

March 29, 2011

To: PJM Board of Managers
955 Jefferson Avenue
Norristown, PA 19403

From: PJM Public Power Coalition (“PPC,” members listed at bottom)

Re: Comments on PJM Staff Price Responsive Demand (“PRD”) Whitepaper

Dear Members of the PJM Board of Managers:

The members of the PJM Public Power Coalition (“PPC”) wish to thank PJM staff and Board for continuing to evaluate changes to the PJM markets designed to ensure the reliability of the bulk electric system and the efficiency of the PJM markets.

It is our strong opinion that the end goal of PJM should be to provide reliable electricity at a fair price to consumers. With this in mind, in November when the PRD construct was last voted on in the stakeholder process at the Markets and Reliability Committee, most of the members of the PPC elected to support it (or in some cases Abstain). We viewed PJM’s goal of recognizing PRD for reductions in peak load contributions within the RPM capacity construct as a worthwhile additional means of facilitating price responsive demand.

However, PJM’s proposal as presented in its whitepaper deviates from the proposal voted on in November (as PJM staff readily identifies) and in its current form causes us serious concern. Though we understand that PJM staff’s opinion is that this proposal has run its course in the stakeholder process and that PJM’s best recourse is to now unilaterally file the proposal with the FERC, we disagree. It is our belief that the PJM PRD proposal in its current form likely now has even less support than it did in November. Certainly a number of PPC members that supported the proposal in November could not support it in its current form. We strongly urge the Board to task PJM staff with spending at least a few more months discussing the mechanics and expected impacts of implementing PRD as currently proposed. It is our view that if this time is not spent in the PJM stakeholder process, then it will instead have to be spent litigating at the FERC.

We believe that a number of elements of PJM’s proposal need further vetting, but in particular we are concerned about the proposed integration with the Real-Time (RT) energy market. Integration into the energy market was previously discussed, but not included in the package voted on in November. Instead it was set aside for further discussion and vetting assuming that the capacity market components of PRD were approved. As indicated, a number of PPC members were able to support the capacity construct components in November, but with these energy market additions we are not confident that we fully understand the potential impacts and strongly believe that such integration with the energy markets needs to be further vetted. For instance, we are concerned that the proposed lifting of the offer caps on PRD and emergency energy MWs will lead to inappropriately high clearing prices during capacity emergency events. Furthermore, the mere fact that PRD will set price is troubling. It is our

understanding that though PRD is proposed to set LMP based on submitted “PRD curves,” there will be no tracking of actual curtailment except during emergency conditions. That is, despite requirements for automated supervisory controls, PJM will not “push the button” that reduces the demand and if it is not an emergency event then there will be no penalty for customer non-response to the prices in their submitted “PRD curves.” We find this confusing and counter-intuitive to the stated goals of linking PRD to the RT energy market.

PJM and its stakeholders have a tremendous number of important issues in front of them currently, some of them quite contentious. We strongly urge the Board to assign this issue back to the stakeholder process so that the proper priority might be placed on this specific issue and so that additional clarification and vetting can take place before initiating action at the FERC. Sending the item directly to FERC in its current form almost guarantees that there will be protests and most likely a resulting settlement process or compliance filing, on a timeline set by FERC. This is an inefficient and expensive use of the membership’s resources. We appreciate the Board taking our comments and recommendation into account regarding this matter.

Sincerely,

William A. Schofield
VP – Corporate Development
Customized Energy Solutions, Ltd.

On behalf of the following members of the PJM Public Power Coalition:

Allegheny Electric Cooperative
American Municipal Power
Blue Ridge Power Agency
Borough of Chambersburg
Borough of Mont Alto
Buckeye Power
Central Virginia Electric Cooperative
City of Dover
Delaware Municipal Electric Corporation
Energy Cooperative Association of Pennsylvania
Hagerstown Light Department
Illinois Municipal Electric Agency
Indiana Municipal Power Agency
Madison Gas & Electric
North Carolina Electric Membership Corporation
North Carolina Municipal Power Agency #1
Northern Virginia Electric Cooperative
Old Dominion Electric Cooperative
Town of Thurmont
Town of Williamsport
Wisconsin Public Power