



## ILLINOIS COMMERCE COMMISSION

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November 23, 2010

### Via Electronic Mail

Howard Schneider, Esq.  
Chairman, PJM Board of Managers  
PJM Interconnection, L.L.C.  
955 Jefferson Avenue  
Norristown, PA 19403

Re: RPM Capacity Procurement Under Demand Response Saturation Constraints

Dear Mr. Schneider:

I write on behalf of the Illinois Commerce Commission ("ICC") regarding PJM's proposal to institute a minimum procurement target for so-called unlimited resources in PJM's RPM program to address demand response saturation concerns.

The ICC urges the PJM Board to be aware of the total cost impact of introducing a minimum unlimited resource procurement target in the RPM program design. The effect of incorporating such a target is clear, it can only increase the total overall cost of RPM capacity procurement and that additional cost will ultimately be borne by retail customers.

We recognize that some modification to the RPM design may be needed to address demand response saturation concerns and to ensure that the RPM program continues to achieve its reliability objectives. We recognize that high procurement levels of lower cost demand response, which has limited call and duration performance obligations, may displace higher cost resources (generation and demand side) that would be required to follow PJM dispatch instructions in all hours. We wish to emphasize, however, that the way that any particular minimum unlimited resource target is incorporated into the RPM design will directly affect the magnitude of the total cost increase.

PJM and the stakeholders have recognized several alternative ways of incorporating a minimum unlimited resource target in the RPM design. The most costly method of acquiring the targeted unlimited resource quantity would be to introduce the full minimum unlimited resource target as a constraint in the base residual auction ("BRA"). Some preliminary estimates performed by the ICC Staff show that imposing such a constraint in the BRA could increase the total cost of the BRA by hundreds of millions to billions of dollars annually.

A less costly method of acquiring the targeted unlimited resource quantity would be to institute a constraint based on a portion, say 97.5 percent, of the target in the BRA and acquiring the rest of the targeted quantity by introducing a constraint in the Incremental Auctions. Following this second method would make the BRA less likely to bind on the lowered BRA constraint and reduce the

price adder accruing to all unlimited resources in the BRA relative to the first method of procuring the full targeted unlimited resource quantity in the BRA. Under this second method, the residual part of the minimum unlimited resource quantity target not acquired in the BRA would, in most cases, be able to be acquired through normal buy bids (e.g., 2.5% holdback) in the incremental auctions.

A third approach would not introduce any minimum unlimited resource quantity target constraint into the BRA, but, to the extent that the minimum unlimited resource quantity target quantity was not acquired in the BRA through the normal operation of the auction mechanism, the minimum unlimited resource quantity target quantity could be entirely obtained through the incremental auctions by incorporating the constraint into the incremental auctions. Such a mechanism would first use the normal buy bids in the incremental auction (e.g., 2.5% holdback) and, if necessary, would use additional buy bids to acquire the full minimum unlimited resource quantity target quantity. Following this third approach would likely increase the clearing price and the total cost of capacity procured in the incremental auctions. However, this third approach would avoid the increase in the clearing price of the BRA that would otherwise occur and avoid the increase in the total cost of capacity procured in the BRA that would otherwise occur. Because the amount of capacity procured in the BRA is many times that which is cleared in the incremental auctions, using this third approach would avoid the increase in the total overall cost of RPM that would otherwise occur while still addressing PJM's demand response saturation concerns and achieving PJM's reliability objective.

Accordingly, the ICC urges PJM to take into account the cost implications of its decisions and actions in this case. If PJM intends to address its demand response saturation concerns through implementation of a minimum unlimited resource target constraint in the RPM auction design, the ICC recommends that the constraint be introduced into the incremental auctions as described above in option three, rather than in the BRA as described above in option one or two. If PJM is concerned about the ability to procure additional unlimited resources (beyond the 2.5% holdback amount) in the incremental auctions sufficient to meet the target in constrained locational deliverability areas ("LDAs"), then ICC recommendation three could be implemented in the unconstrained region and either option one or option two could be implemented in the constrained LDAs.

If you have any questions on this matter, please feel free to contact me (312-814-2859) or the Manager of the ICC's Federal Energy Program, Randy Rismiller (217-785-4046).

Sincerely,



Manuel Flores  
Acting Chairman  
Illinois Commerce Commission

cc: Andy Ott, Sr. VP, PJM