November 29, 2010

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

RE: Demand Response Saturation

Dear Board of Managers,

The PJM Power Providers Group ("P3")[1] writes

(i) to highlight the reliability issues identified in PJM Staff's May 2010 Demand Response Saturation Analysis,

(ii) to stress that any approach for addressing DR saturation that utilizes multiple DR products should be limited in duration to a maximum of one year, and

(iii) to recommend a framework for a more equitable and sustainable long-term market structure consistent with the PJM Board's previously stated vision for the participation of demand response in PJM markets.

PJM's Demand Response Saturation Analysis correctly concluded that the proliferation of the current DR product in the capacity market poses a reliability threat. Currently, DR resources are only obligated to commit to a maximum of 10 interruptions during the months of June through September. Each interruption is capped at a six-hour maximum duration. As a result, PJM has a greater probability of insufficient calls on DR capacity resources – a number which will grow as DR occupies a greater proportion of the capacity supply stack. Further, the six-hour duration fails to provide PJM (and the load serving entities responsible for purchasing the capacity) the full benefit of the capacity being procured. Because the block dispatch trigger of the six-hour demand response product only shifts the peak demand to earlier and later periods of the day, its peak shaving capability is limited, degrading reliability benefits.

P3 understands that the PJM Staff intends to recommend an approach to address saturation issues that will allow at least two or possibly three types of DR products for the RPM auction covering the 2014/2015 Delivery Year. This approach would likely include one or two "limited" products and an "annual unlimited" DR product. The proposal would also include a mechanism intended to price the multiple capacity products offered into the RPM auction consistent with the respective products' commitment obligations in the event saturation levels are

[1] The views expressed in this letter are the views of P3 as an organization, but not necessarily the views of any particular member with respect to any issue.

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consistent with the respective products' commitment obligations in the event saturation levels are reached. The members of P3 have not reached consensus over the acceptability of any version of the "multi-product" approach, even as an interim measure. However, in the brief time in which PJM stakeholders have deliberated over various product options in addition to the "annual unlimited" product which generating facilities provide, it has become apparent that perpetuating restrictions in the levels of "limited" products procured may address the immediate reliability threat, but that this approach introduces other concerns.

One major concern is that the approach perpetuates and, in fact, expands the accommodations for DR capacity products that are currently unavailable to generating facilities (e.g., limited calls, no must-offer obligations). Many generation owners consider this differing treatment to be unduly discriminatory. Further, a multi-product approach is inconsistent with the PJM Board's stated long-term vision of demand response in PJM. As noted in the PJM Board's June 26, 2009, statement: "PJM's long-term vision is that 'Price Responsive Demand,' which allows more customers to respond directly to market prices and to voluntarily reduce their consumption when wholesale prices rise, is the ultimate solution to demand participation." The current proposal, however, moves the market in exactly the opposite direction by facilitating the expansion of a type of resource that is only called upon under emergency conditions.[2]

In these circumstances, a multi-product DR approach should only be considered as a one-year bridge to permit PJM and stakeholders more time to develop a better long-term solution. P3 thus requests that the Board only endorse this solution for a single year; reflecting the time constraints currently present, and direct PJM to work with stakeholders to develop a long-term, single-product solution to address the DR saturation problem in time for the May 2012 Base Residual Auction.

A single annual unlimited capacity product would permit competition by various capacity supply resources based on those resources' system reliability contributions, determined by a metric akin to the EFORd or EFORp metrics by which generator owners' offer volumes are currently determined. In addition, a single product solution would reduce the complexity of clearing multiple types of capacity products. For example, a single product approach would greatly simplify the operation of the RPM clearing mechanism by eliminating the need to introduce special parameters for non-binding locational delivery areas to recognize the potential for reaching saturation of "limited" DR products within those zones. Finally, a single product solution would enable stakeholders to seek a resolution that effectuates a transition to PJM's long-term goal of greater participation by price responsive demand resources. P3 is confident that PJM and its stakeholders can fashion a more transparent and durable long-term solution to

[2] P3 and its members support the Board's visions for price responsive demand in concept. Many P3 members, however, did oppose the PJM Staff's most recent price responsive demand proposal due to the lack of a comprehensive approach for addressing demand response both as a reducer of energy demand and a seller of capacity.

the reliability concerns posed by the current construct consistent with the Board's long-term vision for the PJM markets.

P3 requests that the Board thus limit any approval of a multi-product approach to a single year and that it direct the PJM Staff to develop, in concert with its stakeholders, a single annual unlimited solution that will provide comparable capacity sales opportunities for various capacity resources. The Board's direction should also instruct PJM Staff to be mindful of the PJM Board's long-term goals for demand response resources. Such deliberations should commence as soon as possible and conclude no later than July 31, 2011, to permit sufficient time for implementation for the May 2012 Base Residual Auction.

Respectfully submitted,

Glen Thomas

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