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The PJM Board of Managers
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Valley Forge Corporate Center
Norristown, Pennsylvania 19043-2497

Re: Baltimore Gas and Electric Company Comments on
PJM Staff Whitepaper on Price Responsive Demand

Dear PJM Board of Managers:

The Baltimore Gas and Electric Company (BGE) appreciates the opportunity to provide written comments on the PJM Staff Whitepaper on Price Responsive Demand (PRD) dated March 3, 2011. BGE compliments the PJM Staff for its diligence and contribution in addressing complex and challenging issues to better the efficiency of the wholesale power markets it administers. BGE believes that the PJM Staff Whitepaper on PRD is intended to achieve such higher efficiencies, which should ultimately result in more efficient pricing for all end-use customers throughout the RTO footprint. BGE supports the implementation of a PRD construct, and offers herein revisions to address certain inequities in the PJM proposal, which, if adopted, would provide for a more efficient solution.

INTRODUCTION

BGE is a Demand Response (DR) leader in PJM, clearing as much as 764 MW in the Base Residual Auctions (BRAs) that have been conducted to date, representing 43% of the DR capability in the Southwest MAAC Locational Deliverability Area (LDA) and 11% of the DR capability across the entire RTO. Furthermore, the deployment of BGE's Smart Grid infrastructure, coupled with its Smart Energy Pricing program, will allow for substantial increases in BGE's DR obligation over the next few auctions.

BGE has been, and intends to be, an active participant in this evolving market. BGE continues to support the concept of PRD and appreciates the potential additional optionality PRD could provide for its DR portfolio. However, such potential optionality is conditioned on a PRD structure that provides the opportunity for valuation reasonably equal to that of supply-side DR resources. The PJM Staff PRD proposal does not achieve equity with supply-side DR resource valuation, and, in doing so, will create an insurmountable barrier for meaningful migration of supply-side DR resources to demand-side PRD. BGE provides the following comments on two areas of the PJM Staff PRD

proposal, which we believe are most important to address in order to eliminate the inherent inequities. The first area of comment, lack of energy market value for non-LSE PRD providers, will create an inequity between supply-side DR and demand-side PRD. The second area of comment, inappropriate adjustment factor applied to measure PRD compliance, will create an inequity for PRD providers with highly weather sensitive PRD load.

DISCUSSION

Energy Market Value Inequity

The PJM Staff PRD proposal is structured such that a PRD provider that is not the PRD customer's Load Serving Entity (LSE), e.g., Curtailment Service Provider (CSP) or an Electric Distribution Company (EDC), will not receive the wholesale energy value of the reduced load, rather the customer's LSE will. PJM has made appropriate accommodations within the PRD construct for the non-LSE PRD provider to receive the capacity value of the load reduction, but has not made comparable accommodations on the energy side. We view this as the single most significant inequity and a major disincentive for current CSPs and EDCs to migrate any portion of their supply-side DR portfolio into demand-side PRD. Third-party CSPs and EDCs with wholesale full-requirements suppliers that do not have the LSE market obligations account for a very large portion of the DR capability throughout the RTO, especially in the MAAC LDA. BGE urges the PJM Board to require the PJM Staff to adopt a mechanism that will allow non-LSE PRD providers to realize the energy market value of reducing PRD load.

PRD Adjustment Factor

In Section 11.2 of the proposed Business Rules, PJM lays out the PRD Maximum Emergency Event Compliance Penalty. PJM recognizes the uncertainty of a future Emergency Event's actual zonal load compared to the 50/50 load forecast used in the forward capacity market. PJM states,

"The MW shortfall will be based on MESL identified at the time of the PRD registration, except that the MESL will be increased by the ratio of actual Zonal peak load at the time of the Maximum Emergency Event to the Final Zonal Peak Load Forecast. That is:

*MW shortfall = [highest hourly integrated aggregate metered load for the PRD Provider's PRD load in the Sub-zone/Zone] - {(aggregate MESL for Sub-zone/Zone)*Higher of 1.0 or [(actual Zonal load - actual total PRD load in Zone) / (Final Zonal Peak Load Forecast - final Zonal Expected Peak Load Value of PRD in total for all PRD load in Zone)]}" (P. 36, emphasis added)*

BGE believes that the primary intent of the PRD adjustment factor is to recognize and adjust for extreme weather during an emergency event relative to the PJM 50/50 peak load forecast. It is proposed by PJM Staff that the adjustment be made to the Maximum Emergency Service Level (MESL) of the PRD load. BGE finds that a weather adjustment

feature is appropriate and supports PJM Staff's recognition of the need for a weather adjustment in the compliance measurement process. This is justified by the fact that PJM procures forward resources based on its 50/50 peak load forecast and, therefore, weather more extreme than what is represented within the 50/50 forecast should not be cause for penalizing PRD providers. BGE believes that the compliance formula for the MW shortfall, as defined above, does not meet its intended purpose. The adjustment mechanism is derived from non-PRD load in the zone and applied to the PRD load. It is backwards. The weather adjustment for the PRD load should be derived from the PRD load, not the non-PRD load. The PJM Staff proposal will cause an inequity between PRD providers that have predominantly weather sensitive load and PRD providers that have load that is much less sensitive to weather. For instance, BGE's residential DR load is over 100% more sensitive to weather throughout the summer season than BGE's C&I load. During extreme weather emergency events, the PJM Staff proposal will cause residential PRD load to be under adjusted and C&I load to be over adjusted. BGE supports the concept of a weather adjustment mechanism but urges the PJM Board to require the PJM Staff to revise the PRD adjustment factor in a manner that appropriately captures the weather sensitivity of the PRD load.

CONCLUSION

BGE supports the concept of PRD, but only if reasonable equity can be reached between the valuation of demand-side PRD and supply-side DR, as well as equity among PRD providers with varying degrees of weather sensitive load. Addressing the absence of energy market value for non-LSE PRD providers and correcting the PRD adjustment factor will achieve such equity and remove substantial disincentive to migrate resources from the supply-side of the market to the demand-side. BGE urges the PJM Board to consider these important issues and respectfully requests that the Board require PJM Staff to make changes to its proposal that address the inequities raised by BGE.

Sincerely,



William B. Pino

cc: Dave Anders, PJM
Mr. Howard Schneider, Chair, PJM Board
Mr. Lynn W. Eury
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Mr. John T. Coughlin
Mr. John McNeely Foster
Dr. Jean D. Kinsey
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