DRAFT (work in progress)
PJM Stop Gap Proposal (Demand Side Wholesale Load Reduction or "WLR") and summary of implementation issues under discussion

PJM has been actively working with PJM stakeholder and State retail regulatory authorities regarding some of the implementation details for the PJM Stop Gap proposal. The focus of the discussion has been to determine how the PJM Stop Gap filing would work for market participants if FERC approves the PJM filing and the Supreme Court does not review the *EPSA* decision. PJM has been seeking ways to make the transition from the current CSP supply side model to an *EPSA* compliant LSE demand side model should the *EPSA* decision become final, in order to ensure continued efficient demand side participation in the wholesale capacity market without untoward risk that the RPM clearing results will be upset following the Commission and the courts' evaluation of the future implications of *EPSA* in capacity markets.

<u>Who can commit WLR into the RPM auctions?</u>

PJM has received many questions regarding the specifics of who can commit WLR into the BRA. Market participants are very focused on this process since this is the entry point for WLR and the BRA is scheduled to occur in 10 weeks[1]. PJM has clarified that LSE's or PJM members in the process of becoming LSEs,[2] or agents for such entities, are permitted to commit WLR in the BRA.

An agent for an LSE may be any PJM member, including an existing Curtailment Service Provider, that has an agreement in place with the LSE to commit WLR on its behalf to the PJM capacity market. An agency relationship may be created through a voluntary commercial relationship between the LSE and the WLR provider or created through regulation by the RERRA[3]. The RERRA may also consider different options to facilitate the commercial arrangements between the LSE and the WLR provider through a standard commercial agreement template.

PJM believes many of the EDCs today, even those that auction off POLR load to other wholesale LSEs, are signatories of the PJM RAA and still serve some quantity of retail load. As such, this qualifies the EDC as an LSE for purposes of committing WLR to the capacity market. For those EDCs that serve no load, the EDC can only commit WLR as an agent for an LSE, which may require changes to the existing standard contracts executed between the EDC and the LSEs that are awarded load as part of the POLR auction process.

PJM plans to use the existing DR plan process for WLR whereby the LSE (or its agent) will commit to deliver WLR for the Delivery Year. PJM fully recognizes that the load serving responsibility may change between the time of the BRA and the Delivery Year and therefore the LSE that commits the WLR must do one of the following prior to the Delivery Year to fulfill their commitment and avoid any penalties:

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[1] Supply side DR plans are due by April 17, 2015 for the BRA. Under the Stop Gap proposal, WLR Plans are also due by April 17, 2015.

[2] A PJM member that is in the process of becoming an LSE should be in the process of getting a license by the State RERRA, executing appropriate agreements with the EDC , which includes operational certification, and filing for appropriate FERC wholesale market-based rate authority.

[3] Retail Electric Relevant Regulatory Authority

1) Serve the load for the specific WLR
2) Transfer the WLR to the LSE that has the load serving responsibility for the WLR
3) Become an agent for the LSE that has the load serving responsibility for the WLR
4) Replace the WLR with a generation capacity resource through an IA or bilateral transaction[4]

WLR plans will include Existing and Planned WLR similar to that which comprises DR plans under the current rules. PJM has clarified that existing WLR represents WLR or DR that has been previously registered by the PJM member. If the LSE that would like to commit to WLR has not registered the DR/WLR in the past then it would be considered planned WLR and therefore require the appropriate credit with PJM. The credit requirements for WLR will also be similar to planned DR credit requirements that exist today.

Administration of LSE Agents in PJM capacity market

The PJM membership currently uses the PJM subaccount process to delineate member access and accounting across different divisions or for other specific member reasons (i.e.: State specific accounting). The PJM subaccount mechanism allows a member to keep financial information and associated PJM system access separate from other PJM accounts. This subaccount tool is a possible option to help LSEs manage their relationships with their agents and PJM. For example, if an LSE creates a subaccount for anagent, the LSE can then grant the agent appropriate access to the subaccount to make WLR commitments to the PJM market and maintain separate billing statements to isolate related activity.

How to deliver WLR in the Deliver Year and all other associated rules

Most the rules for delivery are similar to those that exist under the PJM DR model. One of the key changes, and therefore a point of discussion to date, relates to administration of customer switching and the importance of aligning the LSE with WLR at all points in time during the Deliver Year. This is critical to ensure that the LSE will receive a reduction in its capacity commitment for the WLR. PJM will need to work closely with the EDCs to ensure the proper alignment of the load during the Delivery Year.

The majority of the other rules are similar to existing DR rules[5]. PJM believes that, if FERC adopts the PJM Stop Gap proposal and it becomes effective because the Supreme Court does not review the *EPSA* decision, then there is significant amount of time to work through these details well in advance of the Delivery Year. Based on feedback received to date, PJM believes these remaining WLR market rules can be comparable to the current DR model and therefore would provide all necessary tools for an LSE that commits WLR into the RPM auction.

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[4] WLR plans provide similar support to DR plans to ensure WLR providers are making a firm physical commitment to deliver WLR in the Delivery Year and do not simply speculate in the capacity market for financial gain (make WLR commitment and then buy out of position through IA or bilateral transactions for financial gain with no intention or capability to deliver the committed WLR)

[5] The most significant exception is the change to the measurement and verification rule to require non-summer capacity compliance to be measured differently from summer capacity compliance.

DR Stop Gap models under discussion with PJM members and their RERRA

PJM has had the opportunity to work with stakeholders regarding the Stop Gap Proposal and discuss three different models. First is an LSE-centric model as described in the PJM Stop Gap proposal, but the RERRA would mandate that the LSE provide WLR through agents as appropriate. This is a regulatory approach to ensure existing DR does not go away simply because an LSE may not have the capability to deliver WLR. Second is an EDC-centric model,[6] whereby the RERRA would require the EDC to act as an agent on behalf of the LSE to offer and deliver WLR. The EDC would procure the WLR from different entities, including existing CSPs, and make whatever payments to the CSPs and/or the retail loads are required by the RERRA. The EDC would also ensure appropriate delivery of all WLR and allocate the WLR capacity reductions back to the LSEs such that they would receive a reduction in their PJM capacity requirements[7]. The cost of WLR would be funded as determined by state regulatory authorities and EDC/LSE relationships with retail customers. The third model is focused on minimal RERRA action, but instead relies on LSEs and existing CSPs to work out commercial arrangements where ultimately retail customers in competitive markets will migrate toward entities that are best suited to manage their overall electricity costs and associated risks.

[6] 2/18/15 ICC workshop

[7] PJM's position is that the allocation process of the WLR to load must be in accordance with the specific LSE responsible for serving the WLR load in the Delivery Year.