**UNITED STATES OF AMERICA**

**BEFORE THE**

**FEDERAL ENERGY REGULATORY COMMISSION**

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| PJM Interconnection, L.L.C | ::: |  Docket No. ER13-486-000 |

**COMMENTS**

**SUBMITTED ON BEHALF OF**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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# INTRODUCTION AND BACKGROUND

 On November 30, 2012, PJM Interconnection, L.L.C. (PJM), pursuant to section 205 of the Federal Power Act (FPA), submitted revisions to its Open Access Transmis­sion Tariff (application) to establish an additional test to identify the commitment level of the PJM demand resource capacity product with the most limits on its availability (known as Limited Demand Response or Limited DR). Among other things, PJM’s application remarks that this filing supports the PJM Region’s continued reliance on Limited DR as a capacity resource, while enhancing PJM’s ability to identify at what point it might be over-relying on a product with express limitation on when, and how often, it must respond to PJM’s dispatch.

 PJM notes that its application: (1) reviews how PJM arrived at its current market rules that allow for three different demand resource capacity products, each with different limits on their required response; (2) describes how PJM identified the need for a third test to determine the Limited DR Reliability Target; (3) describes the third test for Limited DR and how it is incorporated into the tariff revisions; (4) shows that had the third test been in place for the last PJM Reliability Pricing Model auction, it would have had minimal market impact; and (5) discusses concerns about the proposed changes raised in the stakeholder process.

 PJM explains in its application that its market rules currently allow three demand response products: Limited DR, Extended Summer DR, and Annual DR. Limited DR, the most limited product, is required to respond to PJM calls for load reductions no more than 10 times during each summer period of June through September; and is required to provide a load reduction for no longer than six hours each time it is called. Extended Summer DR is required to respond for an unlimited number of interruptions for up to 10 hours for each event during May through October. By contrast, Annual DR is required to respond on any day of the year for an unlimited number of interruptions for up to 10 hours for each event. PJM further explains in its application that the minimum require­ments placed on Limited DR were beginning to create reliability concerns as the product was rapidly increasing its share of total capacity resources. Therefore, PJM filed at FERC, in December 2010, a request to set a level of Limited DR commitment in the RPM capacity auctions (*i.e*., the Limited DR Reliability Target) that would trigger the payment of higher prices to less-limited resources, as an incentive to induce commitment of the other DR products and to reduce PJM’s relative reliance on Limited DR. PJM proposed to accomplish this objective by establishing two tests that assess two independ­ent limits on Limited DR’s required response. On January 11, 2011, FERC approved PJM’s proposed tests for determining the Limited DR Reliability Target.

 PJM’s November 30, 2012 application maintains that the current procedures for determining the Limited DR Reliability Target do not measure the probability of needing Limited DR for a seventh hour during a single event, thus the two current tests do not assess all risks associated with the duration limit on Limited DR. PJM proposes a third additional test that assesses the likelihood of requiring Limited DR in a seventh hour. Specifically, PJM’s application indicates that it will determine the level of Limited DR (as a percentage of peak load) at which there is a 90 percent probability that PJM will not have to call Limited DR to perform for more than six hours over any peak day. In other words, if this new test is adopted, PJM can be 90 percent confident that it will not need to call on Limited DR for more than six hours on any given summer day. PJM’s application further explains that, consistent with the current method, PJM will set the Limited DR Reliability Target as the lowest of the results under the three tests.

 On December 10, 2012, the Public Utilities Commission of Ohio (PUCO or Ohio Commis­sion) filed its motion to intervene in this docket and is consequently a party to this investigation. Comments in this proceeding are due on or before December 21, 2012. The PUCO hereby submits its comments responding to the PJM’s proposed appli­cation to revise the Limited DR Reliability Target.

# DISCUSSION

 The Ohio Commission agrees with a majority of PJM’s stakeholders and supports PJM’s application to subject its Limited DR product to an additional third reliability test to ensure that its capacity reliability objectives are realized. Specifically, the Ohio Com­mission observes that, as noted in the PJM’s application, the proposed additional new seven-hour probability test will result in a reduction of the Limited DR product RPM participation to four percent from 4.8 percent.

 The Ohio Commission notes, however, that while this new additional parameter will enhance reliability, it will have little impact on the overall availability of other limited DR products because no additional limits are proposed for the Extended Summer DR product. Specifically, as noted in PJM’s appli­cation, a majority of DR bids made in the Reliability Pricing Model (RPM) Base Resid­ual Auction (BRA) are submitted as linked offers. Consequently, when the new four per­cent threshold for the Limited DR product is realized, the offers will simply move through linked offers to fur­nish the next more limited resource (*i.e*., the Extended Summer Resource). The Ohio Commission believes there is too much reliance on DR products other than Annual DR.

