



by advanced meters and dynamic retail rate structures – by states in the PJM region. PJM proposes to integrate PRD into its forward capacity market (known as the “Reliability Pricing Model” or “RPM”) and real-time and day-ahead energy markets. With respect to RPM, PJM proposes that PRD is phased into the capacity market by capping the amount that can register to participate in RPM for the first four Delivery Years, starting with the next Base Residual Auction (“BRA”) in May 2012, and the revisions related to RPM are requested to be effective on December 15, 2011. There is no limit on PRD that is identified as price-sensitive load in connection with the PJM energy markets and such changes are proposed to be effective on May 1, 2012.

As discussed in more detail herein, EPSA requests that the Commission (1) condition acceptance of the PJM PRD proposal on PJM filing a Transition Plan for transitioning the three capacity (“supply-side”) DR products to PRD, and achieving its “end-state” vision of PRD as the “ultimate solution” to demand participation in the PJM markets; and, (2) expeditiously accept PJM’s inter-related and pending Order No. 719 shortage pricing proposal, with the modifications and clarifications requested by the PJM Power Providers Group (“P3”), in Docket No. ER09-1063-004.

## **I. COMMENTS**

### **A. Acceptance of the PJM PRD Filing Should Be Conditioned On PJM Filing a Plan for Transitioning Its Three Capacity DR Products to PRD**

EPSA commends the efforts of PJM and its stakeholders for the extensive collaborative process that has been undertaken to develop tariff language and

business rules for implementing PRD in PJM. EPSA supports participation by demand response resources as an important part of well-functioning competitive wholesale markets, and many of EPSA's members are PJM market participants who see value in PRD and were active participants in these stakeholder deliberations to develop the PJM PRD Filing. In particular, EPSA views the integration of PRD as a step in the right direction, as this is the demand product that is most comparable to generation and when properly structured, can provide greater efficiency and other competitive market benefits, including helping to reduce the frequency and magnitude of energy scarcity events and providing rapid response to emergency shortage conditions to preserve short-term system reliability.<sup>4</sup>

However, EPSA is concerned because PJM does not provide any information regarding how it intends to transition the three current capacity demand response ("DR") products to conform with the end-state goal articulated by the PJM Board of Managers for integration of demand response ("DR") resources, which envisions a single, **demand-side** method for load to participate in the capacity market. As noted in the PJM Board's June 26, 2009 statement: "PJM's long-term vision is that 'Price Responsive Demand,' which allows more customers to respond directly to market prices and to voluntarily reduce their consumption when wholesale prices rise, is the **ultimate solution** to demand

---

<sup>4</sup> PJM PRD Filing at 5-6. Also, see the whitepaper jointly written by Commissioner Paul A. Centolella of the Ohio Public Utilities Commission and Mr. Andrew L. Ott, Senior Vice President, Markets, PJM, *The Integration of Price Responsive Demand into PJM Wholesale Power Market and System Operations*, (March 9, 2009), available at: <http://www.hks.harvard.edu/hepg/Papers/2009/Centolella%20%20Ott%20PJM%20PRD%2003092009.pdf> .

participation.”<sup>5</sup> EPSA and its members support the PJM Board’s end-state vision for PRD in concept; however, the as-filed proposal creates commercial uncertainties for suppliers as the clear path to a stated end goal of PRD operating across the PJM markets is not resolved or clarified by this filing. Indeed, it adds to the numerous types of products available currently in the PJM markets.

Specifically, the PJM PRD Filing is at odds with this end-state goal of PRD as the ultimate solution for demand participation, as it does not provide a mechanism or plan that would transition the three current supply-side products in RPM to PRD.<sup>6</sup> To wit, PJM states that “this filing adds a PRD **option** but does not **eliminate** or detract from any of the demand response (“DR”) options that are already well integrated in the PJM market rules.”<sup>7</sup> PJM notes that “the current rules are oriented towards DR as a supply-side resource that offers into PJM’s energy, capacity, and ancillary service markets, while PRD is a load adjustment that reduces the total resources the wholesale market must procure.”<sup>8</sup> EPSA strongly supports PJM’s effort to promote participation of demand response resources on the demand side of the capacity market. Among other things, transition to a single demand-side mechanism to recognize curtailments in

---

<sup>5</sup> Statement of Terry Boston, President and CEO, on behalf of the PJM Board of Managers at 1, regarding Demand Response in the PJM Markets, outlining Long-Term and Short-Term Solutions, (June 26, 2009), available at <http://www.pjm.com/~media/about-pjm/newsroom/2009-releases/20090626-pjm-board-statement-regarding-dr-in-pjm-markets.ashx>. (Emphasis added.)

<sup>6</sup> *PJM Interconnection, LLC*, 134 FERC ¶ 61, 066 (January 31, 2011).

<sup>7</sup> PJM PRD Filing at 3. (Emphasis added.)

<sup>8</sup> PJM PRD Filing at 4.

capacity planning will eliminate substantial confusion regarding the measurement of demand side resources to accommodate their participation as supply side capacity resources.<sup>9</sup>

Therefore, EPSA requests that the Commission condition acceptance of the PJM PRD on the requirement that PJM file a Transition Plan for the evolution of the three capacity (“supply-side) DR resources in RPM to PRD. PJM should be required to consult with stakeholders prior to July 2012 and submit a transition plan no later than August 1, 2012 in anticipation of commencing a transition no later than the 2013 RPM Base Residual Auction.

