

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

INDEPENDENT MARKET MONITOR FOR PJM)	Docket No. EL14-20-000
)	
v.)	
)	
PJM INTERCONNECTION, L.L.C)	

**COMMENTS
OF THE PJM POWER PROVIDERS GROUP**

On January 27, 2014, the Independent Market Monitor for PJM (“IMM”) filed a formal complaint (“Complaint”) against PJM Interconnection, L.L.C. (“PJM”), requesting that the Federal Energy Regulatory Commission (the “Commission” or “FERC”) direct PJM to amend tariff rules to provide: (i) a requirement that Demand Resources must offer daily into the PJM Day-Ahead Energy Market, and (ii) a cap on offers from Demand Resources at \$1,000/MWh, consistent with the offer cap applicable to Generation Capacity Resources.¹

On January 28, 2014, the Commission issued a Notice of Complaint setting February 18, 2014, as the deadline to intervene or protest the Complaint. On February 5, 2014, pursuant to Rule 214 of the Rules of Practice and Procedure of the Commission, 18 C.F.R. § 385.214 (2014),

¹ *Independent Market Monitor for PJM v PJM Interconnection, L.L.C.*, Docket No. EL14-20-000, January 27, 2014 (“IMM Complaint”).

the PJM Power Providers Group (“P3”)² submitted an amended doc-less motion to intervene.³ On February 12, 2014, PJM filed a motion for an extension of time, and on February 18, 2014, FERC issued an order granting an extension of time setting February 24, 2014 as the deadline for comments.

P3 respectfully submits comments⁴ noting the following as further explained below:

- Demand Resources should be required to submit bids into the PJM Day-Ahead Energy Market;
- The offer cap placed on bids from Demand Resources should be the same as the offer cap applicable to Generation Capacity Resources, and this offer cap should be set at a level that recognizes the realities of the current market.

I. COMMENTS

A. Demand Resources Should be Required to Submit Bids into the PJM Day-Ahead Energy Market

P3 agrees with the IMM that demand resources should offer daily into the PJM Day-Ahead Energy Market. Establishing a must-offer requirement for demand resources is consistent with Commission precedent. The Commission accepted ISO New England Inc.’s (“ISO-NE’s”) proposed must-offer requirement for demand response resources for several reasons, including the fact that the new requirement would: 1) assist in correcting inefficiencies inherent in the

² P3 is a nonprofit corporation dedicated to promoting policies that will allow the PJM region to fulfill the promise of its competitive wholesale electricity markets. P3 strongly believes that properly designed and well-functioning competitive markets are the most effective means of ensuring a reliable supply of power to the PJM region, facilitating investments in alternative energy and demand response technology, and promoting prices that will allow consumers to enjoy the benefits of competitive electricity markets. Combined, P3 members own over 87,000 megawatts of generation assets, own over 51,000 miles of transmission lines, serve nearly 12.2 million customers and employ over 55,000 people in the PJM region – encompassing 13 states and the District of Columbia. For more information on P3, visit www.p3powergroup.com

³ On January 29, 2014, P3 filed an initial doc-less motion to intervene.

⁴ The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue.

current capacity market design; 2) provide substantial benefits to many parties, including demand response resources; 3) would allow a demand response resource to specify the minimum energy price at which it is willing to provide services, allowing the resource to recoup its legitimate opportunity costs and send improved price signals; and 4) allow demand response resource additional opportunities to participate in the energy markets.⁵ Therefore, the Commission stated: “The Commission finds that establishing a must-offer requirement for demand response resources with capacity supply obligations helps ensure just and reasonable and not unduly discriminatory or preferential rates by providing for more efficient, economic dispatch of all supply resources.”⁶ P3 agrees with this finding and believes that PJM should have the same Commission-approved must-offer requirement for demand resources.

B. The Offer Cap Placed on Bids from Demand Resources Should Be the Same as the Offer Cap Applicable to Generation Capacity Resources.

As a matter of policy and sound market design, PJM’s tariff should require that demand resources and generation capacity resources have the same energy market offer cap. To P3’s knowledge, PJM is the only RTO in which generation and demand resources are subjected to a different energy market offer cap.⁷ P3 agrees with the IMM’s assertions that demand resources and generation resources are substitutes in the capacity market and should be subject to the same offer caps.⁸ Specifically, the IMM states that:

⁵ *ISO New England Inc.*, 142 FERC ¶ 61,027 (2013) at ¶¶ 28-31 (“ISO-NE Order”).

⁶ ISO-NE Order, *supra*, at ¶ 27.

⁷ See ISO New England Market Rule 1 § III.1.10.1A(d); NYISO Tariffs - Market Administration and Control Area Services Tariff (MST) - 21 MST Attachment F - Temporary Bid Caps, Sections 21.4-5; MISO Tariff: Module C 39.2.5 and 40.2.5.

⁸ P3 has noted its support for this concept previously. See *PJM Interconnection, L.L.C.*, Motion for Leave to Answer and Answer of the PJM Power Providers Group, Docket ER14-822, January 29, 2014, pp 7-10.

