



March 30, 2011

Via Electronic Mail

Mr Howard Schneider
Chair, PJM Board of Managers
PJM Interconnection LLC
955 Jefferson Avenue
Norristown, Pennsylvania 19403-2497

Dear Mr. Schneider and Members of the PJM Board:

Old Dominion Electric Cooperative (ODEC) appreciates the opportunity to offer comments to the PJM Board on staff's March 3, 2011 Whitepaper on Price Responsive Demand (PRD). This is the first such document developed by PJM staff in accordance with the revised stakeholder process. ODEC appreciates staff's eagerness to move forward and the Whitepaper does provide a helpful focal point to further this important initiative. This document has provided a good learning experience and we look forward to applying lessons learned here in the next Whitepaper effort.

Based on the Whitepaper, ODEC is concerned that the concept of PRD seems to have evolved beyond the Board's original intent. Additionally, while the PJM stakeholder Process Manual does recognize and encourage a whitepaper at the end of an unresolved stakeholder process, it was not the intent that issues not fully discussed be sent to FERC for resolution. Finally, ODEC disagrees with staff's urgency to move so quickly on this important issue given the press of other significant matters currently before PJM and the Stakeholders.

PRD was not Contemplated to be another Wholesale Demand Response Program

The PJM Board articulated its concept of PRD in its August 26, 2009 Supplemental Report and Submission in Support for Further Commission Action on Rehearing. "Price responsive demand is when end-use customers have the metering capability to record electricity consumption at an interval of one hour or less together with a retail rate structure that changes retail rates on a daily or hourly basis in response to locational marginal prices ("LMPs") or other conditions in the PJM Interchange Energy Market."¹

In this forum, the Board was trying to effectuate a compromise to address compensation of economic demand response. The incentive for demand response to be paid full LMP during certain hours would sunset when 1000 MW of PRD for small and medium sized users evolved.²

¹ August 26, 2009 Filing p4, footnote 10

² ID p7

At that time, PRD appeared to be the ultimate end state of demand response where retail decisions were made in response to dynamic pricing. “The PJM Board determined this could provide a vehicle to enable the Commission to address deficiencies of the current program and facilitate the move toward an ultimate goal of more extensive price responsive demand at the retail level *rather than relying on a separate wholesale demand response program.*”³

PJM staff’s proposal to have PRD set energy prices seems to effectively create a new wholesale demand response program. Expansion of the program beyond LSEs is also problematic.

PJM is correct in recognizing the need and developing the capability to account for changes in use as more *retail* customers have the opportunity to chose *retail* rates that enable them to respond to *retail* price changes. ODEC is concerned however, that PJM’s proposed approach of evolving PRD into yet another wholesale product could create a set of business rules and reporting requirements that will make the current demand response reporting issues pale in comparison regarding complexity and opportunities for gaming.

PRD participation in the energy market also raises a number of retail rate issues such as:

- Would PRD energy customers bypass state retail rate structures?
- How would PRD account for the underlying capacity and energy portfolios of load serving entities?
- What is the effect of cost shifting and cross subsidization at the retail level between customers who can readily take advantage of this program versus those who cannot?
- Who would be the relevant electric retail rate authority?

PJM needs to prepare for and consider voluntary changes in load patterns and usage due to retail pricing that reflects wholesale costs. However, is it necessary to create a new wholesale demand response program to do so?

The Whitepaper is Helpful but Premature

ODEC acknowledges the current Whitepaper is a good first step by PJM in facilitating the new stakeholder process and is helpful in providing a focal point for discussion as well as articulating PJM’s position. For the capacity aspect of PRD, the paper appears to be detailed and complete. The energy portion of the PJM proposal is less clear and has not been fully vetted with the stakeholders.

The purpose of the PJM stakeholder process is to:

- educate stakeholders on a wide range of issues related to PJM markets, operations, public policies and industry matters;
- explore different solutions, building consensus which helps policy makers approve key laws and regulations;
- improve communication among Members and between Members and PJM management/Board of Managers; and

³ ID p4

- implement the powers and responsibilities of the Members Committee and other committees defined in the OA. Specifically, the powers and responsibilities germane to the stakeholder process are found in OA sections 3.1 (a), 8.6, 8.8 and 18.6.

In essence, in considering a new initiative, the stakeholders must understand the issue and should strive for consensus-based issue resolution. If this is not possible, the process should at least provide a complete record for consideration by the Board and/or ultimately the FERC. This is the potential value from a staff whitepaper.

Staff correctly quotes the first part of the Handbook section on staff whitepapers. The remainder of the section follows:

“No market sensitive data shall be included in the whitepaper, nor shall individual Member specific information be included. Such whitepapers shall serve to inform the Board and stakeholders on the matter at hand. All such whitepapers shall be posted on PJM.com on the Reports page, and the MC and the Board shall be provided notice of publication of the whitepaper. PJM and the Members shall use good judgment and common sense on determining whether an issue rises to the level requiring a whitepaper.”

A whitepaper is clearly considered to be an end-of-process document with both the stakeholders and PJM staff agreeing that the end of the stakeholder process was reached. That is not the case for PRD.

ODEC has two issues with the current whitepaper. First, as per the Stakeholder Process Manual, it does not capture the views of the membership. Second, it seeks to move forward on components of PRD that, despite staff’s assertion, were not fully vetted in the stakeholder process.

To be clear, ODEC commends staff’s efforts to address member concerns on the capacity aspect of PRD. Although starting out slowly in explaining its PRD concept, staff finished strong in the stakeholder process. But, despite staff’s best efforts, the stakeholders did not reach consensus. With this result, it would have been appropriate for staff to develop its whitepaper in consultation with the membership in an attempt to articulate the varying opinions which lead to the lack of consensus. However, staff went beyond the issue squarely before the members and introduced new concepts in the whitepaper that have yet to be vetted with the stakeholders, which gives ODEC pause to wonder if the issue is indeed ripe for consideration by the Board.

There are a Few Other Things Going on Right Now

ODEC is concerned that the press of other issues before the PJM stakeholders as well as FERC will make it impossible for PJM staff as well as the stakeholders to fully focus on and resolve issues around PRD⁴. And PJM making a 206 filing with this level of detail for the record will

⁴ A partial list of current activities:

- RPM MOPR
- Regional Planning Process Task Force

not remove any burden of time or effort to resolve the issue. We will either resolve it at PJM or FERC. ODEC prefers to work within the PJM stakeholder process.

Conclusion

ODEC respectfully requests the PJM Board to direct staff to:

1. Work with the membership to fully develop the record for the capacity aspect of PRD, including a complete and accurate description of member views. This could be a focused and time-bounded effort to assure any uncertainties are addressed and various stakeholder opinions are memorialized. PJM would file its 206 at the end of this process.
2. Work with the membership to prioritize PJM and stakeholder workload to be sure the issues before us (including the capacity aspect of PRD) are given sufficient time and attention to resolve.
3. Work with the membership to determine a common vision of PRD consistent with the Board's concept of a retail initiative rather than another wholesale program.

Sincerely,

Edward D. Tatum, Jr

Edward D. Tatum, Jr.
Vice President RTO & Regulatory Affairs
Old Dominion Electric Cooperative

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- FTR Revenue Adequacy
 - Interconnection Senior Task Force
 - Regulation Senior Task Force
 - MISO PARS Settlement
 - DR Compensation Compliance