

A number of intervenors filed substantive comments on the PRD Filing.⁴ Notably, nearly every commenter, including three state commissions,⁵ expresses support for PJM’s recognition of PRD in its wholesale market rules, and no intervenors oppose that recognition of PRD. Indeed, most commenters express support for most or all of PJM’s tariff changes to integrate PRD. This is not surprising, since the tariff changes in the PRD Filing were approved by 85% of the PJM members (in a sector-weighted vote).

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Illinois, and Kentucky, and the District of Columbia, as shown on Attachment J to the Tariff.

⁴ Motion to Intervene, Conditional Protest, and Comments on Behalf of American Municipal Power, Inc. (Oct. 14, 2011) (“AMP Comments”); Comments of the Public Service Commission of the District of Columbia (Oct. 14, 2011) (“DC PSC Comments”); Comments of Demand Response and Smart Grid Coalition (DRSG) (Oct. 14, 2011) (“DRSG Comments”); Comments of the Electric Power Supply Association (Oct. 17, 2011) (“EPSA Comments”); Joint Limited Protest of EnergyConnect, Inc., and EnerNOC, Inc. (Oct. 14, 2011) (“Joint Protest”); Motion to Intervene and Comments of Exelon Corporation (Oct. 14, 2011) (“Exelon Comments”); Comments Submitted on Behalf of the Public Utilities Commission of Ohio (Oct. 12, 2011) (“Ohio PUC Comments”); Motion to Intervene and Comments of Old Dominion Electric Cooperative in Support of Filing (Oct. 13, 2011) (“ODEC Comments”); Comments of PJM Industrial Customer Coalition (Oct. 14, 2011) (“PJMICC Comments”); Motion to Intervene and Comments of the PJM Power Providers Group (Oct. 14, 2011) (“P3 Comments”); Motion to Intervene and Comments of the PSEG Companies (Oct. 14, 2011) (“PSEG Comments”); Motion to Intervene and Comments of the Rockland Electric Company (Oct. 13, 2011) (“Rockland Comments”); Comments of Viridity Energy, Inc. (Oct. 14, 2011) (“Viridity Comments”); Motion to File Comments Out of Time and Comments of Illinois Commerce Commission (Oct. 25, 2011) (“ICC Comments”); Motion to Intervene Out of Time and Comments of the District of Columbia Office of People’s Counsel (Oct. 31, 2011) (“DC OPC Comments”); Motion to File Comments Out of Time and Comments of the Delaware Public Service Commission (Oct. 31, 2011) (“Dela. PSC Comments”).

⁵ See DC PSC Comments at 6 (“we support the Commission’s approval of such a well-structured proposal to advance the integration of PRD into wholesale markets”); PUC Ohio Comments at 3 (“the Ohio Commission supports the recognition of PRD in PJM’s Tariff, Operating Agreement, and Reliability Assurance Agreement”); ICC Comments at 3 (“[t]he ICC supports PJM’s initiative to recognize and support PRD”). The Delaware PSC states in its late-filed comments that it supports the comments of the Illinois Commerce Commission.

Of the adverse comments and protests, some are directed at provisions *outside* PRD, and thus are beyond the scope of this proceeding. The adverse comments directed at PRD itself concern only a relatively few provisions. Therefore, as the Commission weighs the comments and protests, it should not allow the issues raised regarding a relative handful of specific tariff changes—which PJM answers here—to obscure the overall broad support for the PRD Filing.

ANSWER

A. The PRD Filing Properly Limits The Credit Against LSE Wholesale Capacity Obligations To LSEs.

Most commenters expressly support recognition of PRD as a load adjustment, rather than a resource that participates on the supply-side of PJM’s capacity and energy markets.⁶ Importantly, no intervenor opposes implementation of PRD at the wholesale level as a load adjustment; and no party has proposed that PRD should instead be implemented as a supply resource offered for sale into PJM’s auctions and markets.

