



STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

PUC Pennsylvania Public Utility Commission



March 30, 2009

Howard Schneider, Esq.
Chairman, Board of Managers
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, PA 19403

Re: Economic Load Response (Demand Response Compensation)

Dear Mr. Schneider:

This letter is submitted on behalf of the Maryland Public Service Commission, the District of Columbia Public Service Commission, the New Jersey Board of Public Utilities, the Pennsylvania Public Utility Commission, and the Delaware Public Service Commission (together, the "Commissions") in support of appropriate demand response compensation principles for PJM's Economic Load Response Program ("ELRP").

The Commissions continue to seek PJM's support for a demand response incentive that is available often enough, is stable enough, and is large enough to support robust, ongoing investments in end-user demand response capability. Timing is crucial in order to ensure that meaningful demand response is in place prior to onset of the upcoming summer peak period. Thus, Commissions recognize the importance of having an incentive that can be approved and implemented as quickly as possible.

PJM and the Commissions have both recognized the importance and the value of demand response, as a cost-effective capacity resource and as a cost-effective means of mitigating peak prices in the energy market. Even before the Federal Energy Regulatory Commission (“FERC”) stated in Order 719 that “reforms must ensure that demand response resources are treated on a basis comparable to other resources,”¹ PJM had been a strong supporter of demand response, working extensively with stakeholders to incorporate demand response resources into its energy, ancillary services and capacity markets.² The Commissions have undertaken retail programs complementing the PJM efforts in the wholesale markets; for example since the beginning of 2008, the Maryland, District of Columbia, New Jersey, Pennsylvania, and Delaware Commissions directed electric distribution companies in their respective states to develop and / or implement demand response programs and to procure demand response that the market has not delivered. Additionally, the Pennsylvania Public Utility Commission will be reviewing and monitoring the implementation of aggressive demand reduction programs required for compliance with Pennsylvania Act 129 of 2008.

The Commissions’ strong interest in demand response initiatives has not been limited to actions undertaken within their own jurisdictions. The Commissions have also closely followed demand response efforts in the wholesale markets designed and administered by PJM, and have shared PJM’s concern that thus far economic demand response has not yet matured in the PJM markets.³ In December 2007, the Maryland and Pennsylvania Commissions sought to extend the PJM Open Access Transmission Tariff (OATT) provisions that contained locational marginal pricing (LMP) payments for economic load response participants, and supported the complaint filed by the PJM Industrial Customer Coalition (“PJMICC”) in FERC Docket EL08-12-000 which argued that the sunset provisions were unjust and unreasonable. As the Maryland Commission stated in its request to extend the PJM ELRP provisions in 2007, demand response resources should be provided the opportunity to receive just and reasonable compensation for the benefits they bring in mitigating peak demand for electricity.

Despite the Commissions’ disappointment in the December 2007 sunset of the ELRP, we appreciate PJM’s efforts to reinstate incentive compensation for economic demand response. We also welcomed the Markets and Reliability Committee’s (“MRC”) February 25 rejection of two incentive compensation proposals by utilities and generators which would have failed to provide incentives stable enough, or available often enough, to support investments in demand response capability.

The Commissions continue to urge PJM to support the following principles when considering proposals (possibly including the PJM Straw Proposal) to encourage and compensate demand response:

¹ Wholesale Competition in Regions with Organized Electric Markets, Order No. 719, 125 FERC ¶61,071, at P 14 (2008).

² Answer of PJM Interconnection, L.L.C. to Motions for Partial Summary Disposition, Docket No. ER09-412-000, January 5, 2009, p. 2.

³ Answer of PJM Interconnection, L.L.C. to Complaint of PJM Industrial Customer Coalition, Docket No. EL08-12-000, December 6, 2007, p. 2.

