

Demand Response

Markets require both a supply side and a demand side to function effectively. The demand side of wholesale electricity markets is underdeveloped. Wholesale power markets will be more efficient when the demand side of the electricity market becomes fully functional without depending on special programs as a proxy for full participation.

Overview

- **Demand Response Activity.** Demand response activity includes economic demand response (economic resources), emergency and pre-emergency demand response (demand resources), synchronized reserves and regulation. Economic demand response participates in the energy market. Emergency and pre-emergency demand response participates in the capacity market and energy market.¹ Demand response resources participate in the Synchronized Reserve Market. Demand response resources participate in the regulation market.

In the first three months of 2018, total demand response revenue increased by \$13.5 million, 11.5 percent, from \$116.7 million in the first three months of 2017 to \$130.2 million in the first three months of 2018. Emergency demand response revenue accounted for 97.6 percent of all demand response revenue, economic demand response for 0.7 percent, demand response in the Synchronized Reserve Market for 1.1 percent and demand response in the regulation market for 0.7 percent.

Total emergency demand response revenue increased by \$11.9 million, 10.3 percent, from \$115.1 million in the first three months of 2017 to \$127.0 million in the first three months of 2018. This increase consisted entirely of capacity market revenue.²

Economic demand response revenue increased by \$0.4 million, 73.1 percent, from \$0.5 million in the first three months of 2017 to \$0.9 million in the first three months of 2018.³ Demand response revenue in

the Synchronized Reserve Market increased by \$0.7 million, 99.3 percent, from \$0.7 million in the first three months of 2017 to \$1.4 million in the first three months of 2018. Demand response revenue in the regulation market increased by \$0.5 million, 137.4 percent, from \$0.4 million in the first three months of 2017 to \$0.9 million in the first three months of 2018.

- **Demand Response Energy Payments are Uplift.** Energy payments to emergency and economic demand response resources are uplift. LMP does not cover energy payments although emergency and economic demand response can and does set LMP. Energy payments to emergency demand resources are paid by PJM market participants in proportion to their net purchases in the real-time market. Energy payments to economic demand resources are paid by real-time exports from PJM and real-time loads in each zone for which the load-weighted average real-time LMP for the hour during which the reduction occurred is greater than or equal to the net benefits test price for that month.⁴
- **Demand Response Market Concentration.** The ownership of economic demand response resources was highly concentrated in the first three months of 2017 and 2018. The HHI for economic resource reductions decreased from 7598 in the first three months of 2017 to 7565 in the first three months of 2018. The ownership of emergency demand response resources was moderately concentrated in the first three months of 2018. The HHI for emergency demand response committed MW was 1433 for the 2017/2018 Delivery Year. In the 2017/2018 Delivery Year, the four largest companies contributed 69.6 percent of all committed emergency demand response MW.
- **Limited Locational Dispatch of Demand Resources.** Beginning with the 2014/2015 Delivery Year, demand resources are dispatchable for mandatory reductions on a subzonal basis, defined by zip codes, but only if the subzone is defined at least one day before it is dispatched and only until PJM removes the definition of the subzone. Nodal dispatch of demand resources in a nodal market would improve market efficiency.

¹ Emergency demand response refers to both emergency and pre-emergency demand response. With the implementation of the Capacity Performance design, there is no functional difference between the emergency and pre-emergency demand response resource.

² The total credits and MWh numbers for demand resources were calculated as of April 17, 2018 and may change as a result of continued PJM billing updates.

³ Economic credits are synonymous with revenue received for reductions under the economic load response program.

⁴ "PJM Manual 28: Operating Agreement Accounting," Rev. 77 (Nov. 1, 2017) at 83.

The goal should be nodal dispatch of demand resources with no advance notice required, as is the case for generation resources.

Recommendations

The MMU recognizes that PJM incorporated some of the recommendations related to demand response in the Capacity Performance filing. The status of each recommendation reflects the status at March 31, 2018.

- The MMU recommends, as a preferred alternative to including demand resources as supply in the capacity market, that demand resources be on the demand side of the markets, that customers be able to avoid capacity and energy charges by not using capacity and energy at their discretion, that customer payments be determined only by metered load, and that PJM forecasts immediately incorporate the impacts of demand side behavior. (Priority: High. First reported 2014. Status: Not adopted.)
- The MMU recommends that the option to specify a minimum dispatch price (strike price) for demand resources be eliminated and that participating resources receive the hourly real-time LMP less any generation component of their retail rate. (Priority: Medium. First reported 2010. Status: Not adopted.)
- The MMU recommends that the maximum offer for demand resources be the same as the maximum offer for generation resources. (Priority: Medium. First reported 2017. Status: Not adopted.)
- The MMU recommends that the demand resources be treated as an economic resource, responding to economic price signals like other capacity resources. The MMU recommends that demand resources not be treated as emergency resources, not trigger a PJM emergency and not trigger a Performance Assessment Hour. (Priority: High. First reported 2012. Status: Not adopted.)
- The MMU recommends that the Emergency Program Energy Only option be eliminated because the opportunity to receive the appropriate energy market incentive is already provided in the economic program. (Priority: Low. First reported 2010. Status: Not adopted.)
- The MMU recommends that a daily energy market must offer requirement apply to demand resources, comparable to the rule applicable to generation capacity resources.⁵ (Priority: High. First reported 2013. Status: Not adopted.)
- The MMU recommends that demand resources be required to provide their nodal location, comparable to generation resources. (Priority: High. First reported 2011. Status: Not adopted.)
- The MMU recommends that PJM require nodal dispatch of demand resources with no advance notice required or, if nodal location is not required, subzonal dispatch of demand resources with no advance notice required. (Priority: High. First reported 2015. Status: Not adopted.)
- The MMU recommends that PJM eliminate the measurement of compliance across zones within a compliance aggregation area (CAA). The multiple zone approach is less locational than the zonal and subzonal approach and creates larger mismatches between the locational need for the resources and the actual response. (Priority: High. First reported 2015. Status: Not adopted.)
- The MMU recommends that measurement and verification methods for demand resources be modified to reflect compliance more accurately. (Priority: Medium. First reported 2009. Status: Not adopted.)
- The MMU recommends that compliance rules be revised to include submittal of all necessary hourly load data, and that negative values be included when calculating event compliance across hours and registrations. (Priority: Medium. First reported 2012. Status: Not adopted.)
- The MMU recommends that PJM adopt the ISO-NE five-minute metering requirements in order to ensure that dispatchers have the necessary information for reliability and that market payments to demand resources be calculated based on interval meter data at the site of the demand reductions.⁶ (Priority: Medium. First reported 2013. Status: Not adopted.)

⁵ See "Complaint and Motion to Consolidate of the Independent Market Monitor for PJM," Docket No. EL14-20-000 (January 27, 2014) at 1.

⁶ See ISO-NE Tariff, Section III, Market Rule 1, Appendix E1 and Appendix E2, "Demand Response," <http://www.iso-ne.com/regulatory/tariff/sect_3/mr1_append-e.pdf>. (Accessed October 17, 2017) ISO-NE requires that DR have an interval meter with five-minute data reported to the ISO and each behind the meter generator is required to have a separate interval meter. After June 1, 2017, demand response resources in ISO-NE must also be registered at a single node.

- The MMU recommends that demand response event compliance be calculated for each hour and the penalty structure reflect hourly compliance for the base and capacity performance products. (Priority: Medium. First reported 2013. Status: Partially adopted.)
- The MMU recommends that load management testing be initiated by PJM with limited warning to CSPs in order to more accurately represent the conditions of an emergency event. (Priority: Low. First reported 2012. Status: Not adopted.)
- The MMU recommends that shutdown cost be defined as the cost to curtail load for a given period that does not vary with the measured reduction or, for behind the meter generators, be the start cost defined in Manual 15 for generators. (Priority: Low. First reported 2012. Status: Not adopted.)
- The MMU recommends that the Net Benefits Test be eliminated and that demand response resources be paid LMP less any generation component of the applicable retail rate. (Priority: Low. First reported 2015. Status: Not adopted.)
- The MMU recommends that the tariff rules for demand response clarify that a resource and its CSP, if any, must notify PJM of material changes affecting the capability of the resource to perform as registered and must terminate or modify registrations that are no longer capable of responding to PJM dispatch directives at defined levels because load has been reduced or eliminated, as in the case of bankrupt and/or out of service facilities. (Priority: Medium. First reported 2015. Status: Not adopted.)
- The MMU recommends that PJM not remove any defined subzones and maintain a public record of all created and removed subzones. (Priority: Low. First reported 2016. Status: Not adopted.)
- The MMU recommends that there be only one demand response product in the capacity market, with an obligation to respond when called for all hours of the year. (Priority: High. First reported 2011. Status: Partially adopted.⁷)
- The MMU recommends that the lead times for demand resources be shortened to 30 minutes with an hour minimum dispatch for all resources. (Priority: Medium. First reported 2013. Status: Partially adopted.)
- The MMU recommends setting the baseline for measuring capacity compliance under winter compliance at the customers' PLC, similar to GLD, to avoid double counting. (Priority: High. First reported 2010. Status: Partially adopted.)
- The MMU recommends the Relative Root Mean Squared Test be required for all demand resources with a CBL. (Priority: Low. First reported 2017. Status: Partially adopted.)
- The MMU recommends that PRD be required to respond during a PAH to be consistent with all CP resources. (Priority: High. First reported 2017. Status: Not adopted.)
- The MMU recommends capping the baseline for measuring compliance under GLD, for the limited summer product, at the customers' PLC. (Priority: High. First reported 2010. Status: Adopted 2015.)
- The MMU recommends that demand resources whose technology type (load drop method) is designated as "Other" explicitly record the technology type. (Priority: Low. First reported 2013. Status: Adopted, 2014.)

Conclusion

A fully functional demand side of the electricity market means that end use customers or their designated intermediaries will have the ability to see real-time energy price signals in real time, will have the ability to react to real-time prices in real time and will have the ability to receive the direct benefits or costs of changes in real-time energy use. In addition, customers or their designated intermediaries will have the ability to see current capacity prices, will have the ability to react to capacity prices and will have the ability to receive the direct benefits or costs of changes in the demand for capacity in the same year in which demand for capacity changes. A functional demand side of these markets means that customers will have the ability to make decisions about levels of power consumption based both on the value of the uses of the power and on the actual cost of that power.

⁷ PJM's Capacity Performance proposal includes this change. See "Reforms to the Reliability Pricing Market ("RPM") and Related Rules in the PJM Open Access Transmission Tariff ("Tariff") and Reliability Assurance Agreement Among Load Serving Entities ("RAA")," Docket No. ER15-632-000 and "PJM Interconnection, L.L.C." Docket No. EL15-29-000.

In the energy market, if there is to be a demand side program, demand resources should be paid the value of energy, which is LMP less any generation component of the applicable retail rate. There is no reason to have the net benefits test. The necessity for the net benefits test is an illustration of the illogical approach to demand side compensation embodied in paying full LMP to demand resources. The benefit of demand side resources is not that they suppress market prices, but that customers can choose not to consume at the current price of power, that individual customers benefit from their choices and that the choices of all customers are reflected in market prices. If customers face the market price, customers should have the ability to not purchase power and the market impact of that choice does not require a test for appropriateness.

