its intent respecting dispatch for this new DR category, which will respond to utility concerns respecting those EmPOWER Maryland programs.

PJM Response:

PJM has begun reviewing draft Manual 11 (Energy & Ancillary Services Market Operations), 13 (Emergency Operations), 18 (PJM Capacity Market), and 19 (Load Forecasting and Analysis) language with stakeholders, beginning with the January 8, 2014, PJM Operating Committee meeting. Manual 13 includes changes regarding how PJM will dispatch Pre-Emergency Demand Response resources. PJM intends also to review these changes at the Demand Response Subcommittee to ensure Curtailment Service Providers who typically do not attend the Operating Committee are aware of the changes and can provide comments accordingly.

2) PJM has also proposed in this Operational Capacity Resource Package that DR be required to respond within 30 minutes of notification unless it is physically restricted from doing so (Proposal Matrix Item 2). Utilities implementing EmPOWER Maryland programs have explained that for their mass market residential and small commercial DR programs, the majority of customers require telephone contact to initiate response and, moreover, customer response is not sufficiently prompt to permit a 30 minute default standard, a one hour standard being required.

PJM Response:

PJM staff was of the same understanding following the November 6 meeting regarding the need for a one-hour notification time. However, subsequent to the November 6 meeting, certain Maryland utilities informed PJM that for particular, mass market programs, a two hour notification time was required. As a result of further discussion by the PJM Members Committee, the proposal endorsed by PJM stakeholders (and filed with FERC on December 24) includes a maximum notification time allowable for mass market
programs of 120 minutes. Sponsors of such programs are permitted to select a shorter notification time but may not select a notification time greater than 120 minutes.

3) PJM has also proposed a minimum event duration of one hour. Again, Maryland utilities have advised that it requires 1-2 hours for mass market DR customers to be communicated with and to ramp up their response to meet targeted load reductions, and thus a four hour minimum duration is needed by these programs. The MD PSC understands that PJM has indicated a willingness to work with State Commissions and utilities to assure that its above described proposals (i.e., items 2 & 3) do not adversely affect or diminish participation in these important State policy programs.

PJM Response:

PJM believes the minimum event duration concern also was addressed in the PJM December 24 Tariff filing. The Maryland utilities indicated at the November 6 meeting that as long as the notification time requirement was addressed -- and in particular given the subsequent allowance for a two-hour notification time for these programs -- the one-hour minimum duration is acceptable.

4) PJM has proposed that DR programs be dispatched on a sub-zonal or zip code basis. An existing PJM Manual provision, Manual 35 at p. 100, provides an exemption from such dispatch for direct load control programs. However, it is not clear that all mass market programs fall within the Manual 35 exemption. We understand that these concerns will be reviewed and/appropriate exceptions made by PJM as part of implementation of the Manual 35 exemption.

PJM Response:

PJM is working directly with the Electric Distribution Companies (EDCs) to determine whether their mass market programs may be subject to the sub-zonal dispatch requirements. If an EDC is not able to dispatch its mass market program on a subzonal basis, during a DR event PJM dispatch will either call for load response from the mass market program for the full zone or will call for no response at all. The decision will be based on the operational needs of the system at the time and whether the DR in that zone will help to meet those operational needs. PJM expects to have completed the assessment of these programs prior to the summer of 2014.

5) PJM has proposed a one year transition period before the DR as an Operational Capacity Source Package becomes effective. Utilities, pointing out that DR bids have already been submitted through the 2016-17 Delivery Year, have requested that a three year transition period be adopted. We understand that PJM is considering this request.
PJM Response:

PJM stakeholders endorsed and PJM included in its December 24 FERC filing a one year transition period. The Maryland utilities also indicated during the meeting that as long as the current number of RPM Incremental Auctions remains available for Delivery Years for which the Base Residual Auctions have already occurred, that the PJM proposed transition period is sufficient.

6) Utilities have expressed concern that firm caps proposed by PJM on Limited and Extended Summer DR permitted to clear in the BRA under its Limited DR in RPM Package will permit insufficient DR to clear the BRA to support their EmPOWER programs. Data provided to date in response to this concern has not fully satisfied the Maryland PSC that this will not occur. Adequate and persuasive data to respond and refute this concern must be provided before the Maryland PSC can consider accepting these PJM proposed RPM changes.

PJM Response:

As explained in detail in PJM’s November 29 filing at FERC, PJM believes it is critical to the future effectiveness of the RPM construct to implement the Reliability Targets for the Limited and Extended Summer DR products as firm caps. PJM does not have any further data or analysis specific to the potential impacts of these changes on the Empower Maryland programs. However, PJM staff stands ready to work with the Maryland Commission and the Maryland utilities to assist in maximizing the effectiveness of these programs for Maryland consumers within the necessary RPM constraints. PJM further notes that the greater the amount of demand response registered in these programs that can be offered as higher valued demand response products in the RPM auctions, the greater the potential for maximizing the value of those programs via the RPM construct.