As a load adjustment, PRD reduces the load forecast of load-serving entities (“LSEs”). In determining how to integrate PRD, PJM could have reflected PRD simply as a reduced capacity charge for LSEs,⁷ but to facilitate PRD development and flexibility at the retail level,

⁶ See, e.g., DC PSC Comments at 4 (one of the “key features” of the PRD Filing that will “provide significant benefits to consumers” is that “PRD is a load adjustment that reduces the total resources the wholesale market must procure,” unlike “[t]he current rules” that are “oriented towards demand response as a supply-side resource . . . offered into PJM’s energy, capacity and ancillary service markets”); Ohio PUC Comments at 6 (PRD is “load which . . . will respond to changes in wholesale market prices;” it is “unlike a demand response resource,” because it “does not ask for payment from the RTO”); ODEC Comments at 3 (ODEC supports PRD Filing because it “establishes a program where retail load can avoid a wholesale-based cost as opposed to existing demand resource programs that require load, either directly or indirectly via a curtailment services provider, to bid into the wholesale market as a resource”).

⁷ In fact, that is the approach the PRD Filing takes for LSEs under the Fixed Resource Requirement (“FRR”), which do not participate in the RPM auctions. There, the capacity
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PJM and its stakeholders determined to identify a distinct PRD Credit that captures and quantifies the dollar value of the reduction in capacity obligations generated by PRD. Specifically, each LSE that serves loads with a PRD commitment will continue to pay for capacity based on its peak load obligation but will also receive a PRD Credit, based on the promised reduction in peak loads provided by PRD.⁸ This accounting convention—reflecting PRD as a charge and an offset to the LSE rather than simply as a reduced charge to the LSE—will provide greater flexibility to retail regulators and stakeholders in developing and administering PRD programs, as it distinctly identifies and quantifies the capacity value of PRD. Indeed, the DC PSC expressly recognized this benefit in its supportive comments.⁹ By contrast, simply reducing the LSE’s capacity obligation, although mathematically the same result, would lose the separate identification and “unbundling” of PRD’s impact, as any reductions would simply be rolled in with other unrelated changes, upward or downward, to an LSE’s annual capacity obligation.

To further promote flexibility in retail PRD programs, PJM’s market rule revisions allow non-LSE PRD Providers to submit PRD Plans at the wholesale level that would reduce the peak loads of the LSE responsible for the loads at issue.¹⁰ EnergyConnect, Inc. and EnerNOC, Inc.

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obligation associated with the load reductions provided by all committed PRD loads within an FRR LSE’s zone is subtracted from the LSE’s capacity obligation. *See* PRD Filing, Attachment B, RAA, Schedule 8.1, sections D.2 and F.1.

⁸ PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section G.

⁹ DC PSC Comments at 6 (approach of assessing a charge to LSEs and giving them an offsetting credit “provides state commissions flexibility in structuring their retail pricing and compensation to PRD providers and end users”).

¹⁰ PRD Filing, Attachment B, RAA, proposed § 1.71B (“PRD Provider shall mean . . . (ii) an entity without direct load serving responsibilities that has entered contractual
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(“Joint Protestors”), however, propose to compensate non-LSE third parties that provide PRD.¹¹ The Joint Protestors’ suggested approach veers from that approved by a supermajority of PJM’s stakeholders and should not be adopted.

The as-filed PRD Credit approach is the result of over two years of extensive stakeholder discussions.¹² Necessarily, the outcome of such lengthy discussions contains multiple compromises in order to attain the supermajority support required for a Federal Power Act (“FPA”) section 205 filing. The PRD Credit is one of those compromises. The PRD Credit approach reflects stakeholder recognition that providing the PRD Credit to the LSE aligns the PRD credit *against* the capacity obligation *with* the capacity obligation itself, an obligation that is borne by the LSE.

Nonetheless, PJM takes seriously the concerns expressed by protestors hypothesizing that the PRD Credit provisions could affect the growth of PRD. While PJM expects that allowing participation of non-LSEs as PRD Providers at the wholesale level will increase PRD participation, PJM would agree to monitor that issue and file a report with the Commission assessing the implementation and performance of PRD after PRD has been incorporated into at least two consecutive Base Residual Auctions. As suggested by the Illinois Commerce Commission in its comments,¹³ such a report could assess the penetration of PRD into PJM’s markets, evaluate whether any of PJM’s PRD rules might be acting as unreasonable barriers to

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arrangements with end-use customers served by a Load Serving Entity that satisfy the eligibility criteria for Price Responsive Demand.”).