If demand resources are to continue competing directly with generation capacity resources in the PJM Capacity Market, the product must be defined such that it can actually serve as a substitute for generation. This is a prerequisite to a functional market design. The Capacity Performance demand response product definition in the PJM Capacity Performance capacity market design is a significant step in that direction, although performance obligations are still not identical to other capacity resources.

In order to be a substitute for generation, demand resources should be defined in PJM rules as an economic resource, as generation is defined. Demand resources should be required to offer in the Day-Ahead Energy Market and should be called when the resources are required and prior to the declaration of an emergency. Demand resources should be available for every hour of the year. The fact that PJM currently defines demand resources as emergency resources and the fact that calling on demand resources triggers a performance assessment hour under the Capacity Performance design, both serve as a significant disincentive to calling on demand resources. Demand resources should be treated as economic resources like any other capacity resource. Demand resources should be called when economic and paid the LMP rather than an inflated strike price up to \$1,849 per MWh that is set by the seller.

In order to be a substitute for generation, demand resources should be subject to robust measurement and verification techniques to ensure that transitional DR programs incent the desired behavior. The methods used in PJM programs today are not adequate to determine and quantify deliberate actions taken to reduce consumption.

In order to be a substitute for generation, demand resources should provide a nodal location and should be dispatched nodally to enhance the effectiveness of demand resources and to permit the efficient functioning of the energy market. Both subzonal and multi-zone compliance should be eliminated because they are inconsistent with an efficient nodal market.

In order to be a substitute for generation, compliance by demand resources to PJM dispatch instructions should include both increases and decreases in load. The current method applied by PJM simply ignores increases in load and thus artificially overstates compliance.

In order to be a substitute for generation, reductions should be calculated hourly for dispatched DR. The current rules use the average reduction for the duration of an event. The average reduction across multiple hours does not provide an accurate metric for each hour of the event and is inconsistent with the measurement of generation resources. Measuring compliance hourly would provide accurate information to the PJM system. Under the new CP rules, the performance of demand response during Performance Assessment Hours (PAH) will be measured on an hourly basis.

In order to be a substitute for generation, any demand resource and its Curtailment Service Provider (CSP), should be required to notify PJM of material changes affecting the capability of the resource to perform as registered and to terminate or modify registrations that are no longer capable of responding to PJM dispatch directives at the specified level, such as in the case of bankrupt and out of service facilities. Generation resources are required to inform PJM of any change in availability status, including outages and shutdown status.

As a preferred alternative, demand response resources should be on the demand side of the capacity market rather than on the supply side. Rather than detailed demand response programs with their attendant complex and difficult to administer rules, customers would be able to avoid capacity and energy charges by not using capacity and energy at their discretion and the level of usage paid for would be defined by metered usage rather than a complex and inaccurate measurement protocol.

The long term appropriate end state for demand resources in the PJM markets should be comparable to the demand side of any market. Customers should use energy as they wish and that usage will determine the amount of capacity and energy for which each customer pays. There would be no counterfactual measurement and verification.

Under this approach, customers that wish to avoid capacity payments would reduce their load during expected high load hours. Capacity costs would be assigned to LSEs and by LSEs to customers, based on actual load on the system during these critical hours. Customers wishing to avoid high energy prices would reduce their load during high price hours. Customers would pay for what they actually use, as measured by meters, rather than relying on flawed measurement and verification methods. No M&V estimates are required. No promises of future reductions which can only be verified by M&V are required. To the extent that customers enter into contracts with CSPs or LSEs to manage their payments, M&V can be negotiated as part of a bilateral commercial contract between a customer and its CSP or LSE.

This approach provides more flexibility to customers to limit usage at their discretion. There is no requirement to be available year round or every hour of every day. There is no 30 minute notice requirement. There is no requirement to offer energy into the day-ahead market. All decisions about interrupting are up to the customers only and they may enter into bilateral commercial arrangements with CSPs at their sole discretion. Customers would pay for capacity and energy depending solely on metered load.

A transition to this end state should be defined in order to ensure that appropriate levels of demand side response are incorporated in PJM's load forecasts and thus in the demand curve in the capacity market for the next three years. That transition should be defined by the PRD rules, modified as proposed by the MMU.

This approach would work under the CP design in the capacity market. This approach is entirely consistent with the Supreme Court decision in *EPSA* as it does not depend on whether FERC has jurisdiction over the demand side. This approach will allow FERC to more fully realize its overriding policy objective to create competitive and efficient wholesale energy markets. The decision of the Supreme Court addressed jurisdictional issues and did not address the merits of FERC's approach. The Supreme Court's decision has removed the uncertainty surrounding the jurisdictional issues and created the opportunity for FERC to revisit its approach to demand side.

PJM Demand Response Programs

All PJM demand response programs can be grouped into economic, emergency and pre-emergency programs or Price Responsive Demand (PRD). Under current rules, there is no functional difference between pre-emergency and emergency demand resources. Table 6-1 provides an overview of the key features of PJM demand response programs.

Demand response activity includes economic demand response (economic resources), emergency and pre-emergency demand response (demand resources), synchronized reserves and regulation. Economic demand response participates in the energy market. Emergency and pre-emergency demand response participates in the capacity market and energy market.⁸ Demand response resources participate in the Synchronized Reserve Market. Demand response resources participate in the regulation market.

All demand resources must register as pre-emergency unless the participant relies on behind the meter generation and the resource has environmental

⁸ Emergency demand response refers to both emergency and pre-emergency demand response. With the implementation of the Capacity Performance design, there is no functional difference between the emergency and pre-emergency demand response resource.

restrictions that limit the resource’s ability to operate only in emergency conditions.⁹ In all demand response programs, CSPs are companies that seek to sign up end-use customers that have the ability to reduce load. After a demand response event occurs, PJM compensates CSPs for their participants’ load reductions and CSPs in turn compensate their participants. Only CSPs are eligible to participate in the PJM demand response programs, but a participant can register as a PJM special member and become a CSP without any additional cost. PRD does not receive capacity or energy payments. PRD reduces the amount of capacity that must be purchased by the LSE and therefore reduces the LSE’s payments for capacity. When PRD load is not on the system, that load also avoids paying for the associated energy. PRD meets its obligation by responding when LMP is at or above price thresholds defined in the PRD plan.¹⁰ PRD does not have to respond during performance assessment hours (PAH) and therefore is inferior to other capacity resources and is not a substitute for other capacity resources in the capacity performance construct. The MMU recommends that PRD be required to respond during a PAH to be consistent with all CP resources. PRD cleared the capacity market in the BRA for the first time for the 2020/2021 Delivery Year.

Non-PJM Demand Response Programs

Within the PJM footprint, states may have additional demand response programs as part of a Renewable Portfolio Standard (RPS) or a separate program. Indiana, Ohio, Pennsylvania and North Carolina include demand response in their RPS.¹¹ If demand response is dispatched by a state run program, the demand response resources are ineligible to receive payments from PJM during the state dispatch.

Participation in Demand Response Programs

On April 1, 2012, FERC Order No. 745 was implemented in the PJM economic program, requiring payment of full LMP for dispatched demand resources when a net benefits test (NBT) price threshold is exceeded. This approach replaced the payment of LMP minus the charges for wholesale power and transmission included in customers’ tariff rates.

Table 6-1 Overview of demand response programs

	Emergency and Pre-Emergency Load Response Program		Economic Load Response Program		Price Responsive Demand
	Load Management (LM)				
Market	Capacity Only	Capacity and Energy	Energy Only	Energy Only	Capacity Only
Capacity Market	DR cleared in RPM	DR cleared in RPM	Not included in RPM	Not included in RPM	PRD cleared in RPM
Dispatch Requirement	Mandatory Curtailment	Mandatory Curtailment	Voluntary Curtailment	Dispatched Curtailment	Price Threshold
Penalties	RPM event or test compliance penalties	RPM event or test compliance penalties	NA	NA	RPM event or test compliance penalties
Capacity Payments	Capacity payments based on RPM clearing price	Capacity payments based on RPM clearing price	NA	NA	Avoided capacity costs
Energy Payments	No energy payment	Energy payment based on submitted higher of "minimum dispatch price" and LMP. Energy payment during PJM declared Emergency Event mandatory curtailments.	Energy payment based on submitted higher of "minimum dispatch price" and LMP. Energy payment only for voluntary curtailments.	Energy payment based on full LMP. Energy payment for hours of dispatched curtailment.	NA

⁹ OA Schedule 1 § 8.5.

¹⁰ The Demand Response Subcommittee (DRSC) is currently working to align PRD with the CP designed products.

¹¹ 2018 Quarterly State of the Market Report for PJM: January through March, Section 8: Environmental and Renewables, Table 8-6.

On July 16, 2008, the Commission directed PJM to amend their market rules to accept bids from aggregators of retail customers of utilities with the permission of the relevant electric retail regulatory authority (“RERRA”).¹² PJM implemented rules that require small EDCs to demonstrate approval of participation by the RERRA and require large EDCs to demonstrate that the RERRA has not prohibited participation.¹³ ¹⁴ RERRAs have permitted EDCs, in a number of cases, to participate in the PJM Economic Load Response Program.¹⁵

Figure 6-1 shows all revenue from PJM demand response programs by market for the first three months of 2008 through 2018. Since the implementation of the RPM Capacity Market on June 1, 2007, demand resources (capacity market) have been the primary source of demand response revenue.¹⁶ In the first three months of 2018, demand resource revenue, which includes capacity and emergency energy revenue, accounted for 97.6 percent of all revenue received by demand response providers, the economic program for 0.7 percent, synchronized reserve for 1.1 percent and the regulation market for 0.7 percent.

In the first three months of 2018, total demand response revenue increased by \$13.5 million, 11.5 percent, from \$116.7 million in the first three months of 2017 to \$130.2 million in the first three months of 2018. Emergency demand response revenue accounted for 97.6 percent of all demand response revenue, economic demand response for 0.7 percent, demand response in the Synchronized Reserve Market for 1.1 percent and demand response in the regulation market for 0.7 percent.

Total emergency demand response revenue increased by \$11.9 million, 10.3 percent, from \$115.1 million in the first three months of 2017 to \$127.0

¹² *Wholesale Competition in Regions with Organized Electric Markets*, Order No. 719, FERC Stats. & Regs. ¶ 31,281 at P 154 (2008), *order on reh'g*, Order No. 719-A, FERC Stats. & Regs. ¶ 31,292, *order on reh'g*, Order No. 719-B, 129 FERC ¶ 61,252 (2009).

¹³ OA Schedule 1 § 1.5A.3.01. *An EDC is classified as a small EDC if it distributes less than four million MWh in the last fiscal year.*

¹⁴ The evidence supplied must take the form of an order, resolution or ordinance of the RERRA, an opinion of the RERRA's legal counsel attesting to existence of an order, resolution, or ordinance, or an opinion of the state attorney general on behalf of the RERRA attesting to existence of an order, resolution or ordinance.

¹⁵ *Id.*; see, e.g., *Bear Island Paper Company, L.P.*, Va. S.C.C. Case No. PUE-2009-00133 (March 10, 2010); *Petition for Approval of Demand Response Program and Associated Demand Response Tariffs on Behalf of Kingsport Power Company, Etc.*, Tenn. PUC, 304 P.U.R.4th 224 (March 1, 2013); *Application of East Kentucky Power Cooperative, Inc. for a Declaratory Order, Etc.*, 2017 Ky. P.U.C. LEXIS 569 (June 06, 2017); *The Investigation by the Commission of Relevant Electric Retail Regulatory Authority in Southern Maryland Electric Cooperative Service Territory*, 2017 Ky. 2009 Md. PSC LEXIS 32 (April 27, 2009).

