

March 29, 2011

PJM Board of Managers
955 Jefferson Avenue
Norristown, PA 19403

Re: CSP Comments on Suppliers Caucus March 25, 2011 Letter on PRD

Dear Members of the PJM Board of Managers:

The PJM Suppliers Caucus (Suppliers) recently offered comments to the Board regarding the PJM Staff Whitepaper on Price Responsive Demand (PRD). In these comments the Suppliers offered comments on various issues and aspects considered by the stakeholders. Curtailment Service Supporters (CSPs, signed below) disagree with characterizations of the stakeholder process made by several members of the Suppliers Caucus (the “Signatory Suppliers”) in their letter regarding the relationship of PRD to traditional Demand Response. The Signatory Suppliers comment:

“Early on in the PRD discussions, PJM stated a principle that it is more appropriate for loads to participate in the PJM market as price sensitive demands than as supply resource equivalents (offering DSR into RPM auctions). Stakeholders generally agreed with this principle and pressed PJM to develop a transition plan to implement PRD while simultaneously sunsetting most DSR activity on the supply side of RPM.”

The principle asserted by the Signatory Suppliers has been rejected by the Federal Energy Regulatory Commission. The Commission found, in Order 745, issued two weeks ago, that “when a demand response resource has the capability to balance supply and demand as an alternative to a generation resource... payment by an RTO or ISO of compensation other than LMP is unjust and unreasonable.” (Order 745 at paragraph 47.) Contrary to the assertion of the supplier caucus, the FERC has rejected the notion that ‘it is more appropriate for loads to participate in the PJM market as price sensitive demands than as a supply source.’ The functional equivalence of DR with other supply sources was noted again by the FERC at paragraph 49 wherein it noted that “The system can also be balanced through the reduction of demand. Both can have the same effect of balancing supply and demand at the margin by increasing supply or decreasing demand.’ The FERC has affirmed that both supply and load are to participate on the supply side.

Without debating whether PJM has in fact stated the principle described by the Signatory Suppliers, such a principle would certainly be at odds with the clear and consistent statements of the FERC. It has been more than two years since the FERC stated:

[T]he Commission has issued numerous orders over the last several years on various aspects of electric demand response in organized markets, with the goal of

removing unnecessary obstacles to demand response participating in the wholesale power markets of RTOs and ISOs.¹

It has been nearly two weeks since the FERC stated:

[T]here are several ways in which demand response in organized wholesale energy markets can help improve the functioning and competitiveness of those markets. First, when bid directly into the wholesale market, demand response can facilitate RTOs and ISOs in balancing supply and demand, and thereby, help produce just and reasonable energy prices. . . . Second, demand response can mitigate generator market power. . . . Third, demand response has the potential to support system reliability and address resource adequacy and resource management challenges surrounding the unexpected loss of generation.²

Moreover, the Signatory Suppliers' assertion that "stakeholders generally agreed" that PJM should seek to upend the FERC's emphatic position regarding demand response in the wholesale markets is simply untrue. We know of no stakeholder vote that could conceivably support the assertion. On the contrary, stakeholders opposed PRD proposals including comparability comparisons with DSR by a 3 to 1 margin at the Aug 18, 2010 MIC. The MRC, at its November 18, 2010 meeting, declined to support a PRD proposal that included reviews of DSR by a similar margin. CSPs certainly do not agree with the idea that DR should be phased out or that stakeholders generally support such a phase out. CSPs have objected to attempts to use PRD as a vehicle to re-open stakeholder discussions on Demand Response issues already settled by FERC. In the Suppliers March 25 letter this effort to reopen settled issues is continued. The Board should resist being persuaded to act on the basis of false assertions that stakeholders generally support such an effort.

The undersigned offer no comments at this time on the PJM PRD Whitepaper. CSPs appreciate the Board's attention to this matter

Sincerely,

Bruce Campbell
EnergyConnect

Allen Freifeld
Viridity

Aaron Breidenbaugh
EnerNOC

¹ Wholesale Competition in Regions with Organized Electric Markets, October 17, 2008, 125 FERC ¶ 61,071, para. 18.

² Demand Response Compensation in Organized Wholesale Energy Markets, March 15, 2011, 134 FERC ¶ 61,187, para. 10.

cc: Terry Boston – PJM
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