¹¹ Joint Protest at 3-7. The Demand Response and Smart Grid Coalition also asks the Commission to “examine” this aspect of the PRD Filing. DRSB Comments at 2.

¹² PRD Filing at 14-16.

¹³ ICC Comments at 9.

greater PRD penetration, and assess the performance of PRD and whether the reliability requirements in PJM’s tariff rules for PRD are necessary and effective.

B. The Same Load Reduction Cannot Be Committed as Two Different Products.

As the Commission recognized in Order No. 745, there are “two ways” by which demand response “can generally occur,” i.e., (1) “customers can provide demand response that acts as a resource in wholesale markets to balance supply and demand;” or (2) “customers reduce demand by responding to retail rates that are based on wholesale prices (sometimes called ‘price-responsive demand’).”¹⁴ The PRD Filing is a major step forward because it adds the second option—PRD—to the PJM Tariff, where it can operate alongside, and as an alternative to, the existing demand resource products. To avoid double commitment of the same load reduction, however, the RAA revisions in the PRD Filing clarify that “[e]nd-use customer loads” that are identified in one PRD Plan cannot also be identified, for the same Delivery Year, as PRD in another PRD Plan or registration, as a Demand Resource in a Reliability Pricing Model (“RPM”) Auction, or as an Emergency Load Response resource or Economic Load Response resource.¹⁵

Viridity argues that the PRD Filing allows load committed as PRD that can reduce beyond its committed Maximum Emergency Service Level to participate in the energy and reserve markets as an economic demand response resource during normal operating conditions.¹⁶

¹⁴ *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, III FERC Stats. & Regs., Regs. Preambles ¶ 31,322, at P 9 (2011).

¹⁵ RAA, Schedule 6.1, section B.

¹⁶ Viridity Comments at 2 n.3, *citing* PJM’s posted response to “Frequently Asked Question No. 25” at <http://pjm.com/~media/committees-groups/committees/mrc/20110504/20110504-item-02-prd-faqs-version-2.ashx>.

The PJMICC similarly argues that loads registered as PRD should also be permitted to register as Economic Load Response, up to the price specified in their PRD registration.¹⁷

Viridity reads too much into the PRD Filing, and PJMICC glosses over the principal concern with any such proposal: assuring that there are not products or commitments on both the supply side and demand side of the PJM markets that rely on essentially the same load reduction. The PRD Filing does not attempt to address the further rules that would need to be devised to provide that assurance and clearly define the distinct loads that could be committed as separate supply side and demand side products.

This is critical, as any attempt to base multiple products on one end-use customer must recognize the distinction between PRD as a load adjustment and demand response as a resource offered into the PJM markets. When a party makes a PRD commitment, it reduces the capacity that must be procured in RPM to meet the needs of the affected LSE; in other words, the peak loads of the LSE are adjusted down. The PRD rules require the affected participants to follow through on that commitment in day-ahead and real-time operations.¹⁸ Thus, the load specification for the LSE in day-ahead and real-time must be reduced to match the PRD capacity commitment. In the day-ahead and real-time markets, no resources of any type—generation or demand response—are procured to meet the increment of load that will be reduced to honor the PRD commitment. Therefore, a market participant cannot submit an Economic Load Response offer in the day-ahead or real-time markets to “reduce” the PRD load, as that load simply is not in the market.

¹⁷ PJMICC Comments at 4-6.

¹⁸ PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section F.

PJMICC's suggested qualifier that PRD committed loads could be registered as economic demand response "up to the prices specified in the PRD Curve" falls short of curing this fundamental mismatch.¹⁹ Regardless of price, a given load reduction committed as PRD cannot be considered as a supply-side resource. This demand-side/supply-side distinction is fundamental. A given load cannot perform on both the demand and supply side of the market at the same time. Moreover, the energy market price is not a variable that an end-use customer can control. If Economic Load Response is offered into the energy market as a resource on a given day and prices later rise to the level specified in a PRD Curve, then the load that committed as both PRD and Economic Load Response (under the PJMICC approach) would be on both sides of the market, i.e., as both a load reduction and a supply resource to meet load. In short, an entity must choose whether it will commit to load reduction as PRD or offer that load as a supply-side resource in the energy or capacity markets.

