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STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

November 12, 2010

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

Dear Mr. Schneider:

I attach a letter expressing the Maryland Public Service Commission's support for a "summer-only unlimited" demand response option. Although we copied the Board of Managers on this letter in October so that you would be apprised of our interest in this issue as it worked its way through the stakeholder process, we are sending you this letter again because we understand that the Board of Managers will be considering the various demand response options for a December FERC filing. We urge the Board to adopt a summer-only unlimited demand response capacity product option, as more fully discussed in our attached October 18 communication to the Markets & Reliability Committee.

I also draw to your attention the letter from Governor O'Malley, who shares the Commission's deep concern about the prospect of summer-only resources being underutilized and undercompensated if PJM does not offer a summer-only unlimited capacity product. A copy of Governor O'Malley's letter is attached.

Please do not hesitate to contact me regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas R. M. Nazarian", written over a large, stylized flourish.

Douglas R. M. Nazarian
Chairman



DOUGLAS R. M. NAZARIAN
CHAIRMAN

HAROLD D. WILLIAMS
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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
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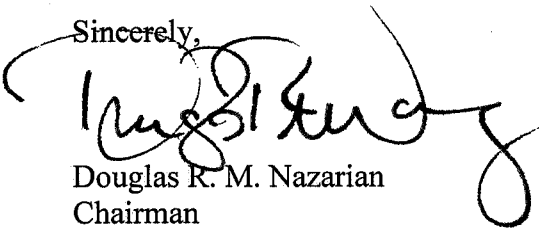
The Maryland PSC understands PJM's concerns about the potential threat to reliability that demand response saturation might pose. Demand response saturation is, by the standard of PJM stakeholder process, very new. The real implications aren't well understood at this point, and the issues are complex: 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



MARTIN O'MALLEY
GOVERNOR

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November 10, 2010

Mr. Howard Schneider
Chair, Board of Managers
PJM Interconnection, L.L.C.
955 Jefferson Ave.
Norristown, PA 19403

Via email: schneider@pjm.com

Dear Mr. Schneider:

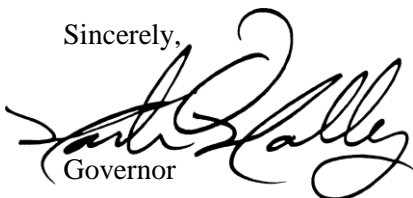
In 2008, I spearheaded the EmPower Maryland Act, the nation's most ambitious energy efficiency goal to reduce Maryland's peak demand and overall consumption 15% by 2015. Recognizing that the least expensive kilowatt is the one not needed, Maryland's residents, businesses and utilities have already invested tens of millions of dollars to reduce their electricity consumption, particularly during peak hours. To continue this progress, I write to express my strong support for including a "summer-only unlimited" option for demand response capacity resources in any package of demand response reform that PJM proposes to the Federal Energy Regulatory Commission (FERC).

Prompted by the EmPOWER Maryland Act, Maryland has emerged as the leader in PJM, if not the nation, in demand response. Our Public Service Commission (PSC) utilized demand response as a means to address potential capacity gaps in the transmission-constrained areas of our State. In addition, Maryland's utility companies have developed and offered popular residential and commercial demand response programs, and the PSC has actively encouraged backup generators to participate in PJM demand response programs as well.

I understand that the recent discussion around demand response saturation has created a great deal of uncertainty about whether and to what extent Maryland's utilities' demand response and smart grid programs would be able to participate under the new rules. The potential stakes to Maryland are great: if our utilities' demand response and smart grid programs cannot participate as at least "summer-only unlimited" capacity resources, the likely reduction in revenue earned by these programs will threaten their underlying business cases by not recognizing and appropriately compensating these resources. This would translate into hundreds of millions of dollars of costs and lost opportunities that would be borne by Maryland ratepayers.

PJM has characterized the demand response saturation issue as a reliability issue. As such, I anticipate that PJM will make a request of FERC to reform their demand response program this year. The absence of a "summer-only unlimited" option would greatly threaten Maryland's EmPower Maryland programs and undermine the progress made to date. We hope that PJM will recognize the value in offering a summer-only product, and will include one in its proposal to FERC. I appreciate the opportunity to submit these comments. Please do not hesitate to contact me regarding this important issue.

Sincerely,


Governor