

104 FERC 61,188
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

PJM Interconnection, L.L.C.

Docket No. ER02-1326-006

ORDER ON COMPLIANCE FILING

(Issued August 8, 2003)

1. The Commission accepts a compliance report filed by PJM Interconnection, L.L.C. (PJM) regarding the status of its demand response programs, and requires an additional compliance filing providing further information.

BACKGROUND

2. In an order issued on May 31, 2002,¹ the Commission accepted revisions to PJM's Economic Load Response Program, and directed PJM to file reports on May 31, 2003 and October 31, 2004 evaluating its economic load response program.

3. In the order, the Commission included explicit directions on the type of evaluations that were required. PJM was directed to include the following: (a) the amount of demand response it has elicited; (b) a review and evaluation of its program, including how it can best elicit the maximum possible amount of demand response and whether its current demand response program or programs are the best means of doing that; (c) an evaluation of its trial program for non-hourly metered customers, including whether this program is the best means of obtaining participation by small customers; (d) an examination of whether the level of incentive payments necessary to induce customers to join and remain in the program is still appropriate, or whether PJM can implement incentive programs that more closely respond to and provide market signals; (e) an estimate of the costs and benefits of (1) implementing a compensation program with no incentive provision, (2) continuing the current incentive provision, or (3) enlarging the incentive provision; and (f) an evaluation of the possible methods of obtaining significant amounts of demand response other than by providing financial incentives. The Commission also required PJM to coordinate the filing of its October 31, 2004 report on its economic load response program with its October 31, 2004 report on

¹ PJM Interconnection, L.L.C., 99 FERC ¶ 61,227 (2002) (May 31 Order).

its emergency load response program, either by filing a single report that discussed both programs, or else by ensuring that information relevant to both programs was in both reports.²

4. In subsequent demand response program orders, the Commission required PJM to: (1) include data from the LMP-based customer program in the reports to be filed on May 31, 2003 and October 31, 2004; (2) report on its progress in developing an alternative customer baseline (CBL) method in its October 31, 2004 report; and (3) include an evaluation of its pilot program for non-hourly metered customers in its October 2004 report, which evaluation should contain a detailed explanation of the method used to verify load reductions.³

5. On June 2, 2003, PJM's Market Monitoring Unit (MMU) submitted its May 31, 2003 report to comply with the Commission's directives as outlined in PJM's Economic and Emergency load response program orders.⁴

SUMMARY OF REPORT

6. The report reviewed various aspects of PJM's program, and its use in 2002. The report states that a total of 22 members participated in 2002, with a total of 891 MW of load reduction capability registered in the PJM load response programs. This level of participation was a significant increase from the 220 MW registered in 2001. Of the 891 MW registered in 2002, 343 MW were registered in the economic load response program, and 548 MW were registered in the emergency load response program. Active Load Management (ALM) participants accounted for 298 MW or 33 percent of the total 2002 participation.

7. The report also documents the occasions during which the emergency and economic options were implemented – the economic program was implemented on the same days as the emergency program on July 3; July 29; and August 14, 2002, in addition to 27 other days during the summer. The maximum load reduction achieved by the Emergency Load Response program was 76 MW on July 3, 2002, and the maximum load reduction achieved in the Economic Load Response program was 101 MW on August 2, 2002. With regards to the July 3, 2002 load reduction, the report recognizes that the

² May 31 Order at 61,939.

³ See *PJM Interconnection, L.L.C.*, 101 FERC ¶ 61,308 P 15 (2002); *PJM Interconnection, L.L.C.* 103 FERC ¶ 61,167 at P 47 (2003); and *PJM Interconnection, L.L.C.* 103 FERC ¶ 61,365 at P 18 (2003).

⁴ May 31 Order; *PJM Interconnection, L.L.C.*, 99 FERC ¶ 61,139 (2002).

marginal value to the system of the load reduction was less than the \$500 per MWh paid to resources for reducing load under the Emergency Program. The report asserts, however, that the system operators made a reasonable decision to call on the emergency load response program based on the facts available to them, although it concedes it “could have done a better job of load forecasting” on July 3, 2002 (Report at 10).

8. The report estimated that the impact on market clearing prices from all demand response programs to be between \$35/MWh and \$160/MWh, depending on the methodology used to estimate price impacts. In addition to the review of participation and load and price impact, the report also discussed program implementation issues, participant reaction to PJM’s implementation of the Load Response programs, current working group initiatives, and a limited evaluation of the effectiveness of the Load Response programs.

DISCUSSION

9. The Commission noticed PJM's June 2 report, with interventions and protests due on or before June 23, 2003.

10. Public Service Electric and Gas Company, PSEG Power LLC and PSEG Energy Resources & Trade LLC (PSEG Companies) timely filed comments.