PJM understands the demand response community's desire for maximum flexibility to commit the loads of a single end-use customer as multiple demand response products. But, contrary to their citations to Order No. 745,²⁰ nothing in that rule requires that a single end-use customer's possibly duplicative or overlapping load reductions be committed as multiple products. Any such approach raises a host of implementing issues, including how to define new baselines and distinct increments of a customer's load; how to clearly apportion performance responsibilities and possible charges for non-performance among different products and different demand response providers; and how to address possible sharing of information between curtailment service providers that are relying on the same customer for their wholesale products.

¹⁹ PJMICC Comments at 6.

²⁰ *Id.* at 4-6.

Thus, while this is an issue that properly could be explored through further stakeholder discussions, it need not be addressed—or compelled—here.

Viridity also argues that PJM’s existing tariff rules for Demand Resources in RPM should be revised to provide flexibility to commit end-use customer loads for multiple products.²¹ However, PJM has not proposed any changes to its RPM Demand Resource rules in the PRD Filing. Accordingly, Viridity’s objections to those existing, unchanged provisions are beyond the scope of this proceeding.

C. The PRD Phase-in Proposal Is Reasonable.

The PRD Filing phases in the use of PRD to limit capacity obligations.²² As proposed in the PRD Filing, the first opportunity to commit PRD will be in January 2012 for the 2015-16 RPM Delivery Year. PRD Providers will be allowed to commit up to 1500 MWs of PRD for that year. That limitation will go up for each subsequent Delivery Year: 2500 MWs for the 2016-17 Delivery Year; 3500 MWs for the 2017-18 Delivery Year; and 4000 MWs for the 2018-19 Delivery Year. The PRD plans addressing these Delivery Years would be submitted over the 37 months following the proposed effective date of the tariff changes, i.e., in January 2012, January 2013, January 2014, and January 2015.²³ There will be no limit on PRD committed to reduce capacity obligations for subsequent Delivery Years. Moreover, there is no limit on the amount of PRD that can be reflected in the Day-ahead and Real-time Energy Markets.

²¹ Viridity Comments at 2.

²² PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section N.

²³ These submission dates are for PRD plans that would be reflected in the parameters for the Base Residual Auctions for each of the relevant Delivery Years. The filed rules also allow supplemental or revised plans to be submitted under certain conditions before the Third Incremental Auction for each affected Delivery Year. *Id.*, section C.

In its comments, the Ohio PUC strongly supports the recognition of PRD in PJM's wholesale market rules and, correspondingly, objects to limiting that recognition during the transition period.²⁴ PJM well understands the Ohio PUC's viewpoint on this question. Nonetheless, under the circumstances present here, the transition is reasonable.

First, successful PRD implementation will require significant adaptation, testing, and training by market participants, particularly LSEs, and a phase-in plan helps ease that transition. In similar circumstances—the implementation of locational capacity pricing—the Commission approved a similar transition plan that gradually increased over several years the number of areas that could experience locational price premiums. Just as in that case, where the Commission recognized that the transition “allows the participants in the market a period of time to understand and get used to the dynamics of the new capacity market prior to its full implementation,”²⁵ the transition here will allow a period of time for market participants to develop, implement, and adapt to a new form of demand-side participation. The DC PSC echoes this view, recognizing that, as “there is no historical experience with PRD and the current phase-in of AMI on the retail side,” the PRD Filing’s transition period “provides a gradual and prudent path of integrating PRD into the wholesale markets.”²⁶

Second, while the Ohio PUC argues that the transition-period annual limits are too low by comparing them to the PJM Region’s total peak load,²⁷ a better “ballpark” reference for the possible eventual scale of PRD is the commitment of other demand resources to meet capacity obligations. The greatest amount of demand resources that have been committed for any RPM

²⁴ Ohio PUC Comments at 9-11.