¹⁶ This includes both capacity market revenue and emergency energy revenue for capacity resources.

million in the first three months of 2018. This increase consisted entirely of capacity market revenue.¹⁷

Economic demand response revenue increased by \$0.4 million, 73.1 percent, from \$0.5 million in the first three months of 2017 to \$0.9 million in the first three months of 2018.¹⁸ Demand response revenue in the Synchronized Reserve Market increased by \$0.4 million, 99.3 percent, from \$0.7 million in the first three months of 2017 to \$1.4 million in the first three months of 2018. Demand response revenue in the regulation market increased by \$0.5 million, 137.4 percent, from \$0.4 million in the first three months of 2017 to \$0.9 million in the first three months of 2018.

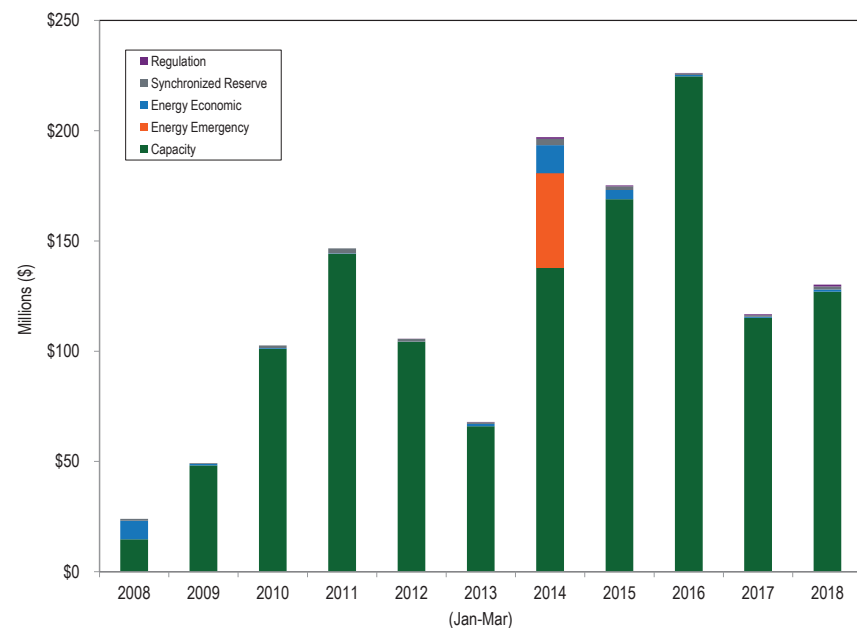
Higher demand resource revenues were in part a result of higher capacity market prices in the first three months of 2018. The capacity revenue in 2017 is from 2016/2017 and 2017/2018 RPM auction clearing prices and the capacity revenue in 2018 is from 2017/2018 and 2018/2019 RPM auction clearing prices. Average capacity market prices increased \$34.39 per MW-day from \$141.19 in the 2017/2018 Delivery Year to \$175.58 in the 2018/2019 Delivery Year, a 24.4 percent increase.¹⁹

¹⁷ The total credits and MWh numbers for demand resources were calculated as of April 17, 2018 and may change as a result of continued PJM billing updates.

¹⁸ Economic credits are synonymous with revenue received for reductions under the economic load response program.

¹⁹ *2018 Quarterly State of the Market Report for PJM: January through March*, Section 7: Net Revenues, Table 7-6.

Figure 6-1 Demand response revenue by market: January through March, 2008 through 2018



Economic Program

FERC Order No. 831 requires all energy offers above \$1,000 per MWh to provide supporting documentation.²⁰ Economic resources offer into the energy market and must provide supporting documentation to offer above \$1,000 per MWh. FERC stated, “[t]he offer cap reforms, however, do not apply to capacity-only demand response resources that do not submit incremental energy offers into energy markets.”²¹ Demand resources participate in both the capacity and energy markets and are not capacity only resources. It is not clear whether FERC intended to exclude demand resources with high strike prices from the requirements of Order 831. Demand resources should not be permitted to make offers above \$1,000 per MWh without the same verification requirements applied to economic resources or generation resources. The

²⁰ 157 FERC ¶ 61,115 (2016).

²¹ *Id.* at 8.

MMU recommends that the rules for maximum offer for the emergency and pre-emergency program match the maximum offer for generation resources.

Table 6-2 shows registered sites and MW for the last day of each month for the period January 1, 2014, through March 31, 2018. Registration is a prerequisite for CSPs to participate in the economic program. The monthly average number of registrations for economic demand response increased and the monthly average registered MW decreased in the first three months of 2018 compared to the first three months of 2017. Average monthly registrations decreased by 319, 37.3 percent, from 854 in the first three months of 2017 to 536 in the first three months of 2018. Average monthly registered MW decreased by 916 MW, 35.4 percent, from 2,586 MW in the first three months of 2017 to 1,669 MW in the first three months of 2018.

Several demand response resources are registered for both the economic and emergency demand response programs. There were 1,671 registrations and 1,265 nominated MW in the emergency program also registered in the economic program during the first three months of 2018.

Table 6-2 Economic program registrations on the last day of the month: January 2014 through March 2018²²

Month	2014		2015		2016		2017		2018	
	Registrations	Registered MW	Registrations	Registered MW	Registrations	Registered MW	Registrations	Registered MW	Registrations	Registered MW
Jan	1,180	2,325	1,078	2,960	838	2,557	871	2,603	539	1,648
Feb	1,174	2,330	1,076	2,956	835	2,557	842	2,578	543	1,677
Mar	1,185	2,692	1,075	2,949	834	2,556	850	2,576	525	1,683
Apr	1,194	2,827	1,076	2,938	832	2,556	897	2,574		
May	745	2,511	980	2,846	829	2,545	977	2,626		
Jun	928	2,943	871	2,614	518	2,500	577	1,305		
Jul	1,036	3,006	870	2,609	519	2,421	589	1,548		
Aug	1,080	3,033	869	2,609	805	2,569	590	1,541		
Sep	1,077	2,919	867	2,608	831	2,608	588	1,663		
Oct	1,060	2,943	858	2,568	822	2,564	574	1,660		
Nov	1,063	2,995	851	2,566	820	2,564	559	1,662		
Dec	1,071	2,923	850	2,566	807	2,561	556	1,659		
Avg	1,067	2,732	974	2,788	774	2,547	706	2,000	536	1,669

Table 6-3 Sum of peak MW reductions for all registrations per month: January 2010 through March 2018

Month	Sum of Peak MW Reductions for all Registrations per Month									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Jan	183	132	110	193	446	169	139	123	142	
Feb	121	89	101	119	307	336	128	83	70	
Mar	115	81	72	127	369	198	120	111	38	
Apr	111	80	108	133	146	143	118	54		
May	172	98	143	192	151	161	131	169		
Jun	209	561	954	433	483	833	121	240		
Jul	999	561	1,631	1,088	665	1,362	1,316	936		
Aug	794	161	952	497	358	272	249	141		
Sep	276	84	451	530	795	816	263	140		
Oct	118	81	242	168	214	136	150	88		
Nov	111	86	165	155	166	127	116	81		
Dec	114	88	98	168	155	122	147	83		
Annual	1,202	840	1,942	1,486	1,739	1,858	1,451	1,217	147	

The registered MW in the economic load response program are not a good measure of the MW available for dispatch in the energy market. Economic resources can dispatch up to the amount of MW registered in the program. Table 6-3 shows the sum of peak economic MW dispatched by registration each

²² Data for years 2010 through 2014 are available in the 2017 State of the Market Report for PJM.

month from January 1, 2010, through March 31, 2018. The monthly peak is the sum of each registration's monthly noncoincident peak dispatched MW and annual peak is the sum of each registration's annual noncoincident peak dispatched MW. The peak dispatched MW for all economic demand response registered resources increased by 10 MW, 7.7 percent, from 136 MW in the first three months of 2017 to 147 MW in the first three months of 2018.²³ The peak dispatched MW in the first three months of 2018, 147 MW, were 1,523 MW less than the average MW registered in the first three months of 2018, 1,669 MW.

Emergency and economic demand response energy payments are uplift and not compensated by LMP revenues. Economic demand response energy costs are assigned to real-time exports from the PJM Region and real-time loads in each zone for which the load-weighted average real-time LMP for the hour during which the reduction occurred is greater than the price determined under the net benefits test for that month.²⁴ The zonal allocation is shown in Table 6-13.

Table 6-4 shows the total MW reductions made by participants in the economic program and the total credits paid for these reductions for the first three months of 2010 through 2018. The average credits per MWh paid increased by \$27.86 per MWh, 67.6 percent, from \$41.19 per MWh in the first three months of 2017 to \$69.06 per MWh in the first three months of 2018. The load-weighted, average LMP was 63.3 percent higher in the first three months of 2018 than in the first three months of 2017, \$49.45 per MWh versus \$30.28 per MWh. Curtailed energy for the economic program increased by 442 MWh, 3.3 percent, from 12,973 MWh in the first three months of 2017 to 13,395

²³ The total credits and MWh numbers for demand resources were calculated as of April 17, 2018 and may change as a result of continued PJM billing updates.

²⁴ "PJM Manual 28: Operating Agreement Accounting," Rev. 77 (Nov. 1, 2017) at 78.

MWh in the first three months of 2018. Total credits paid for economic DR in 2017 increased by \$0.4 million, 73.1 percent, from \$0.5 million in the first three months of 2017 to \$0.9 million in the first three months of 2018.

Table 6-4 Credits paid to the PJM economic program participants: January through March, 2010 through 2018

(Jan-Mar)	Total MWh	Total Credits	\$/MWh
2010	8,139	\$321,648	\$39.52
2011	3,272	\$240,304	\$73.45
2012	1,030	\$30,406	\$29.52
2013	21,048	\$1,083,755	\$51.49
2014	58,195	\$12,727,388	\$218.70
2015	38,644	\$4,175,116	\$108.04
2016	16,038	\$672,506	\$41.93
2017	12,973	\$534,378	\$41.19
2018	13,395	\$924,982	\$69.06

Economic demand response resources that are dispatched by PJM in both the economic and emergency programs are paid the higher price defined in the emergency rules. For example, assume a demand resource has an economic offer price of \$100 per MWh and an emergency strike price of \$1,800 per MWh. If this resource were scheduled to reduce in the Day-Ahead Energy Market, the demand resource would receive \$100 per MWh, but if an emergency event were called during the economic dispatch, the demand resource would receive its emergency strike price of \$1,800 per MWh instead. The rationale for this rule is not clear. All other resources that clear in the day-ahead market are financially firm at the clearing price. Payment at a guaranteed strike price and the ability to set energy market prices at the strike price effectively grant the seller the right to exercise market power.

Figure 6-2 shows monthly economic demand response credits and MWh, from January 1, 2010 through March 31, 2018.

