

PLANNED DEMAND RESPONSE

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PSEG Companies

- Public Service Electric and Gas Company
 - Largest electric and gas utility in the State of New Jersey
 - Provides service to 2.2 million electric customers and 1.8 million gas customers
 - Owns 1,461 miles of FERC regulated transmission facilities
 - Operates 85 MW A/C cycling program as a Demand Resource
- PSEG Power LLC
 - Owns and operates generating assets in 4 states
 - 11,500 MWs in New Jersey and Pennsylvania (PJM)
 - 750 MWs in New York (NYISO)
 - 850 MWs in Connecticut (ISO-NE)
- PSEG Energy Resources & Trade LLC
 - Commercial arm of PSEG Power LLC
 - ER&T is one of the most successful trading organizations in the US, consistently top tier with over 60 million MWhs traded annually
 - Supplier of “provider of last resort” service in New Jersey

Securing Physical Replacement Capacity in the Incremental Auctions to Cover Base Residual Auction Capacity Commitments Based on Non-physical Offers Has Adverse Reliability Impacts and Is Not Sustainable

- Offering non-physical MWs into the Base Residual Auctions degrades the effectiveness of RPM to meet reliability standards:
 - A fundamental premise of the RPM market design is that physical resources will be offered into the BRAs
 - Non-physical bids in the BRAs suppress BRA price signals and effectively shift demand into IAs that occur too close to the DY for new generation to participate if new entry is needed
 - Surplus physical replacement capacity cannot be assumed to be available especially as reserve margins tighten due to generation retirements and economic recovery
- Non-physical offers have similar impacts regardless of the underlying intent or purpose of the offers

Due Diligence of The Capacity Value of DR Sell Offers Should Be Enhanced

- Generation capacity is subject to much more extensive reliability oversight than DR capacity even though the capabilities of generation are well documented over years of performance

Generators

- Owner/operator must have site control (L/D contracts not allowed)
- “Must Offer” obligations
- NERC requirements
- Strict monitoring of capacity value of individual generators
- Significant milestones and expenditures to bid Planned Gen

Capacity DR Portfolios

- CSP typically has non-firm or limited recourse contract with site
- No “Must Offer” obligations
- No NERC requirements on pure DR
- No monitoring of capacity value of DR sites or CSP portfolios
- Sell Offer Plans to bid Planned DR; milestones not enforced

More rigorous validation of DR Sell Offers is necessary for the due diligence of DR capacity value to be comparable to the standards applied to generation

PJM Needs the Tools, Time and Authority to Determine Whether Planned DR Qualifies as a Physical Resource

- Current PJM tariff already requires that CSPs have contracts with DR customers *prior to* offering into BRAs *and should be enforced*
- August 2nd Filing retreats from the current tariff standards and:
 - Lacks sufficient standards or enforcement mechanisms for Planned DR procurement milestones
 - Lacks clarity regarding PJM authority to evaluate DR Offer Plans and fails to provide sufficient time for PJM staff review
 - Includes a trigger for requiring specific customer information that is overly permissive
 - Allows “cherry picking” of Planned DR customers for which customer specific information is required
 - Includes an unsupported 10 MWs exemption

“[T]he . . . rules are clear that a Demand Resource offer must be grounded in an expectation to provide a resource with the physical load reduction attributes specified in the [PJM] governing documents”

PJM September 13, 2013 filing, p. 6

Recommendations

- The Commission should direct PJM to enforce the current tariff provision requiring that DR resources be supported by contracts with DR customers in advance of the BRA
- At a minimum, PJM's DR Enhancement Filing should be revised to provide stronger assurances that Planned DR offers in the BRA will ultimately result in physical delivery