

139 FERC ¶ 61,165
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

PJM Interconnection, L.L.C.

Docket No. ER12-1372-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued May 31, 2012)

1. On March 28, 2012, PJM Interconnection, L.L.C. (PJM) filed, pursuant to section 205 of the Federal Power Act (FPA),¹ revisions to the PJM Open Access Transmission Tariff (Tariff) and Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (Operating Agreement) to support sub-Zonal dispatch and recognize the expanded selection of Demand Resource² products, and make minor conforming and clarifying changes. PJM requests an effective date for its tariff revisions of June 1, 2012. The Commission accepts PJM's proposed revisions, effective June 1, 2012, as requested.

I. Background

2. On January 31, 2011, the Commission accepted PJM's proposed Tariff and Reliability Assurance Agreement revisions to establish alternative demand response products, effective February 1, 2011, subject to compliance and informational filings.³ In

¹ 16 U.S.C. § 824d (2006).

² In PJM, a demand resource is a resource with a demonstrated capability to provide a reduction in demand or otherwise control load, and that offers and clears the load reduction capability in a PJM capacity auction or through a Fixed Resource Requirement capacity plan. PJM RAA, Article 1, section 1.13 (Demand Resource).

³ *PJM Interconnection, L.L.C.*, 134 FERC ¶ 61,066 (2011) (January 31, 2011 Order). The January 31, 2011 Order resulted in the establishment of the Annual Demand Resource and Extended Summer Demand Resource alternative products, in addition to the existing Limited Demand Resource product.

response to parties' comments that PJM should consider a more efficient dispatching of Demand Resources, the Commission directed PJM to submit an informational filing to inform the Commission of the outcome of stakeholder discussions regarding current Demand Resource dispatch procedures.⁴

3. In the informational filing submitted on August 1, 2011, PJM reported that it worked with stakeholders to add to its operational rules a more focused sub-Zonal dispatch process to improve the efficiency of PJM's dispatch of demand resources. PJM stated that, for the 2011-2012 Delivery Year, it implemented the option to dispatch by state within a Zone⁵ and also predefined four sub-Zones within four Zones. PJM noted that it implemented the new sub-Zonal dispatch procedure during an emergency event in the Norfolk area of the Dominion Zone on May 26, 2011 which enabled PJM to call on only 261 megawatts of emergency load response to resolve the event rather than calling on the full 1006 megawatts available in the Dominion Zone. PJM stated that stakeholders would continue to discuss ways to enhance the dispatch process for sub-Zonal events for the 2012-2013 Delivery Year and beyond.

II. Details of the Filing

4. PJM states that the instant filing reflects tariff changes favored by over 93 percent of PJM Members that support PJM's existing sub-Zonal dispatch, recognize the expanded selection of Demand Resource products, and make minor conforming and clarifying changes.

A. Emergency Load Response Program Changes

5. PJM states that it currently uses an "All-Call" telephone-based method to issue directives to Demand Resources in emergency situations. To better support more targeted dispatch of Demand Resources, PJM proposes to amend the Emergency Load Response Program section of the Tariff and Operating Agreement⁶ to require Curtailment Service Providers (CSPs) to have the capability to receive electronic dispatch signals from PJM. PJM argues that this requirement will provide an efficient means to notify

⁴ *Id.* P 72.

⁵ PJM states that six Zones—AEP, APS, DPL, DOM, PEPCO, and ATSI—encompass multiple states (or the District of Columbia).

⁶ PJM OATT, Attachment K – Appendix, PJM Emergency Load Response Program, 5.0.0.; PJM Operating Agreement, Schedule 1 – ELRP Emergency Operations, 1.1.0.

Demand Resource providers of the registrations PJM is seeking performance from, and will provide confirmation for PJM of which resources have received the dispatch directive and will perform.

6. PJM also explains that the statement in the Tariff and Operating Agreement that PJM will dispatch Emergency Load Response resources based on the Minimum Dispatch Prices specified at registration is no longer accurate. Accordingly, PJM proposes to revise the Tariff and Operating Agreement to state that PJM will dispatch Emergency Load Response resources based on the availability, location, and/or quantity of load reduction needed. PJM also proposes to revise the Tariff to more accurately describe when it calls for Emergency Load Response.