Figure 6-2 Economic program credits and MWh by month: January 2010 through March 2018

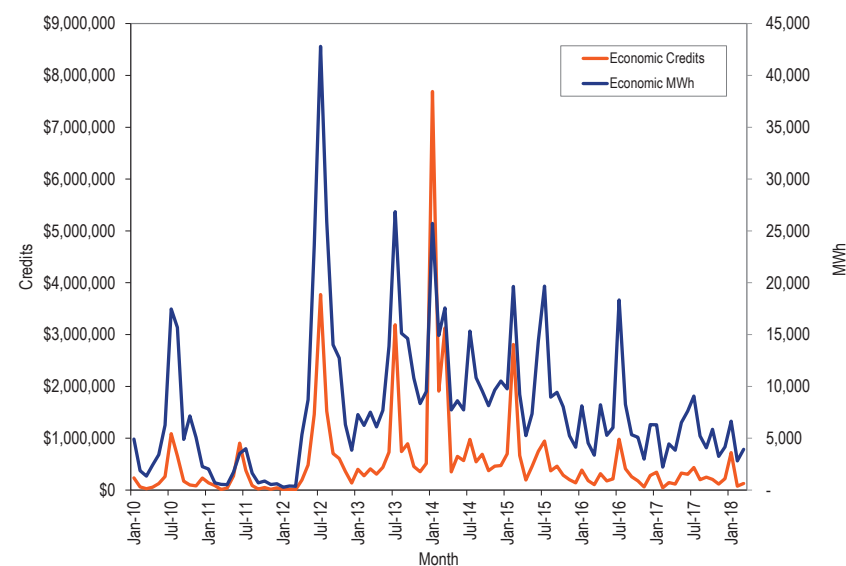


Table 6-5 shows performance for the first three months of 2017 and 2018 in the economic program by control zone. Total reductions under the economic program increased by 422 MWh, 3.3 percent, from 12,973 MW in the first three months of 2017 to 13,395 MW in the first three months of 2018. Total revenue under the economic program increased by \$0.4 million, 73.1 percent, from \$0.5 million in the first three months of 2017 to \$0.9 million in the first three months of 2018.²⁵

²⁵ Economic demand response reductions that are submitted to PJM for payment but have not received payment are not included in Table 6-5. Payments for Economic demand response reductions are settled monthly.

Table 6-5 PJM economic program participation by zone: January through March, 2017 and 2018

Zones	Credits			MWh Reductions			Credits per MWh Reduction		
	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change
AECO	\$0.00		NA			NA			
AEP	\$8.84		NA			NA			
APS	\$0.00	\$27,552.73	NA	0	364	NA		\$75.71	
ATSI		\$283,498.42	NA		4,765	NA		\$59.49	
BGE			NA			NA			
ComEd	\$16,623.63	\$100,914.48	507.1%	605	2,648	338.0%	\$27.50	\$38.11	38.6%
DEOK			NA			NA			
Dominion	\$285,581.47	\$33,748.35	(88.2%)	4,218	104	(97.5%)	\$67.70	\$323.54	377.9%
DPL			NA			NA			
JCPL		\$93,674.91	NA		859	NA		\$109.09	
Met-Ed	\$3,569.50	\$5,318.28	49.0%	96	57	(40.1%)	\$37.22	\$92.52	148.6%
PECO	\$4,945.48	\$18,203.45	268.1%	48	325	583.1%	\$103.91	\$55.99	(46.1%)
PENELEC	\$61,210.96	\$81,501.57	33.1%	2,357	1,678	(28.8%)	\$25.97	\$48.58	87.1%
Pepco			NA			NA			
PPL		\$111,483.38	NA		819	NA		\$136.12	
PSEG	\$162,437.92	\$169,086.75	4.1%	5,649	1,775	(68.6%)	\$28.75	\$95.26	231.3%
Total	\$534,377.80	\$924,982.33	73.1%	12,973	13,395	3.3%	\$41.19	\$69.06	67.6%

Table 6-6 shows total settlements submitted for the first three months of 2010 through 2018. A settlement is counted for every day on which a registration is dispatched in the economic program.

Table 6-6 Settlements submitted in the economic program: January through March, 2010 through 2018

(Jan-Mar)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Settlements	693	91	21	368	1,314	602	267	347	361

Table 6-7 Participants and CSPs submitting settlements in the economic program by year: January through March, 2010 through 2018

	2010		2011		2012		2013		2014		2015		2016		2017		2018	
	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants	Active CSPs	Active Participants
Total Distinct Active	5	90	5	25	4	9	9	49	12	115	11	47	6	17	6	19	11	26

Table 6-7 shows the number of CSPs, and the number of participants in their portfolios, submitting settlements by year for the first three months of 2010 through 2018. The number of active participants increased by 7, 36.8 percent, from 19 in the first three months of 2017 to 26 in the first three months of 2018. All participants must be registered through a CSP.

The ownership of economic demand response resources was highly concentrated in the first three months of 2017 and 2018.²⁶ Table 6-8 shows the average hourly HHI for each month and the average hourly HHI for January 1, 2017 through March 31, 2018. Table 6-8 also lists the share of reductions provided by, and the share of credits claimed by the four largest parent companies in each year. In the first three months of 2018, 95.1 percent of all economic DR reductions and 91.2 percent of economic DR revenue were attributable to the four largest parent companies. The HHI for economic demand response decreased 33 points, 0.4 percent, from 7598 in the first three months of 2017 to 7565 in the first three months of 2018.

²⁶ Parent companies may own one CSP or multiple CSPs. All HHI calculations in this section are at the parent company level.

Table 6-8 HHI and market concentration in the economic program: January 2017 through March 2018²⁷

Month	HHI			Top Four Companies Share of Reduction			Top Four Companies Share of Credit		
	2017	2018	Percent Change	2017	2018	Change in Percent	2017	2018	Change in Percent
Jan	8952	6394	(28.6%)	99.7%	88.4%	(0.1%)	99.6%	89.4%	(11.2%)
Feb	9263	7694	(16.9%)	100.0%	99.2%	0.0%	100.0%	98.8%	(0.8%)
Mar	8170	8716	6.7%	99.4%			98.1%		
Apr	6099			100.0%			100.0%		
May	7046			97.5%			92.7%		
Jun	7702			91.6%			88.6%		
Jul	7876			94.3%			92.1%		
Aug	8006			99.8%			99.5%		
Sep	7877			97.1%			93.0%		
Oct	6467			99.4%			99.1%		
Nov	7334			98.7%			98.2%		
Dec	7493			97.4%			98.1%		
Total	7598	7565	(0.4%)	77.3%	95.1%	17.8%	83.8%	91.2%	7.4%

Table 6-9 shows average MWh reductions and credits by hour for the first three months of 2017 and 2018. In the first three months of 2017, 84.0 percent of reductions and 74.8 percent of credits occurred in hours ending 0900 to 2100, and in the first three months of 2018, 76.8 percent of reductions and 71.4 percent of credits occurred in hours ending 0900 to 2100.

Table 6-9 Hourly frequency distribution of economic program MWh reductions and credits: January through March, 2017 and 2018

Hour Ending (EPT)	MWh Reductions			Program Credits		
	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change
1 through 6	372	949	155%	\$35,109	\$83,102	137%
7	310	615	98%	\$20,636	\$51,906	152%
8	992	812	(18%)	\$49,720	\$73,842	49%
9	1,154	866	(25%)	\$44,543	\$64,544	45%
10	992	784	(21%)	\$38,717	\$50,932	32%
11	861	813	(6%)	\$31,328	\$52,531	68%
12	802	791	(1%)	\$30,139	\$45,582	51%
13	763	759	(1%)	\$25,270	\$41,226	63%
14	720	760	6%	\$22,102	\$35,003	58%
15	681	709	4%	\$16,484	\$34,232	108%
16	638	658	3%	\$13,330	\$31,171	134%
17	712	732	3%	\$18,905	\$39,943	111%
18	897	852	(5%)	\$38,196	\$63,414	66%
19	983	915	(7%)	\$45,575	\$71,223	56%
20	1,051	877	(17%)	\$45,472	\$68,138	50%
21	642	775	21%	\$29,882	\$62,180	108%
22	247	399	61%	\$22,313	\$32,492	46%
23 through 24	154	326	112%	\$6,656	\$23,520	253%
Total	12,973	13,395	3%	\$534,378	\$924,982	73%

Table 6-10 shows the distribution of economic program MWh reductions and credits by ranges of real-time zonal, load-weighted, average LMP in the first three months of 2017 and 2018. In the first three months of 2018, 8.9 percent of MWh reductions and 27.9 percent of program credits occurred during hours when the applicable zonal LMP was higher than \$175 per MWh.

²⁷ March 2018 reduction and credit share percent is redacted based on confidentiality rules.

Table 6-10 Frequency distribution of economic program zonal, load-weighted, average LMP (By hours): January through March, 2017 and 2018

LMP	MWh Reductions			Program Credits		
	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change	2017 (Jan-Mar)	2018 (Jan-Mar)	Percent Change
\$0 to \$25	1,034	996	(4%)	\$8,115	\$6,307	(22%)
\$25 to \$50	8,003	6,490	(19%)	\$203,975	\$192,076	(6%)
\$50 to \$75	1,874	1,570	(16%)	\$111,253	\$86,161	(23%)
\$75 to \$100	1,241	1,039	(16%)	\$106,495	\$101,889	(4%)
\$100 to \$125	417	1,002	140%	\$43,551	\$115,644	166%
\$125 to \$150	153	770	403%	\$21,531	\$110,255	412%
\$150 to \$175	226	327	45%	\$35,784	\$54,480	52%
> \$175	24	1,193	4,895%	\$3,673	\$258,170	6,929%
Total	12,973	13,388	3%	\$534,378	\$924,982	73%

Following Order No. 745, all ISO/RTOs are required to calculate an NBT threshold price each month above which the net benefits of DR are deemed to exceed the cost to load. PJM calculates the NBT price threshold by first taking the generation offers from the same month of the previous year. For example, the NBT price calculation for February 2017 was calculated using generation offers from February 2016. PJM then adjusts these offers to account for changes in fuel prices and uses these adjusted offers to create an average monthly supply curve. PJM estimates a function that best fits this supply curve and then finds the point on this curve where the elasticity is equal to one.²⁸ The price at this point is the NBT threshold price.

The NBT test is a crude tool that is not based in market logic. The NBT threshold price is a monthly estimate calculated from a monthly supply curve that does not incorporate real-time or day-ahead prices. In addition, it is a single threshold price used to trigger payments to economic demand response resources throughout the entire RTO, regardless of their location and regardless of locational prices.

The necessity for the NBT test is an illustration of the illogical approach to demand side compensation embodied in paying full LMP to demand resources. The benefit of demand side resources is not that they suppress market prices, but that customers can choose not to consume at the current price of power,

²⁸ "PJM Manual 11: Energy & Ancillary Services Market Operations," Rev. 92 (Nov. 1, 2017) at 146.

that individual customers benefit from their choices and that the choices of all customers are reflected in market prices. If customers face the market price, customers should have the ability to not purchase power and the market impact of that choice does not require a test for appropriateness.

When the zonal LMP is above the NBT threshold price, economic demand response resources that reduce their power consumption are paid the full zonal LMP. When the zonal LMP is below the NBT threshold price, economic demand response resources are not paid for any load reductions.

Table 6-11 shows the NBT threshold price from April 1, 2012, when Order No. 745 was implemented in PJM, through March 31, 2018.

