



DR Incentive Sunset Alternative

An alternative Demand Response Proposal for PJM
Stakeholder Consideration

- The Proposed Future Economic DSR Structure has not gained consensus support in stakeholder processes
- A primary concern appears to be omission of a sunset provision for incentives
- Original proposal eliminated any DR compensation when LMP is less than threshold
- An amended proposal is offered to address these concerns.

Amendment Features

- Provides Sunset mechanism based on market penetration
- Fixed LMP Threshold for incentive triggers
- Incentives are reduced as market penetration increases
 - Reduction mechanism ameliorates impact of fixed threshold and incentive levels
- Restores LMP minus G&T compensation for DR at prices below threshold levels.

Details – Sunset Mechanism

- Incentives sunset automatically when DR market penetration reaches a predetermined target level.
- Two targets proposed
 - Capacity proposed target level is 7.5% of Reliability capacity cleared in RPM market (nominally 50% of reliability reserves)
 - Energy proposed target level is 1% of energy transactions.

- Threshold is fixed at \$100/MWh
 - Applies to both DA and RT

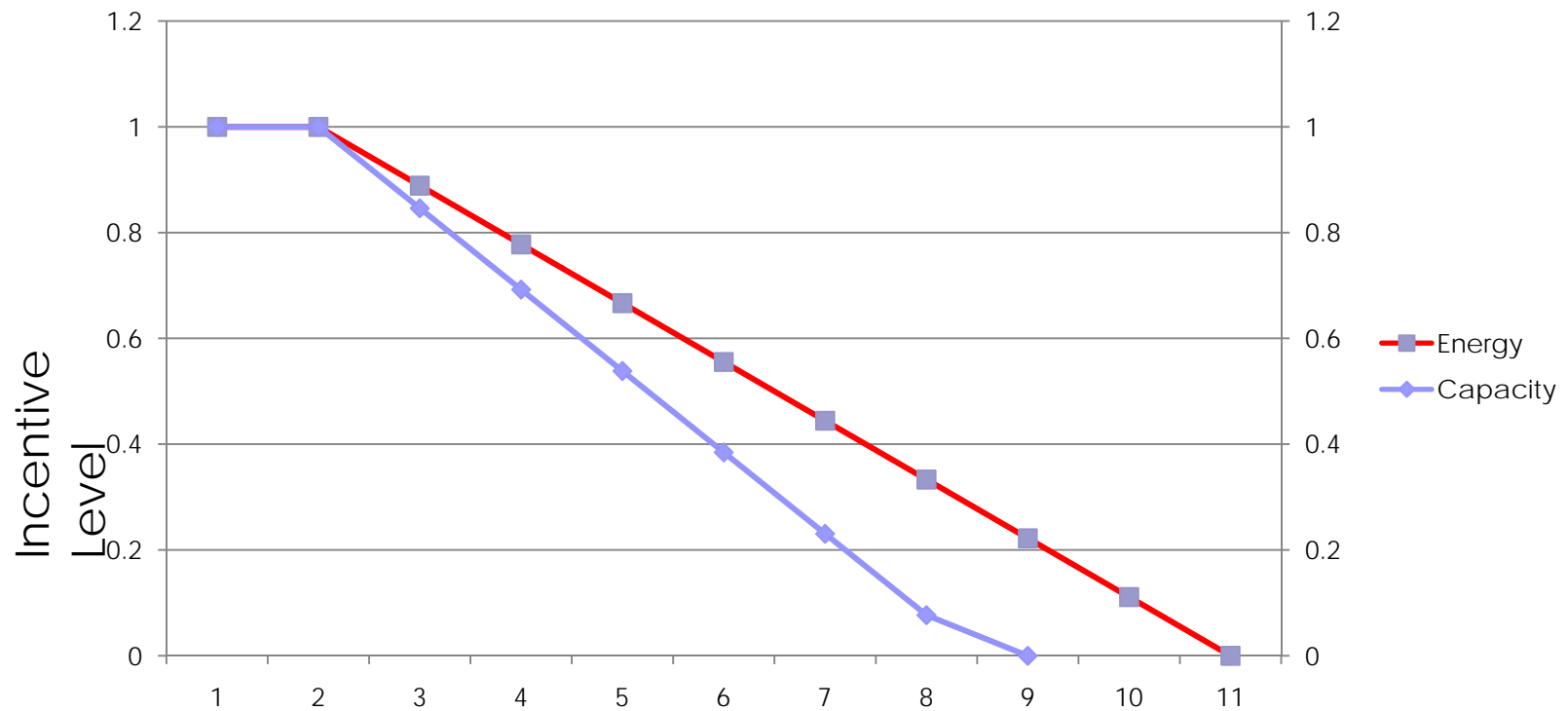
Incentive Reduction Mechanism

- Incentive Rate set at retail G&T rate
- Incentive Factors for Capacity and Energy metrics are averaged
- An incentive Reduction Factor is applied to the Incentive rate to create an Effective Incentive Rate

- The Reliability Incentive Reduction Factor reduces the Effective Incentive Rate once RPM market penetration exceeds 1%
 - 2009-10 RPM results are at 0.67%
- The Energy Incentive Reduction Factor reduces the Effective Incentive once the Economic DR billing (MWH) exceed 0.1% of total billings
 - 2007 ytd results are at 0.077%

- The Reliability Reduction factor is calculated as $(6.5\% - \text{RRM}) / 6.5\%$ for RRM values greater than 1% where RRM is the market penetration
- The Energy Reduction Factor is calculated as $1\% - (\text{EM} / .9\%)$ for EM values greater than 0.1%
Where EM is the energy market penetration

Incentive Reduction



Percent Market Penetration Percent
(Energy is x 10)

- Method transitions out of incentives
- Provides a clear end point for incentives
- Provides justification for stakeholders to address barriers to entry
- Transition approach reduces impact of fixed values for Incentive or threshold level – minimizing stakeholder negotiations

Questions?