²⁵ *PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,331, at P 68 (2006).

²⁶ DC PSC Comments at 5.

²⁷ Ohio PUC Comments at 9-10.

Delivery Year is approximately 14,000 MWs;²⁸ and it took eight Delivery Years for demand resource penetration to reach that level. Indeed, the growth period to reach that level was even longer than eight years, as the pre-RPM equivalent of Demand Resources, known as Automated Load Management, had been in place for a number of years before RPM was implemented.

But even the growth of Demand Resource commitments may overstate what can reasonably be expected from PRD, at least in the near term. PRD is at the very beginning of its development in the PJM Region. While advanced metering infrastructure is being installed at many locations throughout the region, PRD as defined in the Tariff also requires dynamic retail rates that are linked to changes in PJM LMPs and supervisory control capable of reducing registered loads to the agreed level. Both of these latter two eligibility requirements, particularly supervisory control, will take additional time to develop. Therefore, the transition-period limits on PRD commitment in connection with RPM in effect for only the next few years should be more than adequate to accommodate reasonably expected development of load that can meet the PRD criteria.

Third, the time frame for the transition period is reasonable. Most if not all PRD commitments will be made in the month of January that precedes the Base Residual Auction for the relevant Delivery Year. Thus, the transition period limits will apply to such commitments made in January 2012, January 2013, January 2014, and January 2015—a period that ends just 37 months after the proposed effective date of the PRD Filing. While LSEs and other PRD Providers will be committing PRD in each case for Delivery Years that are three years forward, they will need to ground their commitments in their PRD Plans by reference to the state of PRD

²⁸ *2014/2015 RPM Base Residual Auction Results*, PJM Interconnection, L.L.C., 10 Figure 1, (May 13, 2011) <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/20110513-2014-15-base-residual-auction-report.ashx>.

development at the time they make their commitments. The PRD Filing's rules make clear that while customer loads need not be identified in the PRD Plan, LSEs and other PRD Providers will be held to the commitment level specified in their plans, whether or not they succeed in securing arrangements with sufficient loads to satisfy those commitments.²⁹ Therefore, the level of actual PRD development over the next three years will be a key determinant of PRD commitment levels, and the PRD transition-period limits should be assessed in terms of likely growth of PRD over the next three years.

Taking all these considerations into account, the transition period for PRD commitments in connection with RPM is reasonable. PRD represents a significant step forward for the PJM Region, and phasing PRD into RPM was a reasonable stakeholder compromise that enables the region to take that significant step. Importantly, the stakeholders probably would not have achieved a super-majority consensus without the transition plan. That consensus produces both a short-term benefit and a long-term benefit. In the short term, the super-majority approval allowed PJM to file the PRD tariff revisions under FPA section 205, rather than facing the greater challenges and hurdles of an FPA section 206 filing. In the long term, broad stakeholder consensus bodes well for the successful implementation of this major new initiative. In these circumstances, where the stakeholder process chooses to draw on a reasonable provision—such as a transition plan similar to that previously approved for RPM—as a means to achieve consensus, even though not all parties would favor such a plan outside the setting of a stakeholder compromise, the Commission should recognize and support such consensus-building efforts.

²⁹ PRD Filing, Attachment B, RAA, proposed Schedule 6.1, sections I and K.

PJM also clarifies, in response to the Ohio PUC's related concern,³⁰ that the possible zonal allocation of the overall PRD limit for the PJM Region is not intended to set a group of independent zonal-level caps on PRD, i.e., setting caps that are under-used in zones with little PRD and greatly exceeded in areas with robust PRD development. Rather, the zonal allocation factor is intended to apportion the PRD limit *only* when the overall limit for the PJM Region is exceeded. PJM does not intend that any portion of the cap would be unused in one zone while PRD is turned away in another zone. Indeed, the proposed tariff language takes into account the PRD Reservation Price in accepting PRD registrations.³¹ Because, as a practical matter, some commitments in the PRD Plans may be contingent on the associated capacity auction clearing at a specified price (i.e., the PRD Reservation Price), PJM will not know the level of PRD commitments until after the auction and will not be able to allocate the overall PRD limit among zones prior to the auction. Thus, in effect, economics (i.e., the offers with the lowest PRD Reservation Prices) will drive the allocation of PRD. If, as a result of the auction, total PRD commitments exceed the PJM Region limit, PJM will only then apply the pro-rata reductions described in the RAA. Accordingly, until the overall PJM Region limit is reached, the zones with the greatest development of PRD will be allowed to register the most PRD, and PJM will not limit PRD commitments in any zone until the overall limit is reached for the relevant Delivery Year. To the extent deemed necessary, PJM is willing to revise the relevant portion of the RAA in a compliance filing to make this intent clear.