Table 6-11 Net benefits test threshold prices: April 2012 through March 2018

Month	Net Benefits Test Threshold Price (\$/MWh)						
	2012	2013	2014	2015	2016	2017	2018
Jan		\$25.72	\$29.51	\$29.63	\$23.67	\$32.60	\$26.27
Feb		\$26.27	\$30.44	\$26.52	\$26.71	\$31.57	\$24.65
Mar		\$25.60	\$34.93	\$24.99	\$22.10	\$30.56	\$25.50
Apr	\$25.89	\$26.96	\$32.59	\$24.92	\$19.93	\$30.45	
May	\$23.46	\$27.73	\$32.08	\$23.79	\$20.69	\$29.77	
Jun	\$23.86	\$28.44	\$31.62	\$23.80	\$20.62	\$27.14	
Jul	\$22.99	\$29.42	\$31.62	\$23.03	\$20.73	\$24.42	
Aug	\$24.47	\$28.58	\$29.85	\$23.17	\$23.24	\$22.75	
Sep	\$24.93	\$28.80	\$29.83	\$21.69	\$24.70	\$21.51	
Oct	\$25.96	\$29.13	\$30.20	\$21.48	\$26.50	\$21.70	
Nov	\$25.63	\$31.63	\$29.17	\$22.28	\$29.27	\$26.41	
Dec	\$25.97	\$28.82	\$29.01	\$22.31	\$29.71	\$29.16	
Average	\$24.80	\$28.09	\$30.91	\$23.97	\$23.99	\$27.34	\$25.47

Table 6-12 shows the number of hours that at least one zone in PJM had day-ahead LMP or real-time LMP higher than the NBT threshold price. In the first three months of 2018, the highest zonal LMP in PJM was higher than the NBT threshold price 1,863 hours out of 2,159 hours, or 86.3 percent of all hours. Reductions occurred in 1,035 hours, 55.6 percent, of those 1,863 hours in the first three months of 2018. The last three columns illustrate how often economic demand response activity occurred when LMPs exceeded NBT threshold prices for January 1, 2017 through March 31, 2018. There were 14.2

percent of hours with demand response below the NBT threshold price in the first three months of 2017 and 0.0 percent of hours with demand response below the NBT threshold price in the first three months of 2018.

Table 6-12 Hours with price higher than NBT and DR occurrences in those hours: January 2017 through March 2018

Month	Number of Hours		Number of Hours with LMP Higher than NBT			Percent of NBT Hours with DR		
	2017	2018	2017	2018	Percent Change	2017	2018	Percent Change
Jan	744	744	388	665	71.4%	63.4%	62.9%	(0.5%)
Feb	672	672	414	485	17.1%	37.7%	44.5%	6.9%
Mar	743	743	484	713	47.3%	64.3%	56.2%	(8.0%)
Apr	720		407			72.7%		
May	744		445			76.0%		
Jun	720		421			67.5%		
Jul	744		546			67.2%		
Aug	744		573			55.7%		
Sep	720		641			52.4%		
Oct	744		742			61.2%		
Nov	721		499			59.1%		
Dec	744		509			60.1%		
Total	8,784	2,159	8,192	1,863	(77.3%)	59.8%	55.6%	(4.3%)

Economic DR revenues are paid by real-time loads and real-time scheduled exports as an uplift charge. Table 6-13 shows the sum of real-time DR charges and day-ahead DR charges paid in each zone and paid by exports. Real-time loads in AEP, Dominion, and exports paid the highest DR charges in the first three months of 2018.

Table 6-13 Zonal DR charge: January through March, 2018

Zone	January	February	March	Total
AECO	\$7,954	\$883	\$883	\$9,720
AEP	\$118,545	\$11,795	\$23,736	\$154,076
APS	\$47,716	\$4,910	\$9,677	\$62,303
ATSI	\$56,051	\$6,394	\$12,488	\$74,932
BGE	\$31,052	\$3,346	\$6,075	\$40,473
ComEd	\$62,108	\$7,249	\$11,519	\$80,875
DAY	\$15,469	\$1,680	\$3,264	\$20,412
DEOK	\$23,569	\$2,242	\$4,717	\$30,527
Dominion	\$101,366	\$9,403	\$18,908	\$129,678
DPL	\$18,781	\$1,890	\$2,164	\$22,835
DLCO	\$11,249	\$1,192	\$2,374	\$14,815
EKPC	\$14,368	\$1,216	\$2,214	\$17,799
JCPL	\$18,774	\$2,099	\$2,097	\$22,969
Met-Ed	\$14,139	\$1,471	\$1,837	\$17,447
PECO	\$35,960	\$3,727	\$3,783	\$43,470
PENELEC	\$15,210	\$1,694	\$3,036	\$19,940
Pepco	\$28,742	\$2,809	\$5,786	\$37,337
PPL	\$39,114	\$3,803	\$3,978	\$46,895
PSEG	\$35,287	\$4,053	\$4,119	\$43,460
RECO	\$1,123	\$130	\$142	\$1,395
Exports	\$25,568	\$3,250	\$4,807	\$33,625
Total	\$722,142	\$75,235	\$127,605	\$924,982

Table 6-14 shows the total zonal DR charge per MWh of real-time load and exports in the first three months of 2018. On a dollar per MWh basis, real-time load and exports in AECO, ComEd, DPL, EKPC, JCPL, Met-Ed, PECO, PPL, PSEG and RECO paid the highest charges for economic demand response in the first three months of 2018. The highest average zonal monthly per MWh charges for economic demand response occurred in January, when ComEd, DEOK and EKPC paid an average of \$0.014/MWh.

Table 6-14 Zonal DR charge per MWh of load and exports: January through March, 2018

Zone	January	February	March	Zonal Average
AECO	\$0.013	\$0.003	\$0.004	\$0.009
AEP	\$0.013	\$0.003	\$0.004	\$0.008
APS	\$0.013	\$0.003	\$0.004	\$0.008
ATSI	\$0.013	\$0.003	\$0.004	\$0.008
BGE	\$0.013	\$0.003	\$0.003	\$0.007
ComEd	\$0.014	\$0.004	\$0.004	\$0.009
DAY	\$0.013	\$0.003	\$0.004	\$0.008
DEOK	\$0.014	\$0.003	\$0.004	\$0.008
Dominion	\$0.013	\$0.003	\$0.003	\$0.008
DPL	\$0.013	\$0.003	\$0.004	\$0.009
DLCO	\$0.013	\$0.003	\$0.004	\$0.008
EKPC	\$0.014	\$0.003	\$0.004	\$0.009
JCPL	\$0.013	\$0.003	\$0.004	\$0.009
Met-Ed	\$0.013	\$0.003	\$0.004	\$0.009
PECO	\$0.013	\$0.003	\$0.004	\$0.009
PENELEC	\$0.013	\$0.003	\$0.004	\$0.008
Pepco	\$0.013	\$0.003	\$0.003	\$0.008
PPL	\$0.013	\$0.003	\$0.004	\$0.009
PSEG	\$0.013	\$0.003	\$0.004	\$0.009
RECO	\$0.013	\$0.003	\$0.004	\$0.009
Exports	\$0.011	\$0.002	\$0.003	\$0.006
Monthly Average	\$0.013	\$0.003	\$0.004	\$0.008

Table 6-15 Monthly day-ahead and real-time economic DR charge: January 2017 through March 2018

Month	Day-ahead DR Charge			Real-time DR Charge			Per MWh Charge (\$/MWh)		
	2017	2018	Percent Change	2017	2018	Percent Change	2017	2018	Percent Change
Jan	\$35,134	\$310,371	783.4%	\$311,498	\$411,771	32.2%	\$0.010	\$0.013	31.4%
Feb	\$25,562	\$4,217	(83.5%)	\$16,797	\$71,018	322.8%	\$0.022	\$0.003	(85.9%)
Mar	\$70,093	\$13,130	(81.3%)	\$75,293	\$114,475	52.0%	\$0.002	\$0.004	91.0%
Apr	\$87,514			\$27,455			\$0.009		
May	\$75,756			\$251,622			\$0.010		
Jun	\$132,225			\$172,812			\$0.004		
Jul	\$100,525			\$334,151			\$0.063		
Aug	\$64,713			\$135,343			\$0.010		
Sep	\$79,924			\$171,172			\$0.014		
Oct	\$74,161			\$131,587			\$0.003		
Nov	\$23,472			\$91,519			\$0.001		
Dec	\$104,711			\$116,295			\$0.002		
Total	\$873,791	\$327,718	(62.5%)	\$1,835,544	\$597,264	(67.5%)	\$0.013	\$0.007	(46.5%)

Table 6-15 shows the monthly day-ahead and real-time DR charges and the per MWh DR charges for January 1, 2017, through March 31, 2018. The day-ahead DR charges increased by \$0.2 million, 150.6 percent, from \$0.1 million in the first three months of 2017 to \$0.3 million in the first three months of 2018. The real-time DR charges increased \$0.2 million, 48.0 percent, from \$0.4 million in the first three months of 2017 to \$0.6 million in the first three months of 2018. The per MWh charge paid by all real-time load and exports for economic DR decreased \$0.005/MWh, 41.0 percent, from \$0.011/MWh in the first three months of 2017 to \$0.007/MWh in the first three months of 2018.

Emergency and Pre-Emergency Programs

The emergency and pre-emergency load response programs consist of the limited, extended summer, annual and capacity performance demand response products. Full implementation of the Capacity Performance design for the 2020/2021 Delivery Year onward will require all emergency or pre-emergency demand resource to be registered as an annual capacity resource. Summer period demand response resources are allowed to aggregate with winter period capacity resources to fulfill the annual requirement of the CP design.²⁹ With the implementation of Capacity Performance, a performance assessment hour (PAH) occurs when emergency or pre-emergency is dispatched. PJM effectively eliminated the difference between pre-emergency and emergency by making both trigger a PAH. To participate as an emergency or pre-emergency demand resource, the CSP must clear MW in an RPM auction. Emergency and pre-emergency resources receive capacity revenue from the capacity market and also receive energy revenue at a predefined strike price from the energy market for reductions during a PJM initiated emergency or pre-emergency event. The rules applied to demand resources in the current market design do not treat demand resources in a manner comparable to generation capacity resources, even though demand resources are sold in the

²⁹ Summer period demand response has the same obligations as extended summer demand response. It must be available for June through October and the following May between 10:00AM and 10:00PM. See PJM OATT RAA Article 1.

same capacity market, are treated as a substitute for other capacity resources and displace other capacity resources in RPM auctions.

The MMU recommends that if demand resources remain on the supply side of the capacity market, a daily must offer requirement in the Day-Ahead Energy Market apply to demand resources, comparable to the rule applicable to generation capacity resources. This will help to ensure comparability and consistency for demand resources.

The MMU recommends that the option to specify a minimum dispatch price under the Emergency and Pre-Emergency Program Full option be eliminated and that participating resources receive the hourly real-time LMP less any generation component of their retail rate.³⁰

The ownership of demand resources was moderately concentrated based on committed MW in the capacity market in the 2017/2018 Delivery Year. The HHI for demand resources was 1433 for the 2017/2018 Delivery Year. In the 2017/2018 Delivery Year, the four largest companies contributed 69.6 percent of all registered demand resources.