11. PSEG Companies assert that the data presented in PJM’s report show that the incentive PJM paid for load reductions under both the economic and emergency programs exceeded the value of those reductions to the system. With respect, specifically, to July 3, 2002, PSEG Companies complain that on July 3, 2002, the emergency program was implemented for 7 hours during which the average payment to demand resources was \$517 per MWh. PSEG Companies point out that actual system average hourly LMPs ranged between \$66 and \$147 per MWh during this period. PSEG Companies further allege that according to the emergency load response program rules, PJM may only initiate the request for load reduction following the declaration of a Maximum Emergency Generation, but it appears that PJM may have implemented the emergency program on occasions when a Maximum Emergency Generation declaration was not warranted. PSEG Companies argue that the Commission should ensure that PJM develops better rules for implementing the emergency program, particularly given the availability of ALM and the economic program for load reduction.

12. PSEG Companies further urge the Commission to direct PJM to allow load response to set the market clearing price, as has recently been approved for the New York Independent System Operator’s (NYISO's) customer load response programs. Finally, PSEG Companies assert PJM has ignored its stakeholder process, particularly its Demand Response Working Group, in formulating and filing proposed amendments to its load

response programs,⁵ and asks the Commission to direct PJM to use its established stakeholder process, including the DRWG, for future load response program amendments.

13. The level of information contained in the report on the amount of demand response that both the Emergency and Economic program has elicited complies with the direction in the May order. PJM has done a good job of identifying the size of the load reductions, and in indicating the interaction between Active Load Management (ALM) resources and the other PJM programs. However, the report fails to include all of the information required by the May 31 Order, and, as discussed below, the Commission is requiring PJM to file another report on or before December 31, 2003.

14. The preponderance of the analysis presented in the report is focused on the Emergency Load Response Program. While the Commission appreciates the information provided on the Emergency program, the focus of the May 31, 2003 report was intended to be on the Economic Program. The Commission therefore directs PJM to refile its Economic Program evaluation on or before December 31, 2003, which should allow PJM to examine any additional participation and load reductions that may occur in Summer 2003. For the October 31, 2004 report, the Commission further requires that PJM provide the same level of detail on its program that we required of ISO New England in our February 25th order.⁶

15. Moreover, PJM only complied with the “review” aspect of the May 31 Order’s directive with regards to the Economic Load Response program. It did not provide the analysis required by the May 31, 2002 order, including how PJM can “best elicit the

⁵ PSEG Companies assert that on May 1, 2003, PJM filed proposed revisions to its demand response program for non-hourly metered customers, increasing the number of customers who could participate in that program, which revisions were developed outside the DRWG and only cursorily presented to the Energy Market Committee, and presented to the Members’ Committee only on May 1, 2003 -- the same day that PJM filed the tariff amendments with the Commission.

⁶ISO New England, Inc., 102 FERC ¶ 61,202 at P 19 (2002) (“at a minimum, these filings must include (a) information on customer enrollment for each Load Response program in terms of the number of customers and total potential load reduction in MWs, and (b) information on total load reductions achieved per program per event during the prior six-month period, including ISO-NE system load at time of curtailments, total MWs reduced, total payment for reductions, and effects of the demand response programs on wholesale prices”). Except for the lack of information on PJM system load at time of curtailments, the PJM report largely complies with the requirements we placed on ISO New England.

maximum possible amount of demand response and whether its current demand response program or programs are the best means of doing that.”⁷ PJM has provided only a single paragraph of evaluation of the economic load response program. Thus, it has failed to comply with this directive,⁸ and the Commission directs PJM to conduct this evaluation when it refiles its Economic Load Response program evaluation report on December 31, 2003.

16. As the MMU notes in its report, it was unable to evaluate its trial program for non-hourly metered customers, since there was no participation in this program in 2002. As the Commission directed in its April 2002 Emergency Program order,⁹ it looks forward to the full evaluation of the non-hourly metered customer trial program in the October 31, 2004 evaluation report. However, in this report, PJM did not evaluate the reasons for the lack of participation in the non-hourly metered program, nor did it evaluate whether this program was the best means of obtaining participation by small customers. The Commission directs PJM to address these issues in its December 31, 2003 report.

17. PJM also did not examine, as required by the May 31, 2002 order, whether the level of compensation that is still necessary to induce customers to join and remain in the program is still appropriate, or whether PJM can implement compensation programs that more closely respond to and provide market signals. PJM only partially complied with the Commission’s directive to “estimate, as closely as possible, the costs and benefits of (i) implementing a compensation program with no incentive provision (ii) continuing the current incentive provision, or (iii) enlarging the incentive provision.”¹⁰ PJM discussed in general terms the need to carefully consider the costs and benefits of participation, and only discussed these costs and benefits in the context of the Emergency Program and the ALM program, not the Economic Program. PJM instead stated that they will conduct this evaluation in its annual report on the Load Response Programs to be filed after the summer of 2003. The Commission directs PJM to include a full estimate of the costs and benefits of the Economic Program in the refiled compliance report. Additionally, PJM

⁷ May 31 Order at 61,939.