³⁰ Ohio PUC Comments at 10.

³¹ PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section N.

D. Capability Testing For Small Customers Committed As PRD Is Necessary To Ensure Reliability.

Tracking the existing approved provisions for committed Demand Resources in RPM, the PRD filing adds a provision that requires PRD Providers to test the capability of their PRD-registered loads to perform as committed, and that assesses compliance charges if they fail the test.³² Such tests are required only if the PRD-registered load was not called upon during its performance period. This testing requirement provides the bare minimum assurance that the reduction commitment is “real.” If the PRD reduction conditions trigger during a year, the test is unnecessary, as the PRD will have to show in response to the emergency conditions and elevated prices that it can indeed reduce as promised. But when those triggering conditions do not arise during a year, it is reasonable to require the PRD load to show for a minimal period that it can in fact reduce as committed. PJM will rely on those commitments to procure less capacity in the RPM auctions; therefore, it is essential to demonstrate that the committed load reductions (which have no corresponding capacity backing) can be provided.

While recognizing the need to ensure performance of PRD-registered loads, the Ohio PUC objects to this testing provision, particularly the requirement that PRD loads would need to be reduced to their MESL level for a one-hour test period.³³ The Ohio PUC contends that the testing provision discriminates against PRD loads, since non-PRD loads do not have a similar testing requirement.

PJM respectfully disagrees with the Ohio PUC’s argument. Rather than comparing PRD loads with non-PRD loads, the more apt comparison is between PRD loads that commit to reduce through their PRD Plans and Demand Resources that commit to reduce through the RPM

³² PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section L.

³³ Ohio PUC Comments at 12-14.

Auctions. While PJM relies on non-PRD loads in forecasting future capacity needs, non-PRD loads do not commit to perform in any certain manner. For non-PRD loads (currently and after the implementation of PRD) PJM bases its RPM capacity procurement targets on the forecast level of those loads. By contrast, with PRD, PJM will base its capacity procurement target on an explicit downward adjustment to its forecast, reflecting the PRD load reduction commitments.

In this respect, PRD is more like Demand Resources, which also commit in advance to reduce to a specified level or by a specified amount, and which are subject to test to assure that those commitments can be honored. The Commission has accepted the Demand Resource testing provisions as just and reasonable.³⁴ The two sets of testing requirements are very similar; indeed, PJM modeled the PRD testing requirements on the Demand Resource testing requirements.³⁵ Accordingly, there is no discrimination; to the contrary, had PJM not applied similar performance measurement, testing, and compliance charge provisions to PRD, Demand Resource providers could have credibly argued that PJM was preferring PRD in its market rules.

Moreover, contrary to the Illinois Commerce Commission, the testing requirement is not onerous.³⁶ For any Delivery Year that PJM does not declare a Maximum Generation Emergency, meaning that PRD has not been called upon to perform, each PRD Provider must demonstrate that it tested the reduction capability of its PRD-eligible load for only a *one-hour* period.³⁷ It is not clear why a customer that is willing to subscribe to a load reduction program in return for concrete, current reductions in its electric charges (reflecting a share of the value of avoided capacity costs) would object to actually reducing for at least one hour per year.

³⁴ *PJM Interconnection, L.L.C.*, 126 FERC ¶ 61,275, at P 180 (2009).

³⁵ PJM Tariff, Attachment DD, 11A.

³⁶ ICC Comments at 4.

³⁷ PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section L(i).

