



Address to the 2008 Annual Meeting of Members

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President and CEO
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It's great to see so many of you here in Williamsburg. It gives me a chance once again to express my gratitude to the PJM Board for the opportunity they have given me to work with some of the most outstanding people in the industry – to serve you, our members – our customers.

I guess we can be thankful we made it to Williamsburg – given the high price of fuel.

Last week was a real eye-opener: Oil hit \$120/barrel and natural gas followed with a price of \$11.00/MBTU. High oil and gas prices are not the only problems we face. It is really sobering when we think about the environment we all operate in: rising political pressure to fix electricity prices, the NIMBY issues around building new transmission and generation, CO₂ and global warming... and the list goes on.

America's response to economic problems has been to employ market solutions, and PJM is a prime example. I believe in markets, and, when I came to PJM, I knew that the integration of markets and reliability in PJM has been one of the most successful examples of the free enterprise system and good old-fashioned American ingenuity that we have.

It isn't perfect, but we all can take pride in the fact that market-based operations are still the best way to keep the power system operating reliably, while managing the competing demands of suppliers and buyers.

Those of you who know me will say that I'm a nuts-and-bolts kind of person, focused on keeping the lights on and making the markets efficient, and doing the "right thing."

But, I do have a vision that I believe captures a real opportunity for PJM to improve customer service in our regular interactions with our members.

My goal is for you to reach a point in our relationship that you will say we are easy to do business with. I firmly believe in working together to solve problems. At the end of the day, my hope is that you – our members and stakeholders – will say we work together to achieve best-in-class reliability, and PJM runs the best market that you do business in.

As Joe Kelliher recently said, FERC's goal is the creation of "...a market so perfect it will make an economist weep." I like that goal a lot. What do we need to do to get you to feel that way about PJM's market?

First, we need to take a hard look at what we are doing well and what we need to improve.

The executive team and I will be doing just that, and over the next year will focus on continuous improvement.

This will not be an easy task, but fortunately we have the best guy in the country to help us. There is little doubt that Andy Ott, our vice president of Markets, is one of the premier architects of organized competitive markets and is widely recognized in any circle – from academic halls to the corridors of Washington – for his innovation, technical expertise and

leadership in this field. He is one of the most singularly impressive utility executives I have ever met – and that’s saying something given the level of talent at PJM.

As a result, effective today, May 1, the PJM Board of Managers has approved the creation of the position of senior vice president of Markets, and Andy has accepted.

Andy’s major focus will be to examine market design and market operations and offer solutions to improve integration with reliability and enhance market efficiency and transparency. This means he will be reaching out to our members and officials within the PJM states for input, as well as consulting with industry experts and the FERC. The first activity is already under way with the Brattle Group report and our focus to refine RPM.

Just as PJM is striving for perfect dispatch – that is to measure with 20/20 hindsight how close we are to the optimum level of performance in dispatching the system – likewise, I want Mike Kormos on one hand and Andy on the other working together to work to optimize the level of integration of markets and operations.

After all, PJM is not just a transmission operator and not just a markets administrator. As a regional transmission organization, we are both. Given the economic and reliability benefits for the region, it makes sense for us to enhance the synergies that exist in markets and operations.

As the first formal step in this integration effort, Andy and Mike have announced the creation of a new unit – Markets Coordination. This department will focus on stronger

collaboration and coordination between System Operations and Market Operations. They will enhance integration of the reliability focus of operations with the efficiency focus of markets.

There will be other initiatives in the future as well. One example will be the use of phase angle measurements and advanced computer technology to strengthen real-time analysis tools.

As I said to you a month ago at the Members Committee meeting, my job is to make sure the grid and the markets are working well – and working together – to provide reliability and economic benefits.

My vision also reflects our focus on achieving best-in-class performance. A recent example of this is the clustering approach that PJM's planning group has developed to reduce the generator connection queue backlog. I believe this approach will become a successful example to solve a nationwide problem.

I continue to be focused on the three overriding priorities: reliability, efficient markets and infrastructure.

Reliability is paramount. It is the driving force for PJM. It is the true measure of our success and our effectiveness. It became abundantly clear to me as a member of the NERC task force directing the 2003 blackout investigation that, if the lights are not on, nothing else matters.

The second priority is market efficiency – meaning well-run, fair, effective and transparent markets. The PJM markets must produce results – not just economic benefits but reliability benefits as well.

The third priority is infrastructure. We need new capacity to meet our reliability responsibilities, and we need to get new bulk transmission built. We need the Reliability Pricing Model – RPM – to get iron on the ground and to increase demand-side response – and the Regional Transmission Expansion Planning process to get new wire in the air.

We need the advanced control center project – AC² – and the national Smart Grid initiative to make both supply side and demand-side contributions to reliability and market efficiency.

PJM released comments earlier this month on the State of the Market Report and expressed support for the Market Monitor’s overall conclusions about the competitiveness of the PJM markets. We also emphasized our commitment to working with the MMU to ensure robust market monitoring procedures.

We will work with the MMU through the stakeholder process to do what is best for markets for the long run.

Both Joe Bowring and I are committed to make independent market monitoring work for our members and stakeholders. We both strongly support organized wholesale markets and the market power mitigation required to get competitive results.

We also strongly support markets that provide adequate incentives and returns to investors so the right level of both supply-side and demand-side capacity are in place to ensure reliability.

Let me conclude by saying that I'm excited about PJM and my new responsibilities. PJM is a forward-thinking organization, with dedicated employees and members committed to our success. I believe we can make even more effective the integration of markets and operations in a way that will bring the maximum benefits to the region we serve.

By working together – communicating, coordinating and collaborating – we can make the vision of the highest level of reliability and economic benefits a reality.