

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 24, 2004

In Reply Refer To: PJM Interconnection, L.L.C.
Docket No. ER02-1326-008

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Reference: PJM Interconnection, L.L.C., Docket No. ER02-1326-008, Report on PJM Load Response Programs

Dear Ms. Bumgarner:

1. On December 31, 2003, in compliance with the Commission's Order of August 8, 2003,¹ you submitted an assessment of PJM Load Response programs prepared by the PJM Market Monitoring Unit. This report is accepted for informational purposes.
2. In its assessment report, PJM responded to a series of specific questions posed by the Commission in its August Order regarding the Economic Load Response Program (Economic Program). The report also evaluates the non hourly-metered pilot program and the Emergency Load Response Program (Emergency Program).
3. PJM reports that its Economic Program has grown significantly in the two years since 2001, as measured by total MW enrolled in the program and actual MWh response under the program. In 2003, there were a total of 724 MW registered in the Economic Program, an increase of 115% from 337 MW in 2002 which was, in turn an increase of over 400% over the 65 MW enrolled in 2001. The level of load reductions increased from 50 MWh in 2001 to 6,462 MWh in 2002 to 14,678 MWh in 2003.² Conversely,

¹See PJM Interconnection, L.L.C., 104 FERC ¶ 61,308 (2003)

² Load reductions are measured by multiplying hourly MW reductions by the hours in which they occurred. Thus a 1 MW reduction for one hour is 1 MWh. A 1 MW reduction in one hour and a 3 MW reduction a second hour is 4 MWh.

payments per MWh have decreased 58% from 2001 to 2002, and 61% from 2002 to 2003. The MWh of actual load reductions per MW enrolled in the Economic Program increased from 2001 to 2002 and was relatively constant between 2002 and 2003. PJM also reports that due to the combination of milder weather and changes in supply and demand conditions that resulted in lower prices, the maximum price impact of the Economic Program on energy market prices was approximately \$1 per MWh in 2003.

4. PJM reports that the benefits of the Economic Program in 2003, when its impact on overall market prices was measured, were much greater than the costs. PJM further states that the potential benefits of increasing demand side responsiveness in improved efficiency of the market are extremely large and certainly exceed the relatively small program costs by a wide margin.

5. PJM also stated in its assessment report that “the Economic Program should be understood as a transition mechanism to a fully functional demand side of the energy market.”³ In response to Commission queries about how PJM can “best elicit the maximum possible amount of demand response”⁴ and whether the current programs are the best means of doing that, PJM stated that a complete transitional strategy must be more fully developed and implemented. PJM states that the Economic Program is an essential part of the demand side programs that are or will soon be implemented by PJM. These include both programs that will provide direct financial incentives as well as programs that address institutional and market design barriers to participation. The report also recommends that PJM should continue its efforts to educate market participants about current programs and opportunities, and to recruit and train Curtailment Service Providers for existing programs.

6. PJM reported on the status of its non hourly-metered pilot program. In 2003, one customer (with about 45,000 end users) participated in the non-hourly metered program for about 131 separate hourly reductions totaling about 1,816 MWh and averaging about 14 MW per hour. The lack of greater involvement was attributed to the insufficient time between final approval of the program and the summer to make such participation economic. PJM recommends that this program should be continued, with PJM continuing and strengthening its efforts to ensure that measurement and verification are accurate.

7. Procedures concerning the operation of the Emergency Program were discussed in the report. PJM requested a load reduction under the Emergency Program on July 3, 2002. After evaluation, PJM determined that that particular invocation of the Emergency

³ December 31 Report at page 10.

⁴ August Order at P 15.

Program had not been necessary. Changes that PJM has initiated to ensure that the Emergency Program is not called prematurely include calling for Active Load Management as early as possible, calling the Emergency Program only when a Maximum Generation Emergency is impending, and the implementation of a Supplemental Status Report application at PJM control centers to improve accuracy of reserve status information.

8. PJM responded to the Commission's request to evaluate the appropriateness of the Emergency Program setting the PJM market clearing price in a manner similar to that employed by NYISO with regard to its Emergency Demand Response and Special Case Resource Programs. PJM concluded that the NYISO pricing method is not applicable to the PJM control area, based on the differences between PJM and NYISO's markets. As further support for this statement, PJM asserts that it was appropriate that the system price did not reflect the \$500 per MWh paid to resources that curtailed through participation in the Emergency Program on July 3, 2002, as that was not the value of the resources to the system, but was the required payment under the DSR tariff. PJM argues that the \$500 per MWh floor in the Emergency Program is not based on the value of the resources in the market and should not serve to set the market price in the absence of a market mechanism to acquire such resources.

9. Notice of the filing was published in the Federal Register⁵, with comments, protests, and interventions due on or before January 21, 2004. Reliant Resources, Inc. (Reliant) filed a timely comment.

10. Reliant commented on three issues associated with PJM's assessment report. First, Reliant agrees with PJM's assertion that the \$500 per MWh minimum payment is not based on the value of the resources in the market. Second, Reliant argues that the resources deployed in the Emergency Program, by design, are never allowed to set the system price, and that this is inconsistent with the market-based principles in the LMP model employed by PJM. Reliant suggests that PJM modify its program to allow customers to submit standing bids with minimum response times to curtail usage during emergency conditions. Finally, Reliant encourages PJM to create a process that would allow the competitive marketplace to bring about these programs

11. The Commission accepts PJM's report for informational purposes. Additionally, we are mindful that PJM's current economic and emergency demand response programs will sunset on December 1, 2004, and that PJM will need to make a new filing to continue its demand response programs past that date. In those new filings, PJM should

⁵ 69 Fed. Reg. 2,586 (2004).

consider Reliant's argument that it is inconsistent with market-based principles not to permit the resources deployed through the Emergency program to set the system price. The Commission directs PJM to include in its upcoming filings its views on whether and how resources deployed through the Emergency Program should either (a) set the system price, or (b) be linked to the system price in a manner that more closely reflects the market value of the availability of those resources for emergency use, including the reliability benefits that such availability may provide. If PJM does not believe that these resources should set or in any way contribute to the system price, we then direct PJM to state the price or pricing mechanism that it believes appropriate (whether the current \$500 per MWh, or otherwise), and to justify that choice. Furthermore, when PJM files its October 1, 2004 evaluation reports for both the Economic and Emergency programs, the Commission directs PJM to conduct a full assessment, which include both economic and programmatic evaluations, of “how it can best elicit the maximum possible amount of demand response and whether its current demand response program or programs are the best means of doing that.”⁶

By direction of the Commission.

Linda Mitry,
Acting Secretary.

⁶ PJM Interconnection, LLC, 99 FERC ¶ 61,139 at 61,575 (2002).