⁸As the MMU recommends in its report , PJM must make further attempts to evaluate the reasons for activity and lack of activity under the Economic Program. See Report at 12 (“Clearly, part of the issue for Economic Program response in 2002 was that prices were lower in 2002 than in 2001 and that there were fewer high price hours in 2002 than in prior years. Targeted surveys and focus groups are essential to understanding program usage and therefore to improving program design”).

⁹PJM Interconnection, L.L.C., 99 FERC ¶ 61,139 (April 30, 2002) (April 30 Order).

¹⁰May 31 Order at 61,393.

did not evaluate possible methods of obtaining significant amounts of demand response other than by providing financial incentives, and the May 31 report does not examine or address any other methods. The Commission directs PJM to conduct this analysis and include it in the refiled compliance report.

18. PSEG Companies contend that the data presented by the MMU show that the incentives paid by PJM exceed the value of the demand reductions to the system, pointing particularly to the Emergency Load Response payment on July 3, 2002, which significantly exceeded the system LMPs for the hours involved. On this basis, PSEG asks the Commission to order PJM to develop better rules for implementing the Emergency Program.

19. With regard to implementation of the emergency program on July 3, 2002, PJM itself acknowledges that the marginal value to the system was less than the amount paid to resources for reducing load. PJM asserts, however, that the system operators made a reasonable decision to call on the emergency load response program based on the facts available to them, although PJM concedes that it “could have done a better job of load forecasting” on July 3, 2002 (Report at 10). Subsequently, in its compliance report filed in Docket No. ER03-807-001 on July 28, 2003, PJM states that the PJM Operating Committee has already addressed this incident and determined that PJM’s operators “acted too conservatively” by activating the Emergency Program too far in advance of the anticipated need (and prior to the declaration of a Maximum Generation Emergency).¹¹ The Operating Committee also concluded that, as a practice, PJM should call for load reductions under this program closer in time to the anticipated emergency conditions.

20. The Commission recognizes that the PJM dispatchers' issuance of a Maximum Emergency Generation varies depending upon prevailing or forecasted system conditions, and because emergency conditions can change rapidly, some emergency activities may not occur as intended. We also recognize that PJM has already taken steps to address the problem of activating the Emergency Program too soon. The Commission agrees with PSEG Companies, however, that a clearer understanding of when load reductions are called for under the Emergency Program is necessary. Consequently, the Commission directs PJM to file in its December 31, 2003 refiled compliance report a detailed description and assessment of the procedures adopted to initiate curtailments in the Emergency Load Response program pursuant to the Operating Committee’s conclusion that PJM should only initiate a call for load reduction closer in time to anticipated emergency conditions.

¹¹ July 28, 2003 Compliance Report in Docket No. ER03-807-001 at 2.

21. Further, since we recognize that PJM has already begun to address the problems of how to time the activation of its Emergency Program,¹² we would like PJM to have some experience with the retooled Emergency Program before giving us more information. Therefore, we will require PJM, in its filing ordered in our April 30 Order,¹³ to compare its Economic Program with the Emergency Program as now changed. Specifically, in its filing as ordered in the April 30 Order, PJM must evaluate the economic value of the demand response elicited through the Emergency Program and the economic value of the demand response elicited through the Economic Program, and compare the relative value of the two programs to the system. We also encourage PJM through its stakeholder process to evaluate recommendations proffered by the DRWG and other groups.

22. Finally, we agree with PSEG Companies that PJM should evaluate its emergency load response program provisions to consider whether its emergency load response participants should be able to set the market clearing price, consistent with the NYISO demand response program.¹⁴ We direct PJM to assess whether this revision to its market rules can be implemented by Summer 2004 in the December 31, 2003 compliance report.

The Commission orders:

- (A) PJM's report filed on June 2, 2003 is accepted.
- (B) PJM is directed to make a further filing on December 31, 2003, as discussed above.

¹² See July 28, 2003 Compliance Report in Docket No. ER03-807-001 at 2.

¹³ We previously ordered PJM to terminate its emergency program on December 1, 2004 and to file new tariff sheets continuing or modifying the program. April 30 Order at 61,575.

¹⁴ New York Independent System Operator, 103 FERC ¶ 61,339 (2003).

- (C) When PJM makes its October 31, 2004 report, it must compare its Emergency Program with its Economic Program, as discussed above.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.