Table 6-16 shows the HHI value for LDAs by delivery year. The HHI values are calculated by the cleared UCAP MW in each delivery year for demand resources. The closed loop interfaces created for the purpose of allowing emergency DR to set price are located in the RTO, MAAC, EMAAC, SWMAAC, DPL-SOUTH, ATSI, ATSI-CLEVELAND and BGE LDAs.

Table 6-16 HHI value for LDAs by delivery year: 2017/2018 Delivery Year³¹

Delivery Year	LDA	UCAP MW	HHI Value	HHI Concentration
2017/2018	RTO	4,018.0	2593	High
	MAAC	655.7	1914	High
	EMAAC	1,057.3	2093	High
	DPL-SOUTH	86.3	3145	High
	PSEG	236.9	1409	Moderate
	PS-NORTH	151.5	2043	High
	PEPCO	608.4	3726	High
	ATSI	720.8	3615	High
	ATSI-CLEVELAND	282.4	4927	High
	COMED	1,470.8	3353	High
	BGE	790.7	5309	High
	PPL	650.5	2167	High

Table 6-17 shows zonal monthly capacity market revenue to demand resources for the first three months of 2018. Capacity market revenue increased in the first three months of 2018 by \$11.9 million, 10.3 percent, from \$115.1 million in the first three months of 2017 to \$127.0 million in the first three months of 2018.

³⁰ See "Complaint and Motion to Consolidate of the Independent Market Monitor for PJM," Docket No. EL14-20-000 (January 28, 2014); "Comments of the Independent Market Monitor for PJM," Docket No. ER15-852-000 (February 13, 2015).

³¹ The RTO LDA refers to the rest of RTO.

Table 6-17 Zonal monthly capacity revenue: January through March, 2018

Zone	January	February	March	Total
AECO	\$490,121	\$442,690	\$490,121	\$1,422,931
AEP, EKPC	\$6,277,982	\$5,670,436	\$6,277,982	\$18,226,400
APS	\$3,635,631	\$3,283,796	\$3,635,631	\$10,555,058
ATSI	\$4,068,474	\$3,674,751	\$4,068,474	\$11,811,698
BGE	\$2,978,415	\$2,690,181	\$2,978,415	\$8,647,011
ComEd	\$5,931,017	\$5,357,047	\$5,931,017	\$17,219,081
DAY	\$757,213	\$683,934	\$757,213	\$2,198,361
DEOK	\$680,554	\$614,694	\$680,554	\$1,975,803
DLCO	\$4,444,838	\$4,014,692	\$4,444,838	\$12,904,368
Dominion	\$1,493,172	\$1,348,671	\$1,493,172	\$4,335,015
DPL	\$664,561	\$600,248	\$664,561	\$1,929,370
JCPL	\$616,455	\$556,798	\$616,455	\$1,789,709
Met-Ed	\$1,122,182	\$1,013,583	\$1,122,182	\$3,257,947
PECO	\$1,860,312	\$1,680,282	\$1,860,312	\$5,400,907
PENELEC	\$1,330,187	\$1,201,460	\$1,330,187	\$3,861,834
Pepco	\$2,320,851	\$2,096,252	\$2,320,851	\$6,737,954
PPL	\$2,491,224	\$2,250,138	\$2,491,224	\$7,232,587
PSEG	\$2,576,169	\$2,326,862	\$2,576,169	\$7,479,199
RECO	\$12,475	\$11,267	\$12,475	\$36,217
Total	\$43,751,832	\$39,517,784	\$43,751,832	\$127,021,449

Table 6-18 shows the amount of energy efficiency (EE) resources in PJM for the 2012/2013 through 2017/2018 delivery years. EE resources may participate in PJM without restrictions imposed by a state unless the Commission authorizes a state to impose restrictions.³² Only Kentucky has been authorized by the Commission. Energy efficiency resources are offered in the PJM Capacity Market. The total MW of energy efficiency resources committed increased by 18.7 percent from 1,784.3 MW in the 2016/2017 Delivery Year to 2,117.9 MW in the 2017/2018 Delivery Year.³³

³² See 161 FERC ¶ 61,245 at P 57 (2017); 107 FERC ¶ 61,272 at P 8 (2008).
³³ 2017 State of the Market Report for PJM: Volume 2, Section 5: Capacity Market, Table 5-10.

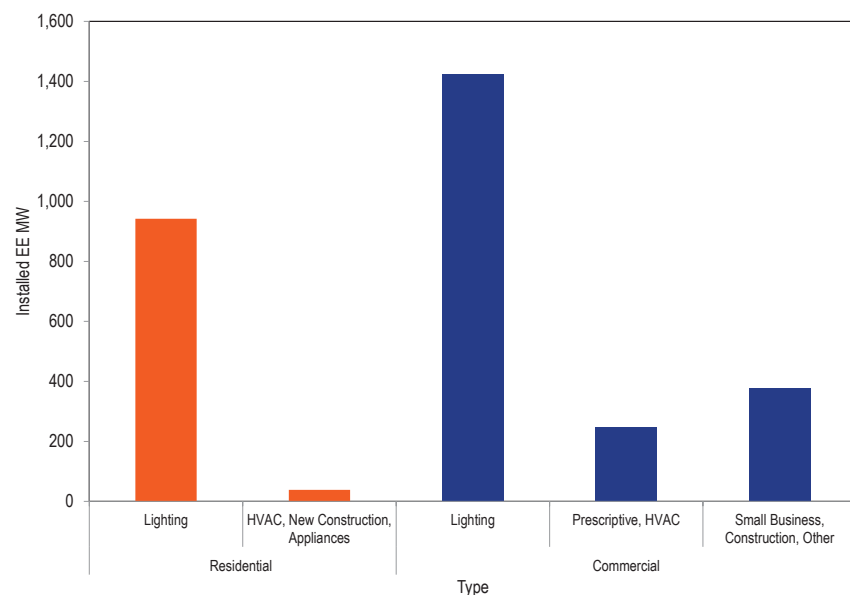
Table 6-18 Energy efficiency resources (MW): 2012/2013 through 2017/2018 Delivery Year

UCAP (MW) RPM Commitments	
01-Jun-12	631.2
01-Jun-13	1,024.8
01-Jun-14	1,282.4
01-Jun-15	1,525.5
01-Jun-16	1,784.3
01-Jun-17	2,117.9

Figure 6-3 shows the amount of installed EE MW in PJM by technology for the 2017/2018 Delivery Year. An installed EE resource may participate as a capacity resource for up to a maximum of four consecutive delivery years.³⁴ Energy efficiency MW procured by an incentive program for lighting, HVAC or appliances are listed as prescriptive MW. prescriptive energy efficiency MW have an assumed savings calculated by an expected installation rate dependent on units sold and the difference between the current average electricity usage of what is being replaced and the new product. For example, if 100 lights are sold, an expected installation rate could be that 95 are installed and replacing a light that consumes more electricity. Instead of measuring each light replaced, the EE provider takes the difference between the industry average and the new light. The calculated MW are bid into PJM's Capacity Market as EE. The installed EE resources for the 2017/2018 Delivery Year include any installed EE resource between June 1, 2013 and May 31, 2017.

³⁴ PJM. "Manual 18: Capacity Market," Rev. 38 (July 27, 2017), p. 80.

Figure 6-3 Installed energy efficiency MW by type: 2017/2018 Delivery Year



FERC accepted PJM’s proposed 30 minute lead time as a phased in approach on May 9, 2014, effective on June 1, 2015.³⁵ The quick lead time demand response was defined after demand resources cleared in the RPM base residual auctions for the 2014/2015, 2015/2016, 2016/2017 and 2017/2018 delivery years. PJM submitted a filing on October 20, 2014, to allow DR that is unable to respond within 30 minutes to exit the market without penalty before the mandatory 30 minute lead time with the 2015/2016 Delivery Year.³⁶ The quick lead time is the default lead time starting June 1, 2015, unless a CSP submits an exception request for 60 or 120 minute notification time due to a physical constraint.³⁷ The exception requests must clearly state why the resource is unable to respond within 30 minutes based on the defined reasons for exception listed in Manual 18. Once a location is granted a longer lead time, the resource does not need to resubmit for a longer lead time each delivery

³⁵ See 147 FERC ¶ 61,103 (2014).

³⁶ See PJM Interconnection, LLC, Docket No. ER14-135-000 (October 20, 2014).

³⁷ See "PJM Manual 18: Capacity Market," Rev. 38 (July 27, 2017) at 62.

year. Resources that request longer lead times without a physical constraint are rejected.

Table 6-19 shows the amount of nominated MW and locations by product type and lead time for the 2017/2018 Delivery Year. PJM approved 2,682 locations, or 17.1 percent of all locations, which have 3,681.5 nominated MW, or 40.2 percent of all nominated MW, for exceptions to the 30 minute lead time rule for the 2017/2018 Delivery Year.

Table 6-19 Nominated MW and locations by product type and lead time: 2017/2018 Delivery Year

Lead Type	Pre-Emergency MW					Emergency MW					
	Limited	Extended Summer	Annual	Capacity Performance	Pre-Emergency Total	Limited	Extended Summer	Annual	Capacity Performance	Emergency Total	Total
Quick Lead (30 Minutes)	1,410.8	3,137.9	418.0	280.6	5,247.3	51.1	160.4	7.5	7.0	225.9	5,473.2
Short Lead (60 Minutes)	129.5	140.8	46.0	79.6	395.9	3.0	13.2	0.0	0.0	16.1	412.0
Long Lead (120 Minutes)	822.6	1,701.2	476.6	156.4	3,156.7	18.8	43.1	44.7	6.2	112.8	3,269.6
Total	2,362.9	4,979.8	940.6	516.6	8,799.9	72.8	216.7	52.2	13.2	354.8	9,154.7

Lead Type	Pre-Emergency Locations					Emergency Locations					
	Limited	Extended Summer	Annual	Capacity Performance	Pre-Emergency Total	Limited	Extended Summer	Annual	Capacity Performance	Emergency Total	Total
Quick Lead (30 Minutes)	3,712	7,587	1,205	126	12,630	84	269	8	23	384	13,014
Short Lead (60 Minutes)	97	155	47	6	305	17	6	0	0	23	328
Long Lead (120 Minutes)	380	617	1,288	15	2,300	12	35	6	1	54	2,354
Total	4,189	8,359	2,540	147	15,235	113	310	14	24	461	15,696

There are three different ways to measure load reductions of demand resources. The Firm Service Level (FSL) method measures the difference between a customer's peak load contribution (PLC) and real-time load, multiplied by the loss factor (LF). The Guaranteed Load Drop (GLD) method measures the minimum of: the comparison load minus real-time load multiplied by the loss factor; or the PLC minus the real-time load multiplied by the loss factor. The comparison load estimates what the load would have been if PJM did not declare a Load Management Event, similar to a CBL, by using a comparable day, same day, customer baseline, regression analysis or backup generation method. Limiting the GLD method to the minimum of the two calculations ensures reductions occur below the PLC, thus avoiding double counting of load reductions.³⁸ The implementation of a Winter Peak Load (WPL), effective for the 2017/2018 Delivery Year, measures capacity compliance during winter months from the WPL rather than the PLC. The principle is that a customer's actual use of capacity should be compared to the level of capacity that a customer is required to pay for. Capacity costs are allocated to LSEs by PJM based on the single coincident peak load method. In PJM, the single coincident peak occurs in the summer.³⁹ LSEs generally allocate capacity costs to customers based on the five coincident peak method.⁴⁰ The allocation

³⁸ 135 FERC ¶ 61,212.