The ICC argues that the testing requirement is unnecessary because the PRD Filing includes several other “reliability assurance mechanisms.”³⁸ However, none of the other mechanisms cited by the ICC demonstrates that the PRD-registered loads are *actually capable of performing* the committed load reduction. The PRD Plan contains only a description of the reduction commitment and how it will be effectuated; it does not demonstrate that the reduction can actually be provided.³⁹ Similarly, the supervisory control requirement is only a description of the capability, not a demonstration that it actually works in practice. Nor do the other compliance charges address this same concern, as they apply only when the PRD conditions trigger, not in years when they do not trigger.

Such capability testing is fundamental to ensuring that PRD will perform as committed and is similar to testing not only for other demand response products, as discussed above, but also for generators. Without the capability to perform, a PRD commitment harms the reliability of the PJM Region. Thus, through testing of PRD-registered loads, PJM assures that reliability will be preserved.

While PJM expects that the testing requirement will not impact PRD participation, PJM respects the input of its stakeholders, especially the concerns of state commissions regarding impacts on residential and small commercial customers. Accordingly, as noted above, PJM is agreeable to the fallback proposal of the ICC that, if the testing requirement is accepted, PJM file a report after the transition period assessing the performance of PRD, including its reliability rules such as the testing requirement.

³⁸ ICC Comments at 5-7.

³⁹ PRD Filing, Attachment B, RAA, proposed Schedule 6.1, section D.

E. The Supervisory Control Element of PRD Must Be Maintained.

The Delaware PSC supports the Illinois Commerce Commission's comments on testing but also raises a distinct issue, objecting to the supervisory control element of PRD.⁴⁰ The Delaware PSC suggests that, rather than require LSEs or other PRD Providers to have in place the remote capability to ensure that load is reduced in accordance with submitted PRD Curves, the capacity value of committed PRD should be discounted by an "Estimated Performance Factor" that PJM would calculate based on the "estimate[d] . . . system-wide failure rate of PRD demand reductions due to customer override of the automated response or other conditions."⁴¹

This would be a major adverse change to the PRD proposal. Because there is so little experience to date with PRD, PJM has no basis on which to determine a percentage level of likely non-response. The Delaware PSC refers to experience from pilot programs, but cites only a single example, which has involved fewer than two thousand customers.⁴² This limited sample would not be a reasonable basis for reliably predicting the response of all committed PRD throughout the PJM Region. Critically, if the discount factor is too optimistic, and there is less response from PRD, then PJM would be reliant on capacity levels that were reduced in anticipation of PRD to meet loads that did not reduce as expected, which presents a potential reliability concern. Moreover, any significant failures of PRD to respond could greatly set back the cause of PRD development, especially during the early years of the program. Therefore, all

⁴⁰ Delaware PSC Comments at 2.

⁴¹ *Id.*

⁴² *Id.* at 2, *citing* Baltimore Gas and Electric Company's "Smart Energy Pricing Program." The Brattle Group conducted an evaluation of this pilot program. Sanem Sergici & Ahmad Faruqi, *Evaluation of Baltimore Gas and Electric Company's Smart Energy Pricing Program Presented to: 9th International Industrial Organization Conference Boston, MA*, The Brattle Group, Inc., 2 (Apr. 8, 2011), available at http://www.brattle.com/_documents/UploadLibrary/Upload940.pdf.

stakeholders that wish to see PRD emerge as a viable means of reducing capacity costs should be vitally concerned with avoiding any failure of PRD to meet its commitments at the wholesale level.

In addition, the Delaware PSC's proposal to base the proposed discount factor for PRD on a "system-wide failure rate" presents problems of its own and differs markedly from the manner in which the capacity value of generation resources is determined. Generation owners must determine and calculate a forced outage rate that is specific to each of their generation resources; they are not permitted to apply a "system-wide" percentage that is based on the experience of other resources.⁴³ This resource-specific information is vital, because capacity commitments in the PJM Region are locational. When a Locational Deliverability Area⁴⁴ becomes constrained, what matters is the response of resources in the constrained area. An average performance rate that is based on the history of resources that are mostly located outside the constrained area (as would inherently be the case with any system-wide average) would not be an accurate or reliable guide to how PRD in the constrained area would respond. Moreover, resource-specific performance discount factors correctly establish an incentive for the resource provider to improve the performance of its resource. For generation resources, an owner that institutes processes and procedures, or makes investments, to improve the performance of its resource can sell more capacity from a given unit than an owner that is less committed to good performance. Conversely, a unit with poor performance sees its capacity value diminish, experiencing a direct adverse economic consequence from its subpar efforts to maintain performance.