1. Incentive compensation for demand response must not sunset automatically. Unlike the Allegheny/FirstEnergy/PHI proposal, under which customer's incentive payments for demand response would have ended after three years and the PSEG/Exelon proposal, under which incentive payments would have ended after two years, the Commissions recommend that there be no automatic or "customer-specific" sunset provisions for demand response programs. Quick and automatic sunset of incentives tend to discourage customers from making the investment needed to support demand response capability. The Commissions believe there should be no automatic or customer-specific sunsets for demand response incentives.

2. The threshold for demand response incentive payments should be set at 15%. The Commissions submit that PJM's proposal regarding the hours during which incentive compensation would be available represents a reasonable compromise. The PJM proposal would make incentive payments available when the local energy price exceeds a certain threshold. To set the threshold, PJM would look back at the previous calendar year; identify the price level that was exceeded in 15% of the hours during that calendar year; and set that price as the threshold for incentive payments in the current calendar year.

In contrast, the Allegheny/FirstEnergy/PHI proposal would have set the threshold at 5% instead of 15%, and would have created confusion by adjusting the threshold monthly. The PSEG/Exelon proposal would have been even more restrictive, allowing incentive compensation only during emergencies. Those proposals were entirely too restrictive, and would have resulted in unduly limiting opportunities for demand response and discouraging the investments needed to make demand response capability available.

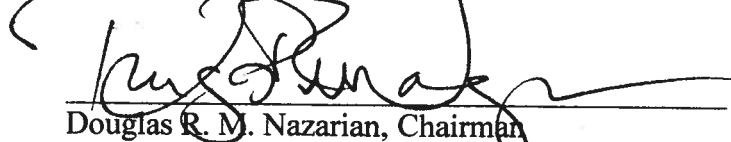
3. In determining whether and how incentive compensation would differ for customers paying real-time prices, fixed prices, or some other pricing structure, PJM should consider the extent to which reducing compensation to any of these classes of customers reduces the savings in energy and capacity costs that could be achieved if incentive compensation were uniform.

The Commissions recognize that PJM has sought to tailor incentives based on the energy pricing faced by the customer who is implementing the demand response measure. We understand this as an effort to achieve a compromise, but at the same time recognize that it is not substantively supportable. A megawatt of load reduction has the same value in the wholesale market regardless of the provider's retail rate arrangement.

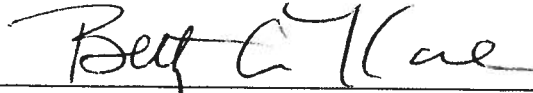
However, the Commissions also recognize the value of demand response in maintaining reliability cost-effectively, and in helping to ease volatility in wholesale electricity prices. Thus, the Commissions believe that PJM could design incentive compensation for demand response with less emphasis on the precision with which the amount of compensation is tailored to the circumstances of a particular customer, and more emphasis on whether the compensation is sufficient to spur as much cost-effective demand response as can be obtained.

Again, we thank you for your attention to this important issue, and as always we remain available to discuss ways in which we can assist in meeting the demands which Board faces in meeting the needs of our respective Commissions.

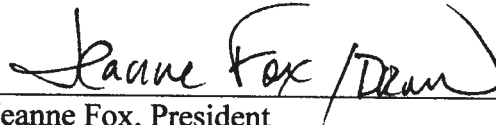
Sincerely,



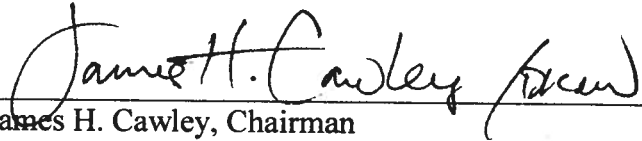
Douglas R. M. Nazarian, Chairman
Maryland Public Service Commission



Betty Ann Kane, Chair
District of Columbia Public Service Commission



Jeanne Fox, President
New Jersey Board of Public Utilities



James H. Cawley, Chairman
Pennsylvania Public Utility Commission



Arnetta McRae, Chair
Delaware Public Service Commission

cc: PJM Board of Managers ✓
Terry Boston, CEO & President, PJM
Andrew L. Ott, Sr. VP, Markets
Bill Whitehead, VP, State Govt. Policy, PJM