³⁹ OATT Attachment DD.5.11.

⁴⁰ OATT Attachment M-2.

of capacity costs to customers defines each customer's PLC. Customers pay for capacity based on the PLC, not the WPL. The MMU recommends setting the baseline for measuring capacity compliance under summer and winter compliance at the customer's PLC, similar to GLD, to avoid double counting, to avoid under counting and to ensure that a customer's purchase of capacity is calculated correctly. The Direct Load Control (DLC) method measures when the CSP turns on and turns off the direct load control

switch to remotely trigger load reductions. DLC customers were not required to submit meter data to calculate load reductions. The direct load control method is no longer an eligible reduction method after May 31, 2016.⁴¹ The FSL and GLD equations for calculating load reductions are:

$$\text{FSL Reduction} = \text{PLC} - (\text{Load} \cdot \text{LF})$$

$$\text{GLD Reduction} = \text{Minimum of } \{(\text{comparison load} - \text{Load}) \cdot \text{LF}; \text{PLC} - (\text{Load} \cdot \text{LF})\}$$

Table 6-20 shows the MW registered by measurement and verification method and by technology type for the 2017/2018 Delivery Year. For the 2017/2018 Delivery Year, 99.4 percent use the FSL method and 0.6 percent use the GLD measurement and verification method.

⁴¹ "PJM Manual 18: PJM Capacity Market," Rev. 38 (July 27, 2017) at 63.

Table 6-20 Reduction MW by each demand response method: 2017/2018 Delivery Year

Measurement and Verification Method	Technology Type							Total	Percent by type
	On-site Generation MW	HVAC MW	Refrigeration MW	Lighting MW	Manufacturing MW	Water Heating MW	Other, Batteries or Plug Load MW		
Firm Service Level	1,266.4	2,973.7	237.4	769.6	3,726.2	78.7	52.0	9,104.0	99.4%
Guaranteed Load Drop	8.9	19.4	1.6	3.6	17.1	0.1	-0.0	50.7	0.6%
Total	1,275.4	2,993.1	239.0	773.2	3,743.2	78.8	52.0	9,154.7	100.0%
Percent by method	13.9%	32.7%	2.6%	8.4%	40.9%	0.9%	0.6%	100.0%	

Table 6-21 shows the fuel type used in the onsite generators for the 2017/2018 Delivery Year. For the 2017/2018 Delivery Year, there are 354.5 MW, 27.8 percent, registered with an onsite generator in the emergency program. Of the 13.9 percent of nominated emergency and pre-emergency demand response MW identified as using onsite generation for the 2017/2018 Delivery Year, 74.5 percent of MW are diesel, 24.4 percent of MW are natural gas and 1.1 percent of MW are gasoline, kerosene, oil, propane or waste products.

Table 6-21 Onsite generation fuel type (MW): 2017/2018 Delivery Year

Fuel Type	2017/2018	
	MW	Percent
Diesel	950.1	74.5%
Natural Gas	311.3	24.4%
Gasoline, Kerosene, Oil, Propane, Waste Products	13.9	1.1%
Total	1,275.4	100.0%

Emergency and Pre-Emergency Event Reported Compliance

Table 6-22 shows the demand response cleared UCAP MW for PJM by delivery year. Total demand response cleared in PJM decreased by 1,284.6 MW, or 9.7 percent, from 13,265.3 MW in the 2016/2017 Delivery Year to 11,980.7 MW in the 2017/2018 Delivery Year. The DR percent of capacity decreased by 0.8 percent, from 5.1 percent in the 2016/2017 Delivery Year to 4.3 percent in the 2017/2018 Delivery Year.

Table 6-22 Demand response cleared MW UCAP for PJM: 2011/2012 through 2017/2018 Delivery Year

Delivery Year	DR Cleared MW UCAP	DR Percent of Capacity MW UCAP
2011/2012	1,826.6	1.4%
2012/2013	8,740.9	6.2%
2013/2014	10,779.6	6.7%
2014/2015	14,943.0	9.3%
2015/2016	15,453.7	8.9%
2016/2017	13,265.3	5.1%
2017/2018	11,980.7	4.3%

Subzonal dispatch of emergency demand resources was mandatory for the 2014/2015 Delivery Year, but only if the subzone was defined by PJM no later than the day before the dispatch. There are thirteen dispatchable subzones in PJM effective April 26, 2017: AEP_CANTON, ATSI_CLE, DPL_SOUTH, PS_NORTH, ATSI_NEWCASOE, PPL_WESCO, ATSI_BLKRIVER, PENELEC_ERIC, APS_EAST, DOM_CHES, DOM_YORKTOWN, AECO_ENGLAND, JCPL_REDBANK.⁴² PJM can remove a defined subzone at their discretion. Subzones should not be removed once defined, as the subzone may need to be dispatched again in the future. The METED_EAST, PENELEC_EAST, PPL_EAST and DOM_NORFOLK subzones were removed by PJM. More subzones may have been removed by PJM but PJM does not keep a record of created and removed subzones. The MMU recommends that PJM not remove any defined subzones and maintain a public record of all created and removed subzones.

⁴² See "Load Management Subzones," <<http://www.pjm.com/~media/markets-ops/demand-response/subzone-definition-workbook.ashx>> (Accessed January 22, 2018).

The subzone design and closed loop interfaces are related. PJM implemented closed loop interfaces with the stated purpose of improving the incorporation of reactive constraints into energy prices and to allow emergency DR to set price.⁴³ PJM applies closed loop interfaces so that it can use units needed for reactive support to set the energy price when they would not otherwise set price under the LMP algorithm. PJM also applies closed loop interfaces so that it can use emergency DR resources to set the real-time LMP when DR resources would not otherwise set price under the fundamental LMP logic. Of the 17 closed loop interface definitions, 11 (65 percent) were created for the purpose of allowing emergency DR to set price.⁴⁴

Demand resources can be dispatched for voluntary compliance during any hour of any day, but dispatched resources are not measured for compliance outside of the mandatory compliance window for each demand product. A demand response event during a product's mandatory compliance window also may not result in a compliance score. When demand response events occur for partial hours under 30 minutes or for a subzone dispatch that was not defined one business day before dispatch, the events are not measured for compliance.

Limited, extended summer and annual demand resources are paid based on the average performance by registration for the duration of a demand response event. Demand response should measure compliance no less than hourly to accurately report reductions during demand response events. The current rules use the average reduction for the duration of an event. The average duration across multiple hours does not provide an accurate metric for each hour of the event and is inconsistent with the measurement of generation resources. Measuring compliance hourly would provide accurate information to the PJM system. The MMU recommends demand response event compliance be calculated for each hour and the penalty structure reflect hourly compliance.⁴⁵

Under the new capacity performance design of the PJM Capacity Market, compliance for potential penalties will be measured for DR only during performance assessment hours (PAH).⁴⁶ When pre-emergency or emergency demand response is dispatched, a PAH is triggered for PJM. As a result, PJM now classifies all demand response as an emergency resource.

The MMU recommends that demand response resources be treated as economic resources like all other capacity resources and therefore that the dispatch of demand response resources not automatically trigger a performance assessment hour (PAH) for CP compliance.

PJM allows compliance to be measured across zones within a compliance aggregation area (CAA) or Emergency Action Area (EAA).⁴⁷ ⁴⁸ A CAA, or EAA, is an electrically connected area that has the same capacity market price. This changes the way CSPs dispatch resources when multiple electrically contiguous areas with the same RPM clearing prices are dispatched. The compliance rules determine how CSPs are paid and thus create incentives that CSPs will incorporate in their decisions about how to respond to PJM dispatch.⁴⁹ The multiple zone approach is even less locational than the zonal and subzonal approaches and creates larger mismatches between the locational need for the resources and the actual response. If multiple zones within a CAA are called by PJM, a CSP will dispatch the least cost resources across the zones to cover the CSP's obligation. This can result in more MW dispatched in one zone that are locationally distant from the relief needed and no MW dispatched in another zone, yet the CSP could be considered 100 percent compliant and pay no penalties. More locational deployment of load management resources would improve efficiency. The MMU recommends that demand resources be required to provide their nodal location. Nodal dispatch of demand resources would be consistent with the nodal dispatch of generation.

43 See PJM/Alstom, "Approaches to Reduce Energy Uplift and PJM Experiences," presented at the FERC Technical Conference: Increasing Real-Time and Day-Ahead Market Efficiency Through Improved Software in Docket No. AD10-12-006 <<http://www.ferc.gov/june-tech-conf/2015/presentations/m2-3.pdf>> (June 23, 2015).

44 See the 2017 *State of the Market Report for PJM*, Volume 2, Section 4, Energy Uplift, for additional information regarding all closed loop interfaces and the impacts to the PJM markets.

45 "PJM Manual 18: Capacity Market," Rev. 38 (July 27, 2017) at 148.

46 OATT § 1 (Performance Assessment Hour).

47 CAA is "a geographic area of Zones or sub-Zones that are electrically contiguous and experience for the relevant Delivery Year, based on Resource Clear Prices of, for Delivery Years through May 31, 2018, Annual Resources and for the 2018/2019 Delivery Year and subsequent Delivery Years, Capacity Performance Resources, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction." OATT § 1.

48 PJM, "Manual 18: Capacity Market," Rev. 40 (Feb. 22, 2018), p. 185.

49 See "PJM Manual 18: Capacity Market," Rev. 38 (July 27, 2017) at 166).

Load increases are not netted against load decreases for dispatched demand resources across hours or across registrations within hours for compliance purposes, but are treated as zero. This skews the compliance results towards higher compliance since poorly performing demand resources are not used in the compliance calculation. When load is above the peak load contribution during a demand response event, the load reduction is negative; it is a load increase rather than a decrease. PJM ignores such negative reduction values and instead replaces the negative values with a zero MW reduction value. The PJM Tariff and PJM Manuals do not limit the compliance calculation value to a zero MW reduction value.⁵⁰ The compliance values PJM reports for demand response events are different than the actual compliance values accounting for both increases and decreases in load from demand resources that are called on and paid under the program.

The MMU recommends that compliance rules be revised to include submittal of all necessary hourly load data, and that negative values be included when calculating event compliance across hours and registrations.

Demand resources that are also registered as economic resources have a calculated CBL for the emergency event days. Demand resources that are not registered as Economic Resources use the three day CBL type with the symmetrical additive adjustment for measuring energy reductions without the requirements of a Relative Root Mean Squared Error (RRMSE) Test required for all economic resources.⁵¹ The MMU recommends the RRMSE test be required for all demand resources with a CBL. The correct CBL may more accurately measure reductions for demand resources.

Definition of Compliance

Currently, the calculation methods of event and test compliance do not provide reliable results. PJM's interpretation of load management event rules allows over compliance to be reported when there is no actual over compliance. Settlement locations with a negative load reduction value (load increase) are not netted by PJM within registrations or within demand response portfolios.

⁵⁰ OA Schedule 1 § 8.9.

⁵¹ 157 FERC ¶ 61,067, (2016).