B. Demand Resource Compliance Penalty Charge Changes

7. PJM states that section 11 of Attachment DD of the Tariff⁷ assesses a penalty charge if a Demand Resource provider cannot demonstrate the hourly performance of its resource in real-time based on its capacity commitment. PJM proposes to amend section 11(a) to reflect that the response to sub-Zonal dispatch is voluntary for the first two Delivery Years and therefore there is no penalty for non-performance. Following the two-year transition period, PJM proposes that Demand Resources be exposed to compliance charges for inadequate response to sub-Zonal dispatch only if the sub-Zone is defined and posted the day before the Load Management event. PJM asserts that this two-year transition period provides CSPs ample time to make arrangements to avoid financial consequences for non-performance.

8. PJM states that the possibility of registration-level dispatch⁸ requires conforming changes in the Reliability Pricing Model (RPM) compliance charge provisions. In particular, PJM proposes amendments to section 11(b), concerning calculation of a Demand Resource provider's net compliance in a Zone with a Demand Resource dispatch directive. Thus, to determine compliance penalty charges for failures to perform in response to a sub-Zonal dispatch, PJM states that net zonal under compliance for the event will be prorated to individual under compliant registrations based on performance of each registration in order to determine net under compliance. In addition, PJM proposes changes to section 11 to clarify that, since PJM may dispatch only some of a

⁷ PJM OATT, Attachment DD, Section 11, Demand Resource and ILR Compliance Penalty Charge, 3.0.0.

⁸ The proposal passed by stakeholders provided for dispatch based on the end-users aggregated on a registration by the CSP at the time it registers, rather than specific end-users based on their specific location.

CSP provider's resources in a Zone, compliance is only measured for the resources PJM dispatches.

9. Finally, PJM proposes two revisions to better distinguish the three Demand Resource products (Annual Demand Resource, Extended Summer Demand Resource and Limited Demand Resource products). PJM proposes revisions to make clear that the penalties assessed under sections 11 (focused on non-performance of commitments) and 8 (focused on ability to honor commitments) on a single type of Demand Resource product will be netted. PJM also revises section 11(b) to distinguish the billing and settlement for Limited Demand Resource compliance charges from that of Annual and Extended Summer Demand Resources.

C. Demand Resources Test Failure Charge Changes

10. PJM states that current section 11A of Attachment DD of the Tariff⁹ assumes that, if a resource is dispatched but does not perform, it does not need to be tested or penalized under section 11A because the call to reduce has already tested the resource and its failure to respond will have already been penalized under section 11(b).¹⁰ PJM states that section 11A will not apply to a resource during the two-year transition period. Accordingly, PJM proposes to revise section 11A to state that if a Limited Demand Resource is dispatched during its availability periods during the two-year transition and it performs at or above the nominated amount of capacity in the applicable registrations, then no test will be required and there will be no test failure charge for that registration. In addition, consistent with PJM's change to allow dispatch of Demand Resources at the "registration" level, PJM proposes to clarify that registrations that are dispatched are not required to perform an annual test. Finally, PJM proposes to revise section 11A to clarify that tests, test calculations of test shortfalls, and the test failure charge rate shall all be determined for each Demand Resource product type in the relevant Zone.

III. Notice and Responsive Pleadings

11. Notice of PJM's Filing was published in the *Federal Register*, 77 Fed. Reg. 20,816 (2012), with protests and interventions due on or before April 18, 2012. Motions to intervene were filed by Viridity Energy, Inc.; Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (Market Monitor); Duke Energy

⁹ PJM OATT, Attachment DD, Section 11A, Load Management Test Failure Charge, 2.0.0.

¹⁰ PJM OATT, Attachment DD, Section 11, Demand Resource and ILR Compliance Penalty Charge, 3.0.0.

Corporation; American Municipal Power, Inc.; and Old Dominion Electric Cooperative. A motion to intervene and protest was filed by EnergyConnect, Inc. (EnergyConnect). A motion to intervene and comments were filed by Exelon Corporation (Exelon).

12. On May 3, 2012, PJM filed an answer to EnergyConnect's protest. On May 4, 2012, the Market Monitor filed an answer to EnergyConnect's protest. On May 17, 2012, EnergyConnect filed an answer to PJM's and the Market Monitor's answers.

A. Protest and Comments

13. In its protest, EnergyConnect asserts that sub-Zonal dispatch disrupts the balance in risk and compensation that had previously been agreed upon and approved under PJM's RPM, and undermines CSPs' ability to aggregate customers and to "hedge" performance. EnergyConnect argues that PJM has failed to demonstrate that sub-Zonal dispatch is needed to meet peak hour demand. EnergyConnect also argues that PJM acknowledges in its filing that its sub-Zonal dispatch proposal is intended to address transmission constraints, but PJM's RPM, under which Demand Resources are supposed to be made available to PJM for emergency conditions, makes no mention of providing services for these sorts of transmission problems.