⁴³ PJM Tariff, Attachment DD, §6.6(b).

⁴⁴ *Id.*, § 2.38.

Setting performance factors for specific PRD loads, however, would require even more performance data, which could take many years, particularly as PRD is not likely to be called frequently. All of these considerations simply reinforce the need for a supervisory control requirement for PRD. Especially at this stage of its development, the only way to correctly value the load reductions offered by PRD is to require that loads in fact be reduced to the committed level.

F The PRD Filing Respects Applicable Retail Regulatory Rules.

A number of commenters correctly stress the importance of the respect in PJM's PRD rules for the role of the Relevant Electric Retail Rate Authority ("RERRA") in PRD and the retail market.⁴⁵ PJM appreciates these comments, and will respond here only to one related aspect on which AMP seeks clarification.

Specifically, AMP seeks confirmation that retail load registering as PRD may not change the LMP definition of an LSE's load.⁴⁶ PJM clarifies that: (1) an end-use customer of an LSE can be registered as PRD with a PRD Substation at an LMP node that differs from the LSE's designation of its pricing point (which often is an aggregate combining multiple LMP nodes); (2) the PRD pricing point designation will *not* change the LSE's pricing point designation; and (3) the triggering of the PRD could however change the price and load at the PRD Substation, which (assuming that node is part of the aggregate) could in turn affect the calculation of the aggregate LMP for the LSE.

⁴⁵ See, e.g., Ohio PUC Comments at 3-4; ODEC Comments at 4; AMP Comments at 6.

⁴⁶ AMP Comments at 7.

G. There Is No Basis For Compelling PJM To Submit A Plan For Eliminating Demand Resources In RPM.

Some commenters urge the Commission to direct PJM to file a plan and timelines for establishing PRD as the only available option for demand response, and for elimination of all non-PRD forms of demand response.⁴⁷ The Commission can readily reject these proposals. Removal of unchanged, just and reasonable provisions of PJM's Tariff requires a showing under FPA section 206 that these provisions are no longer just and reasonable and that their removal would yield just and reasonable results.⁴⁸ No commenter has even attempted to make such a showing.⁴⁹ Packaging their request as a "plan" or "timeline" for elimination of other existing just and reasonable tariff provisions does not evade the section 206 hurdles to effectuation of their request. The premise of their argument is that implementation of PRD renders those other products unjust and unreasonable, such that they must be eliminated on some defined schedule. That relief is plainly not available in this proceeding.

Moreover, their proposal is contrary to the Commission's express recognition in Order No. 745 (quoted above) of "two ways" of implementing demand response, i.e., supply-side resources like RPM's Demand Resources, and PRD.⁵⁰ Thus, the Commission can easily dismiss these proposals as outside the scope of this proceeding *and* as contrary to its express demand response policies.

⁴⁷ P3 Comments at 3-6; EPSA Comments at 2-5; PSEG Comments at 4-5.

⁴⁸ *See, e.g., Cal. Indep. System Operator Corp.*, 124 FERC ¶ 61,292, at P 161 (2008).

⁴⁹ The most these commenters can offer is a 2009 PJM Board letter recognizing the value of PRD as a long-term solution to demand response participation. However, nothing in the letter they cite advocates forced migration of all existing demand response products to PRD.

⁵⁰ Order No. 745 at P 9.

CONCLUSION

PJM requests that the Commission accept the tariff revisions submitted in the PRD Filing, to be effective as proposed in the PRD Filing.

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November 8, 2011

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 Washington, D.C., this 8th day of November, 2011.

/s/ Paul M. Flynn
Paul M. Flynn