A resource that has load above their baseline during a demand response event has a negative performance value. PJM limits compliance shortfall values to zero MW. This is not explicitly stated in the Tariff or supporting Manuals and the compliance formulas for FSL and GLD customers do allow negative values.⁵²

Limiting compliance to only positive values incorrectly calculates compliance. For example, if a registration had two locations, one with a 50 MWh load increase when called, and another with a 75 MWh load reduction when called, PJM calculates compliance for that registration as a 75 MWh load reduction for that event hour. Negative settlement MWh are not netted across hours or across registrations for compliance purposes. A location with a load increase is set to a zero MW reduction. For example, in a two hour event, if a registration showed a 15 MWh load increase in hour one, but a 30 MWh reduction in hour two, the registration would have a calculated 0 MWh reduction in hour one and a 30 MWh reduction in hour two. This has compliance calculated at an average hourly 15 MWh load reduction for that two hour event, compared to a 7.5 MWh observed reduction. Reported compliance is greater than observed compliance, as locations with load increases, i.e. negative reductions, are treated as zero for compliance purposes.

Changing a demand resource compliance calculation from a negative value to 0 MW inaccurately values event performance and capacity performance. Inflated compliance numbers for an event overstates the true value and capacity of demand resources. A demand response capacity resource that performs negatively is also displacing another capacity resource that could supply capacity during a delivery year. By setting the negative compliance value to 0 MW, PJM is inaccurately calculating the value of demand resources.

An extreme example makes clear the fundamental problems with the use of measurement and verification methods to define the level of power that would have been used but for the DR actions, and the payments to DR customers that result from these methods. The current rules for measurement and verification for demand resources make a bankrupt company, a customer that no longer exists due to closing of a facility or a permanently shut down company, or a

⁵² OA Schedule 1 § 8.9.

company with a permanent reduction in peak load due to a partial closing of a facility, an acceptable demand response customer under some interpretations of the tariff, although it is the view of the MMU that such customers should not be permitted to be included as registered demand resources. Companies that remain in business, but with a substantially reduced load, can maintain their pre-bankruptcy FSL (firm service level to which the customer agrees to reduce in an event) commitment, which can be greater than or equal to the post-bankruptcy peak load. The customer agrees to reduce to a level which is greater than or equal to its new peak load after bankruptcy. When demand response events occur the customer would receive credit for 100 percent reduction, even though the customer took no action and could take no action to reduce load. This problem exists regardless of whether the customer is still paying for capacity. To qualify and participate as a demand resource, the customer must have the ability to reduce load. "A participant that has the ability to reduce a measurable and verifiable portion of its load, as metered on an EDC account basis."⁵³ Such a customer no longer has the ability to reduce load in response to price or a PJM demand response event. CSPs in PJM have and continue to register bankrupt customers as DR customers. PJM finds acceptable the practice of CSPs maintaining the registration of customers with a bankruptcy related reduction in demand that are unable, as a result, to respond to emergency events. Three proposals that included language to remove bankrupt customers from a CSP's portfolio failed at the June 7, 2017, Market Implementation Committee.⁵⁴ The registered customers that are bankrupt and the amount of registered MW cannot be released for reasons of confidentiality.

When demand resources are not dispatched during a mandatory response window, each CSP must test their portfolio to the levels of capacity commitment.⁵⁵ A CSP picks the testing day, for one hour, on any non-holiday

weekday during the applicable mandatory window. A CSP is able to retest if a resource fails to provide the required reduction by less than 25 percent. The ability of CSPs to pick the test time does not simulate emergency conditions. As a result, test compliance is not an accurate representation of the capability of the resource to respond to an actual PJM dispatch of the resource. The MMU recommends that load management testing be initiated by PJM with limited warning to CSPs in order to more accurately represent the conditions of an emergency event.

Table 6-23 shows the test penalties by delivery year by product type for the 2015/2016 Delivery Year through the 2017/2018 Delivery Year. The shortfall MW are calculated for each CSP by zone. The weighted rate per MW is the average penalty rate paid per MW. The total penalty column is the sum of the daily test penalties by delivery year and type.⁵⁶ The testing window for the limited product is open through September. The testing window for the extended summer, annual and Capacity Performance product is open through the end of the delivery year.

⁵³ OA Schedule 1 § 8.2.

⁵⁴ There was one proposal from PJM, one proposal from a market participant and one proposal from Monitoring Analytics. See *Approved Minutes from the Market Implementation Committee*, <<http://www.pjm.com/-/media/committees-groups/committees/mic/20170607/20170607-minutes.ashx>>.

⁵⁵ The mandatory response time for Limited DR is June through September between 12:00PM to 8:00PM EPT, for Extended Summer is June through October and the following May between 10:00AM to 10:00PM EPT, for Annual DR is June through October and the following May between 10:00AM to 10:00PM and is November through April between 6:00AM to 9:00PM EPT, for Base Capacity DR is June through September between 10:00AM to 10:00PM EPT, Capacity Performance DR is June through October and the following May between 10:00AM to 10:00PM EPT and November through April between 6:00AM through 9:00PM EPT. See PJM. "Manual 18: Capacity Market," Rev. 38 (July 27, 2017), p. 69.

⁵⁶ Penalties for 2017/2018 are calculated for June 1, 2017 through March 31, 2018.

Table 6-23 Test penalties by delivery year by product type: 2015/2016 through 2017/2018

Product Type	2015/2016			2016/2017			2017/2018		
	Shortfall MW	Weighted Rate per MW	Total Penalty	Shortfall MW	Weighted Rate per MW	Total Penalty	Shortfall MW	Weighted Rate per MW	Total Penalty
Limited	96.4	\$165.35	\$5,836,255	48.9	\$166.41	\$2,967,158	13.9	\$124.08	\$526,099
Extended Summer	1.9	\$163.70	\$113,835	7.3	\$138.14	\$370,290			
Annual	3.7	\$184.67	\$250,621	4.8	\$137.45	\$241,406			
Base									
Capacity Performance				2.1	\$160.80	\$124,310			
Total	102.0	\$166.02	\$6,200,711	63.1	\$160.72	\$3,703,163	13.9	\$124.08	\$526,099

Emergency Energy Payments

Emergency and pre-emergency demand response dispatched during a load management event by PJM are eligible to receive emergency energy payments if registered under the full program option. The full program option includes an energy payment for load reductions during a pre-emergency or emergency event for demand response events and capacity payments.⁵⁷ There were 97.9 percent of nominated MW for the 2016/2017 Delivery Year and 98.2 percent of nominated MW for the 2017/2018 Delivery Year registered under the full program option. The strike price is set by the CSP before the delivery year starts and cannot be changed during the delivery year. The demand resource energy payments are equal to the higher of hourly zonal LMP or a strike price energy offer made by the participant, including a dollar per MWh minimum dispatch price and an associated shutdown cost. The scarcity pricing rules allow a maximum DR energy price of \$1,849 per MWh for the 2016/2017 Delivery Year and the 2017/2018 Delivery Year.^{58 59} Demand resources clear the capacity market like all other capacity resources and the dispatch of demand resources should not trigger a scarcity event. Demand resources should not be permitted to offer above \$1,000 per MWh without cost justification or to include a shortage penalty in the offer.

⁵⁷ *Id.*

⁵⁸ 139 FERC ¶ 61,057 (2012).

⁵⁹ FERC accepted proposed changes to have the maximum strike price for 30 minute demand response to be \$1,000/MWh + 1*Shortage penalty - \$1.00, for 60 minute demand response to be \$1,000/MWh + (Shortage Penalty/2) and for 120 minute demand response to be \$1,100/MWh from ER14-822-000.

Shutdown costs for demand response resources are not adequately defined in Manual 15. PJM's Cost Development Subcommittee (CDS) approved changes to Manual 15 to eliminate shutdown costs for demand response resources participating in the Synchronized Reserve Market, but not demand resources or economic resources.⁶⁰

Table 6-24 shows the distribution of registrations and associated MW in the emergency full option across ranges of minimum dispatch prices for the 2017/2018 Delivery Year. The majority of participants, 73.4 percent of locations and 65.7 percent of nominated MW, have a minimum dispatch price between \$1,550 and \$1,849 per MWh, which is the maximum price allowed for the 2017/2018 Delivery Year, 4.8 percent of location and 4.0 percent of nominated MW have a dispatch price between \$0 and \$999 per MWh, and 95.2 percent of locations and 96.0 percent of nominated MW have a dispatch price above \$1,000 per MWh. The shutdown cost of resources with \$999 to \$1,100 per MWh strike prices had the highest average at \$239.13 per location and \$937.37 per nominated MW.

⁶⁰ "PJM Manual 15: Cost Development Guidelines," Rev. 29 (May 15, 2017) at 59.

Table 6-24 Distribution of registrations and associated MW in the full option across ranges of minimum dispatch: 2017/2018 Delivery Year

Ranges of Strike Prices (\$/MWh)	Locations	Percent of Total	Nominated MW (ICAP)	Percent of Total	Shutdown Cost per Location	Shutdown Cost Per Nominated MW (ICAP)
\$0-\$1	459	2.9%	53.9	0.6%	\$0.00	\$0.00
\$1-\$999	291	1.9%	305.4	3.4%	\$77.61	\$73.94
\$999-\$1,100	1,288	8.3%	328.6	3.7%	\$239.13	\$937.37
\$1,100-\$1,275	1,789	11.5%	2,925.9	32.5%	\$94.68	\$57.89
\$1,275-\$1,550	315	2.0%	283.5	3.2%	\$57.43	\$63.81
\$1,550-\$1,849	11,437	73.4%	5,093.4	56.7%	\$44.54	\$100.01
Total	15,579	100.0%	8,990.8	100.0%	\$65.95	\$114.28

Distributed Energy Resources

Distributed Energy Resources (DER) are not well defined, but generally include small scale generation directly connected to the grid, generation connected to distribution level facilities and behind the meter generation.⁶¹ For example, Table 6-21 shows the fuel mix of behind the meter generation participating as emergency demand response in the 2017/2018 Delivery Year.

Clear rules for defining DERs and for defining the ways in which DERs will interact with the wholesale power markets do not yet exist, although the development of those rules is under active discussion.⁶² DERs should be treated like other resources. Creating preferential treatment for DERs could create an incentive to move resources behind the meter in a manner inconsistent with efficiency and competitive markets. FERC directed that DER aggregation be as geographically broad as technically feasible.⁶⁴ Aggregation to a single node is as geographically broad as technically feasible. Allowing DER aggregation across nodes is not consistent with the nodal market design. Getting the rules correct at the beginning of DER development is essential to the active and effective participation of DER in the wholesale power markets in a manner that enhances rather than undercuts the efficiency and competitiveness of the power markets.

⁶¹ Some energy storage facilities may be DERs. The February 15, 2018, FERC Order No. 841 requires that energy storage resources have access to capacity, energy and ancillary service markets. 162 FERC ¶ 61,127, at P.1. (2018).

⁶² In PJM, the Distributed Energy Resources Subcommittee (DERSC) is currently discussing these issues. *Distributed Energy Resources Subcommittee*, PJM, <<http://www.pjm.com/committees-and-groups/subcommittees/ders.aspx>>.

⁶³ See "Notice of Technical Conference," Docket No. RM18-9-000 and AD18-10-000 (February 15, 2018); "Technical Conference Distributed Energy Resources," Docket No. RM18-9-000 and AD18-10-000 (April 10, 2018).

⁶⁴ 162 FERC ¶ 32,718 at P. 139.