14. EnergyConnect states that sub-Zonal dispatch undermines aggregation because it reduces the pool of customers called on to address an event, which increases the possibility that underperformance by one customer cannot be offset by overperformance by another.

15. EnergyConnect claims that sub-Zonal dispatch harms Demand Resources but not generators, and therefore PJM's proposal creates an undue preference for generation. EnergyConnect explains that, while generation regularly results in an increase in revenue for each dispatch, for most Demand Resources each dispatch results in a reduction of net revenue for providing capacity service.

16. Finally, EnergyConnect asserts that PJM's proposal to notify demand response participants of proposed sub-Zones the day before the Load Management event creates an undue hardship on CSPs because one day's notice is not enough time to re-program dispatch instructions sub-Zonally. EnergyConnect states that the fact that the filing is supported by a supermajority of stakeholders does not cure its flaws, and requests that the Commission reject PJM's Filing or suspend the tariff sections for the maximum statutory period and set the matter for technical conference or settlement judge procedures.

17. In its comments, Exelon states that PJM's Filing will streamline the dispatch process, facilitate timely response of demand response, and ensure improved compliance of demand response with performance requirements. Exelon contends that the changes are reasonable, not burdensome on demand response providers, and reflect the will of a supermajority of PJM stakeholders.

B. Answers

18. In its answer, PJM asserts that EnergyConnect's arguments against sub-Zonal dispatch are outside the scope of the proceeding and baseless. PJM contends that sub-Zonal dispatch helps, not harms, Demand Resources by limiting PJM's calls for load reductions when they are not helpful to resolving the system conditions. PJM explains that nothing in its filing proposes to change the circumstances under which Demand Resources may be dispatched or any of the limitations on the number or duration of occasions on which PJM's demand response products maybe dispatched. PJM disagrees with EnergyConnect's suggestion that sub-Zonal dispatch requires Demand Resources to perform without compensation, arguing that Demand Resources receive energy payments when they are dispatched in addition to the capacity payments to which Demand Resources are entitled.

19. PJM contests EnergyConnect's claim that sub-Zonal dispatch is unduly discriminatory against Demand Resources because dispatch results in a reduction of net revenue for Demand Resources. It asserts that any rational provider of demand response that submits a capacity bid in RPM will perform an assessment and only bid a price less than the value of the consumption the end-user must forgo to perform if its bid clears.

20. PJM responds to EnergyConnect's protest regarding the one-day notice period by asserting that the two-year transition period will allow Demand Resource providers ample time to implement any necessary arrangements and implementation of electronic notification will allow Demand Resource providers to automate their notification to each end-use customer. PJM explains that the one-day notice period provides the RTO with greater flexibility in targeting and efficiently resolving emergency conditions.

21. In its answer to EnergyConnect's protest, the Market Monitor asserts that the Commission should approve PJM's proposal without delay, except for the proposed two-year transition period. The Market Monitor asserts that sub-Zonal dispatch avoids wasteful and unnecessary calls on Demand Resources. The Market Monitor disagrees with EnergyConnect that PJM's proposed revisions discriminate against Demand Resources versus generation, explaining that both generators and Demand Resources have obligations to deliver energy or curtail energy in emergencies based on the same capacity product. Likewise, the Market Monitor disagrees that the revisions discriminate amongst customers participating in a demand response portfolio, arguing that if customers do not want to provide capacity at a sub-Zone at the prevailing market price because it is not economic for them to participate, then they should not sell capacity and accept payments for capacity. The Market Monitor also argues that EnergyConnect is incorrect in assuming that sub-Zonal dispatch will increase the incidence of emergency events and that sub-Zonal dispatch will hurt aggregation. However, the Market Monitor argues that the two-year transition period serves no useful purpose because sub-Zonal

dispatch is already used by PJM and will cause a degradation of PJM's current dispatch capabilities for no valid reason.

22. In its answer to PJM's answer and the Market Monitor's answer, EnergyConnect reiterates that mandatory sub-Zonal dispatch requires Demand Resources to provide an additional service without adequate compensation because provision of transmission support is not contemplated by the RPM. EnergyConnect disagrees with the Market Monitor's assertion that sub-Zonal dispatch can increase reliability and improve market efficiency. EnergyConnect argues that PJM disregards the fact that Demand Resources are generally less well-off for each dispatch event and explains that each Demand Resource must assess the probability of lost hourly production due to capacity events because each event represents a loss of productivity. Finally, EnergyConnect notes that it would be acceptable to EnergyConnect if PJM's sub-Zonal dispatch proposal was on a voluntary basis only and proposes alternative tariff language.