 The Ohio Commission maintains that the unlimited Annual DR product has an important and valuable role in ensuring reliability via its role in the RPM BRA as an ele­ment in the capacity resource mix, as does generation and energy efficiency. The Ohio Commission is concerned, however, that the Limited and Extended Summer DR products are contributing to DR oversaturation to the overall detriment of reliability because these resources have fewer obligations to deliver, as compared to the actual generation and the unlimited Annual DR product. That is, to place limited DR products on par with genera­tion capacity resources as if they possess identical characteristics could ultimately harm reliability.

 The Ohio Commission maintains that it should be incum­bent on FERC, in the near future, to initiate a rulemaking investigation to review whether it should significantly reduce or begin the phase out of the availability of all reduced DR capacity resources (*i.e*., the Limited and Extended Summer DR products). That is, FERC should review whether all capacity products participating in the RPM BRA should ultimately be subject to the same availability requirements as generation, in that they must be able to respond on par with generation. FERC’s investigation also should work to ensure that penalties for nonperformance are uniform for both DR and generation and such penalties are suffi­ciently stringent to ensure that all capacity resources meet their respective obli­gations for delivery. Moreover, the Ohio Commission maintains that this proposed investigation be expanded to determine whether: (1) the DR buy-back rules should be strengthened to ensure against abuse or the situation where DR participation in the RPM BRA becomes simply a monetary windfall; and (2) whether credit requirements for finan­cial-only DR participants are significantly adequate to cover commitments in the event of a default. The Ohio Commission recommends that any such decision in this proposed investigation be issued in time for PJM to include the new requirements in PJM’s 2017-2018 auction parameters.[[1]](#footnote-2)

 Until the reduction or phase out of the Limited and Extended Summer DR products is effectu­ated, in the near term (*i.e*., prior to the release of the 2016-2017 auction parameters), it is recommended that PJM and FERC move to reduce significantly the level of compensa­tion for the Limited and Extended Summer DR products, because as noted earlier, these products are not on par with generation capacity resources. Currently, the Extended Summer and Limited DR products are only nominally dis­counted at approximately 10 and 15 percent of the RPM clearing price, respectively. Compensating limited DR products at nearly full capac­ity prices is uneconomic in that it distorts BRA market outcomes. Until FERC can phase out these lesser DR products, FERC should move in the short term to reduce the annual compensation to DR capacity resources available on a limited basis. For example, because the Extended Summer product is only required to be made available at 10 hour increments for an unlimited number of interrup­tions for a six-month period, FERC and PJM should review whether the full capacity clearing price should be adjusted downward to take into consideration that the product is only available as a capacity resource for a limited number of hours. FERC should also con­sider whether the Extended Summer DR product should be compensated only for the six-month period that the product is made available for delivery.

 Likewise, because the Limited DR product is only required each delivery year to be made available 10 times for up to a six hour-period beginning June through Sept­ember, the price for this product should be substantially discounted to account for the fact that actual generation resources are to be available around the clock. Even taking into consideration the fact that the Limited DR product will be called to deliver only at peak usage times, FERC should con­sider whether a significant discount should be applied to the full RPM capacity price. Consistent with its remarks concerning compensation for the Extended Summer product, the Ohio Commission maintains that FERC should review whether compensation for Limited DR should only be made during the four-month period it is required to deliver as a capacity resource.

 Finally, the Ohio Commission maintains that FERC should act, prior to the release of the 2016-2017 auction parameters, to ensure that DR bidding into a constrained LDA is deliverable to that LDA. Consequently, FERC should require PJM to confirm via audits that DR is actually deliverable to the LDA to which it has committed. To do otherwise could result in a significant negative impact on reliability.

# CONCLUSION

The Ohio Commission thanks FERC for the opportunity to provide com­ments on PJM’s proposed filing to revise the Limited DR Reliability Target.

Respectfully submitted,

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**On behalf of**

**The Public Utilities Commission of Ohio**

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# CERTIFICATE OF SERVICE

 I hereby certify that the foregoing have been served in accordance with 18 C.F.R. Sec. 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

**Thomas W. McNamee**

Dated at Columbus, Ohio this December 21, 2012.

1. Consistent with the Ohio Commission’s recommendation that FERC initiate a rulemaking proceeding, on December 11, 2012, the PJM Market Monitor issued a report, entitled “Analysis of Replacement Capacity for RPM Commitments: June 1, 2007 to June 1, 2012,” recommending to FERC, as a starting point, the following new DR parameters:

	* Develop rules for planned DR that requires specification of actual sites above a MW threshold, and specification of the nature of sites on which offers are based.
	* Require DR providers to maintain detailed business plans supporting offered levels of DR and provide them to the IMM and PJM upon Request.
	* Require DR providers to provide evidence of an intent and capability to provide physical resources.
	* Consider a cap on planned DR by LDA at a percentage of MW at existing registered sites. The level of the cap could be based on the current DR share of capacity in an LDA and the history of replacement capacity transactions.
	* Reserve all Limited and Extended Summer DR sales to the Third Incremental Auction MM and PJM upon request. [↑](#footnote-ref-2)