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PUBLIC SERVICE COMMISSION

October 18, 2010

Via Electronic Mail

Mr. Michael Kormos
Chairman, Markets and Reliability Committee
PJM Interconnection, L.L.C.

Dear Mr. Kormos:

The Maryland Public Service Commission writes to express its strong support for including a "summer-only unlimited" option for demand response capacity resources in any package of demand response reforms that PJM forwards to the Federal Energy Regulatory Commission ("FERC").

As you know, Maryland has been a leader in demand response since the advent of the Reliability Pricing Model. Not only has our Commission utilized demand response as a means to address potential capacity gaps in the transmission-constrained areas of our State, but our General Assembly has also established aggressive peak demand reduction targets through the EmPower Maryland Act. Maryland's utility companies have developed and offered popular residential and commercial demand response programs, and our Commission has actively encouraged backup generators to participate in PJM demand response programs as well.

Unfortunately, the recent discussion around demand response saturation and the proposed solutions to that problem has created a great deal of uncertainty about whether and to what extent Maryland utilities' demand response and smart grid programs would be able to participate under the new rules. And the potential stakes to Maryland are significant: if our utilities' demand response and smart grid programs cannot participate as "unlimited" demand response – and, at least as we understand the proposals, this is a serious possibility – the likely devaluation of their demand response generated by these programs threatens their underlying business cases. This would translate to hundreds of millions of dollars of costs and lost opportunities that would be borne by Maryland ratepayers. These additional costs might also threaten the cost-effectiveness of the programs in the first place, particularly capital-intensive programs like the advanced metering initiatives our Commission recently authorized for Baltimore Gas & Electric Company and Potomac Electric Power Company. The potential for cessation of demand response programs that are not cost-effective is very real in Maryland.

Mr. Michael Kormos
October 18, 2010
Page 2

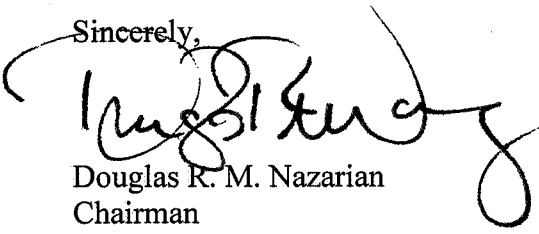
The Maryland PSC understands PJM's concerns about the potential threat to reliability that demand response saturation might pose. Demand response saturation is, by the standard of PJM stakeholder process, very new. The real implications aren't well understood at this point, and the issues are complex: there has been much debate over the fundamental nature of the problem, and possible solutions have been moving targets. And stakeholders who rely heavily on RPM revenue from demand resources have been challenged to understand fully, much less to quantify, the ramifications of the highly significant changes PJM proposes to the demand response market.

Our utilities are studying whether or to what extent their programs could participate in an "unlimited" demand response product. We understand, though, that they are more confident that their demand response and smart grid programs *would* be able to participate in the proposed "summer-only unlimited" product. Time obviously will tell what the ideal solution will be. At least in the short term, however, stakeholders should have more options, not fewer.

By voting at last week's Market Implementation Committee (MIC) meeting to approve only Option I, which contained only the 10 x 6 and unlimited products, the stakeholders restricted the potential options in a way that could threaten the viability of Maryland's demand response and smart grid programs. Option II, which contained the summer-only unlimited product, would create greater flexibility for our utilities and, we hope, ensure that their demand response and smart grid programs can participate fully. If PJM members vote to direct PJM to include in its proposal to FERC only the 10 x 6 and unlimited products, a critical and potentially valuable option will have been discarded. Put another way, in its haste to address a problem, the scope of which has not even been fully vetted, the membership will have made a mistake that will be costly to Maryland's utilities and ratepayers. If the membership were to vote to exclude the summer-only unlimited option, we hope that PJM would recognize the value in offering a summer-only product, and would include one in its proposal to FERC, notwithstanding the results of the non-sector weighted vote at the MIC.

We appreciate the opportunity to submit these comments. Please don't hesitate to contact me if you have any questions or need additional information regarding our position.

Sincerely,



Douglas R. M. Nazarian
Chairman

cc: PJM Board of Managers
David Anders
Andrew Ott