“The rules applied to Demand Resources in the current market design do not treat Demand Resources in a manner comparable to other Capacity Resources, even though Demand Resources are sold in the same capacity market, are treated as a substitute for other Capacity Resources and displace other Capacity Resources in RPM auctions.”⁹

There is no compelling reason to retain two separate offer caps in PJM for generation and demand resources. As the Commission moves toward a world in which generation and demand resources are treated as comparable resources, a common energy market offer cap must be a tenet of that transition.

C. PJM Must Develop an Offer Cap that Recognizes the Realities of the Current Market.

Given recent events in PJM, and in light of the complaint by the IMM, P3 believes now is an appropriate time for PJM to review and update the current offer cap values (especially the arbitrarily low generator offer cap) and reform the rules for applying a common energy market offer cap. January weather conditions, as explained in the waiver request PJM sought from the Commission of the cost-based offers from generation capacity resources (“PJM Waiver Request”), created a situation in which certain generators were in the untenable position of being forced to offer their electricity below their marginal production cost.¹⁰ Natural gas hit record-setting prices in the PJM Region, averaging over \$120/MMbtu and peaking at \$140/MMbtu for trades on January 21 and delivered on January 22.¹¹ These price spikes led to corresponding

⁹ IMM Complaint, p. 1.

¹⁰ *Request of PJM Interconnection, L.L.C., for Waiver, Request for 7-Day Comment Period, and Request for Commission Action by February 10, 2014*, Docket No., ER14-1145, filed January 23, 2014 (“PJM Waiver Request”); pp. 1-2, 4-6.; *See also Request of PJM Interconnection, L.L.C., for Waiver and for Commission Action by January 24, 2014*, ER14-1144-000, filed January 23, 2014. P3 also submitted comments in support of the PJM Waiver Request on January 30, 2014; see *Request of PJM Interconnection, L.L.C., for Waiver, Request for 7-Day Comment Period, and Request for Commission Action by February 10, 2014*, Docket No., ER14-1145, Comments of the PJM Power Providers, filed January 30, 2014, pp. 2-5.

¹¹ PJM Waiver Request, p.4.

increases in the cost of producing electricity from natural gas-fired generators that needed to purchase gas at these levels in order to run. January gas prices provide uncontrovertible evidence that the current \$1000/MWh generator offer cap fails to reflect underlying market fundamentals.

On February 11, 2014, the Commission recognized the outdated nature of the current offer cap and issued an Order granting PJM's Waiver Request to allow cost-based offers over the current cap to set the locational marginal price.¹² While the Commission appropriately allowed generators to submit cost based offers over the offer cap, the waiver the Commission granted will expire on March 31, at which point the \$1000/MWh offer cap for generation and the \$1800/MWh offer cap for demand resource will be reinstated. Indeed, an interim solution was warranted for this winter; however, a permanent solution that reflects the realities of today's market is necessary.

While the IMM's complaint appropriately focuses on the inequities associated with different offer caps for demand resources and generation, clearly, there is a need to examine the broader issue of the level, if any, for the offer cap. Moreover, P3 does not agree with the IMM's suggestion that the offer cap for both demand resources and generation be set at \$1000/MWh as it would simply compound the Commission-recognized problems associated with the current outdated offer cap on generation. Although raising the offer cap is arguably beyond the scope of this proceeding, making the offer cap the same for demand resources and generation dictates that the bigger question of the appropriate offer cap level must also be addressed.

¹² *PJM, Interconnection, L.L.C.* 146 FERC ¶ 61,078 (2014). The Commission stated in part, "By limiting legitimate, cost-based bids to no more than \$1,000/MWh, the market produces artificially suppressed market prices and inefficient resource selection." *Id.* at ¶ 40.

Fortunately, PJM has already contemplated a stakeholder process to deal with issues stemming from the outdated \$1,000/MWh generator offer cap. As stated in PJM's Waiver Request, "PJM will address with stakeholders appropriate revisions to the Operating Agreement to resolve on a longer-term basis the present conflict in [the must offer and \$1000/MWh offer cap] provisions."¹³ P3 supports PJM conducting a stakeholder process, and respectfully requests that the Commission direct PJM to begin this as soon as possible and, as part of that review, require that any adjusted offer cap be set at the same level for both demand response and generation.

III. CONCLUSION

For the foregoing reasons, P3 agrees with the IMM that demand resources should have a must offer requirement. P3 also believes that the offer cap for demand resources should be the same as the offer cap for generation. In order for this to occur, P3 respectfully requests that the Commission require PJM to commence a stakeholder process to consider the appropriate level for the common offer cap.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: February 24, 2014

¹³ PJM Waiver Request, at p.1, and *PJM Interconnection, L.L.C.*, Docket No. ER14-1144-000, January 23, 2014, p.1.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the Official Service List compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 24th day of February, 2014.

On behalf of the PJM Power Providers Group

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