



June 19, 2009

The PJM Board of Managers
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Valley Forge Corporate Center
Norristown, PA 19403-2497

Re: PJM Compromise Straw Proposal on Incentive Compensation to
Demand Response Resources

To The PJM Board of Managers:

Public Service Electric and Gas Company, PSEG Power, LLC and PSEG Energy Resources & Trade, LLC ("the PSEG Companies") respectfully submit these comments to the Board on PJM's proposed "compromise" straw proposal on demand response compensation.

The PSEG Companies have been staunch supporters of policies allowing demand response to participate on an equal footing with other competing resources. Indeed, Public Service Electric and Gas Company, has instituted its own demand response programs at the state level. The PSEG Companies' philosophy on demand response continues to be that such resources should be allowed full access to PJM markets on terms and conditions comparable to those applicable to other participating resources, including terms to ensure that resources will be available when called upon.

In the context of recent PJM stakeholder discussions regarding the full integration of demand response resources in PJM markets, the PSEG Companies supported a two-year incentive payment to address concerns voiced by demand resources advocates regarding continuing barriers to entry. However, the recent RPM auction results have caused the PSEG Companies to reevaluate the need for these incentives.

As you are aware, during the recent RPM Base Residual Auction for the 2012/13 delivery year, nearly 10,000 MWs of demand response bid into the auction. Of this amount, 71% or 7,047.3 MWs cleared the market, with 67% of the cleared MWs being offered in the constrained regions. This is a massive response in a market that currently

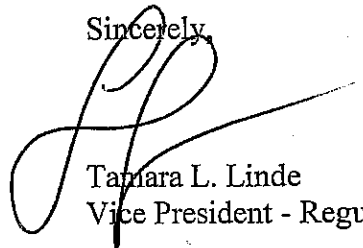
has no direct incentive payment for demand resources. Indeed, the amount bid into this year's auction represents an almost five-fold increase in the amount of demand resources bid into last year's auction for the 2011/12 delivery year. The results show that demand response resources are responding to the existing price signals and are being offered where they are most needed.

Ultimately, the PJM RTO's decision on whether to allow incentive payments should be data-driven. Incentive payments should only be allowed in a scenario where such payments are in fact necessary to overcome existing barriers to entry. This is a fundamental point particularly given the potential for such incentives to distort price signals and in turn produce inefficient market outcomes. Moreover, consumers should not be asked to subsidize the business of any group of market participants, even for a limited time, absent a demonstrable benefit to the competitiveness or efficiency of PJM markets.

For these reasons, the PSEG Companies urge the Board of Managers to defer any action on PJM's compromise straw proposal on demand response compensation. Instead, the Board should direct PJM staff to undertake a full and thorough reassessment of the participation of demand resources in PJM, and what is needed, if anything, to ensure the participation of demand resources at a level needed to achieve efficient and competitive market outcomes and to report back to the Board within 60-90 days.

Thank you in advance for your consideration of the PSEG Companies' views.

Sincerely,



Tamara L. Linde
Vice President - Regulatory