IV. Discussion

A. Procedural Matters

23. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹¹ the timely, unopposed motions to intervene serve to make those that filed them parties to this proceeding.

24. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure,¹² prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept PJM's, the Market Monitor's, and EnergyConnect's answers because they have provided information that assisted us in our decision-making process.

B. Substantive Matters

25. As discussed below, we find that PJM's proposed revisions to the Tariff and Operating Agreement are just, reasonable, and not unduly discriminatory. The proposed changes support PJM market operations during emergency events by, among other things, facilitating timely response of Demand Resources and improved compliance with performance requirements. Accordingly, we will accept PJM's proposed revisions to become effective on June 1, 2012.

¹¹ 18 C.F.R. § 385.214 (2011).

¹² 18 C.F.R. § 385.213(a)(2) (2011).

26. The Commission previously encouraged PJM to consider how it could make dispatch of Demand Resources more efficient and instructed PJM to submit an informational filing regarding its progress with stakeholders in this effort.¹³ Following the Commission order, PJM developed and implemented dispatch improvements, including sub-Zonal dispatch, for the 2011-2012 Delivery Year. The instant filing makes supporting changes to the existing practice of sub-Zonal dispatch.

27. EnergyConnect protests these supporting changes by noting various alleged problems with sub-Zonal dispatch. However, this is not the issue before the Commission in this proceeding. Sub-Zonal dispatch is permitted under the existing Tariff because the Tariff does not restrict PJM to a particular type of dispatch and refers to the PJM Manual for Emergency Operations for operational procedures.¹⁴ Consistent with this, PJM Manual 13 specifies that a PJM dispatcher will request CSPs to implement Emergency Mandatory Load Management Reductions for the entire PJM RTO, specific Transmission Zones, or a subset of a Transmission sub-Zone.¹⁵ The issue before the Commission is the justness and reasonableness of the proposed revisions, which are limited to supporting existing sub-Zonal dispatch and Demand Resource products with changes such as requiring CSPs to be able to receive electronic notifications from PJM in order to streamline emergency response and adjustment of penalty charges and testing requirements to acknowledge the two-year transition period. With the exception of the one-day notice provision, which is addressed below, EnergyConnect fails to raise any issue with respect to any specific revision proposed by PJM in this filing.

28. With respect to PJM's one-day notice provision, we disagree with EnergyConnect's claim that the provision is unjust and unreasonable. As PJM explains, the one-day notice provision will provide greater flexibility in targeting and efficiently resolving emergency conditions, and the two-year transition period should allow Demand Resources adequate time to make any arrangements needed to be able to perform as committed upon receipt of a signal from PJM. Furthermore, implementation of electronic notification for each registration that must respond to a sub-Zonal event will allow CSPs to automate their notification to each end-use customer and thereby make compliance faster and easier. Finally, EnergyConnect has not shown that it would be a hardship for

¹³ January 31, 2011 Order, 134 FERC ¶ 61,066 at P 72.

¹⁴ PJM OATT, Attachment K-Appendix, PJM Emergency Load Response Program, 5.0.0. (Emergency Operations).

¹⁵ PJM Manual 13: Emergency Operations, 2.3.2 Real-Time Emergency Procedures (Warnings and Actions), p. 19.

Demand Resources to respond in compliance to the proposed provision. Accordingly, we accept PJM's proposal.

29. Finally, we disagree with the Market Monitor's assertion that the two-year transition period serves no useful purpose because sub-Zonal dispatch is already used by PJM, and will cause a degradation of PJM's current dispatch capabilities. As PJM states, it is reasonable to have a two-year transition period to allow CSPs time to put in place arrangements with their registered end-users to better ensure that they will be able to perform as committed and to become familiar with sub-Zonal dispatch. As discussed above, the two-year transition period will also help Demand Resources to comply with the one-day notice provision. Furthermore, PJM will still have sub-Zonal dispatch available to it for use during emergency events during the two-year transition period; it simply will not impose penalties for non-performance during that period.

The Commission orders:

PJM's proposed Tariff and Operating Agreement revisions are hereby accepted, effective June 1, 2012, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.