**B. The Commission Should Expeditiously Approve, With Modifications, PJM’s Pending Shortage Pricing Proposal Required By Order No. 719 To Maximize The Benefits Of PRD**

In a matter related to PJM’s development of PRD, throughout the rulemaking proceeding culminating in issuance of the final rule, Order No. 719, to consider potential improvements to the organized wholesale markets, the Commission linked the issues of price formation and demand responsiveness. EPSA supported the Commission’s proposals, and in the final rule the Commission directed the RTOs to remove “barriers to demand response by requiring price formation during period of operating shortage to more accurately reflect the value of such energy during such shortage periods.”<sup>10</sup> PJM’s Shortage Pricing proposal, filed to comply with the directives of Order No. 719,

---

<sup>9</sup> The PJM “double counting” proceeding in Docket No. ER11-3322-000 highlights the complexity associated with measurement and verification rules and issues related to DR products participating as supply-side capacity double-counting certain curtailment activity to obtain capacity market compensation.

<sup>10</sup> In the Matter of Wholesale Competition in Regions with Organized Electric Markets, 125 FERC ¶ 61, 071 (October 17, 2008) at 192-193.

remains pending. Given the inter-related and underlying nature of that proposal with the PJM PRD Filing, EPSA requests that the Commission expeditiously approve PJM's pending Shortage Pricing proposal, with the modifications and clarifications requested by the PJM Power Providers Group, in Docket No. ER09-1063-004.

PJM previously determined that its currently effective scarcity pricing rules do not conform with the requirements of Order No. 719, and explained that its current design is inflexible, lacks transparency, and yielded “unintuitive” pricing that fails to reflect true operating constraints as PJM goes into shortage conditions. As PJM has explained, “PRD can help forestall, or mitigate the price impacts of going into a reserve shortage condition under PJM’s proposed shortage pricing mechanism.”<sup>11</sup> Additionally, it is important to note that the Commission directed PJM in its Order No. 719 compliance proceeding to continue its efforts to develop PRD and inform the Commission as follows:

[T]he Commission in its order on PJM’s compliance filing under Order No. 719[] noted PJM’s work with state regulators to better integrate price responsive loads, including smart meters, on wholesale market operations and found that “the lack of appropriate coordination between the wholesale and retail markets” could “operate as a barrier to demand response participation.”[] The Commission therefore encouraged PJM to continue its work with state regulators on coordination with PRD and directed PJM to report on the status of its efforts every six months through February 14, 2011.<sup>12</sup>

---

<sup>11</sup> See PJM Price Responsive Demand Integration in Energy Markets Tutorial at Slide 57, Markets and Reliability Committee – PRD, May 4, 2011. *Available at* <http://www.pjm.com/~media/committees-groups/committees/mrc/20110504/20110504-item-02-integration-of-prd-in-energy-market-tutorial.ashx>.

<sup>12</sup> PJM PRD Filing at 8-9.

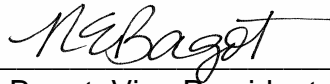
The compliance filing has now been pending for sixteen months, since June 2010. The PJM shortage proposal filed in its Order No. 719 compliance proceeding encompasses proposed changes which are consistent with the reserve shortage pricing approach the Commission has previously approved for the ISO New England (“ISO-NE”) and the New York Independent System Operator (“NYISO”); an overall cap on combined energy and reserve prices that is in line with price caps approved for the ISO-NE, NYISO, and Midwest Independent System Operator (“Midwest ISO”); demand-curve pricing (a sanctioned Order No. 719 approach); new rules that allow emergency demand response to set market-clearing prices during emergencies; and, retention of all existing applicable market power mitigation rules, among other provisions.

EPSA supported, with the modifications and clarifications proposed by the PJM Power Providers Group, PJM’s proposed shortage pricing proposal submitted to comply with the directives of Order No. 719. EPSA has previously called for timely implementation of an enhanced shortage pricing mechanism in PJM, and does so here again because it is one of the key components needed to achieve truly price responsive demand. By approving the comprehensive and thoughtfully structured mechanism proposed by PJM, with the P3 modifications, the Commission would facilitate implementation of a more transparent price signal under peak conditions that will allow resources of all types to respond more efficiently and consequently, improve reliability. Such enhancements will benefit all market participants and ultimately, consumers.

### III. CONCLUSION

**Wherefore**, EPSA respectfully requests that the Commission consider the comments herein in rendering its decision in this proceeding. Specifically, EPSA requests that the Commission (1) accept the proposed package of revisions in the PJM PRD Filing; (2) require PJM to submit a Transition Plan for phasing out multiple DR capacity products to achieve its “end-state” vision of a single PRD program; and, (3) expeditiously issue an order accepting, with the modifications requested by the PJM Power Providers Group, PJM’s shortage pricing proposal required by Order No. 719, pending in Docket No. ER09-1063-004.

Respectfully submitted,



---

Nancy Bagot, Vice President of Regulatory Affairs  
Sharon Theodore, Director of Regulatory Affairs  
Electric Power Supply Association  
1401 New York Ave, NW  
12<sup>th</sup> Floor  
Washington, D.C. 20005  
(202) 628-8200  
NancyB@epsa.org

Dated: October 17, 2011

**CERTIFICATE OF SERVICE**

I hereby certify that I have served a copy of the comments via email upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., October 17, 2011.

  
\_\_\_\_\_  
Nancy Bagot, VP Regulatory Affairs