

**Remarks by Terry Boston, President and CEO,  
on the State of PJM  
Members Committee Meeting  
May 7, 2009**

It's been a year since our Annual Meeting in Williamsburg. And what a year it's been. You probably all know the Chinese proverb about living in interesting times.

I want to talk more about how interesting, but first I want to reiterate the three overriding priorities I discussed last year in Williamsburg. They have not changed.

Those priorities:

- First, reliability, keeping the lights on is paramount; if Mike Kormos and his team are not successful, we are toast.

- Second, fair and efficient markets that produce competitive results. If Andy and his team are not successful, PJM will not be successful.
- Third, infrastructure planning for our future --- Iron on the ground, conductors in the air and Demand Side Programs in place. If Steve Herling's and Stu Bresler's teams are not successful, our operations will not be successful.

These priorities continue to drive us and are PJM's reason for being.

There have certainly been a lot of changes in Washington but that doesn't alter our three priorities. It certainly will affect how we go about accomplishing them.

Before I touch on the course ahead, though, let me review some of the significant accomplishments we've achieved since last year's Annual Meeting. I think you'll agree that

PJM and you, our members, have made real progress on a number of important issues.

Many of those accomplishments are highlighted in our recent annual report. The annual report's theme – *Renewal* – reflects the concerted efforts we've made to reach out, listen, learn and reestablish rapport and build better working relationships.

The nature of our business and our diverse membership mean that compromises that will satisfy all interests are exceedingly difficult to achieve on some issues. Yet we must continue to work cooperatively and collaboratively to reach consensus whenever possible. I know that we're working hard to conduct our business in that spirit.

Let's reflect on how we did on the three priorities:

Reliability was highlighted last June, when Dominion Resources and Allegheny took extraordinary actions to protect reliability in the face of high loads and high temperatures after tornadoes knocked out transmission lines.

The competitiveness of PJM's markets was addressed in Monitoring Analytics' latest State of the Market Report, which concluded that the results of the PJM markets were competitive in 2008. April 2009 load weighted LMP was \$34.7/MWh, the lowest monthly average since November 2003.

Infrastructure development took a major step forward with the VA, WV, and PA approvals and start of construction of the TrAIL line. This is a very positive development for the expansion of needed infrastructure to strengthen the grid in the PJM region.

The Regional Transmission Expansion Planning process is working successfully for the region. More than \$3.4 billion in transmission system additions and upgrades were approved by the PJM Board in 2008. Since 2000, a total of \$13.2 billion in transmission improvements have been authorized through the RTEP process.

One of the most significant accomplishments in the past year has been the strengthening of PJM's credit and risk-management policies. With your work and support, more than 20 revisions in PJM's credit policy were discussed, evaluated, approved and are being implemented this year.

The latest revisions – the reduction in unsecured credit and the implementation of weekly billing and settlement – were approved by the Federal Energy Regulatory Commission last month.

These changes mean significant reductions in unsecured credit, lower costs for financial security both letters of credit or cash, and lower risk exposure for you, PJM's members.

I commend the efforts of Suzanne and the Credit Risk Management Steering Committee in analyzing the credit situation and making recommendations to the members for these enhancements, which effectively strike a balance on cost and benefit. Our goal here was simple: "to do the right thing – for you, our members."

We have also addressed delays in completing planning studies for projects in our interconnection queues. Working with the Regional Planning Process Working Group, process improvements were implemented to streamline the queue process, most prominently in the clustering of system impact studies of similarly affected projects.

These changes had a positive impact in reducing the study backlog. Last year alone, more than 470 feasibility system impact and facility studies were completed, which was a record number. This is an 80% increase in the number of interconnection studies that were completed two short years ago.

For this year, we have reduced the backlog by more than 30% since January.

On the financial side, in 2008, the PJM market set a record of \$34.3 billion in billing. We received an eighth consecutive unqualified opinion in the SAS 70 audit that was completed by Pricewaterhouse Coopers. The audit, which covered the new settlements system, had only two exceptions, the fewest PJM has ever had. This unqualified opinion provides

assurance to you and in turn, your auditors, that the PJM settlement and billing process is sound.

When I interviewed, the Board told me this job would be fun and exciting. Some days are fun and days are just exciting.

Every time I work with the capacity market I get more humble. In spite of the issues surrounding RPM, we can say – and the Brattle study confirmed – that the Reliability Pricing Model capacity market is working to attract new capacity and demand resources to meet future needs.

Last year's auction cleared more than 4,200 MW of new resources for the 2011/2012 delivery year. There were 1,550 MW of gas and over 1,100 MW baseload coal and nuclear. New demand resources provided 430 MW.

Demand resources continue to play a valuable role in the PJM markets. Stu Bresler has been promoted to vice president – Market Operations and Demand Resources. Let's give him a big hand. Stand up, please, Stu.

Stu's new responsibilities for developing innovative approaches on demand response, reflecting not only the importance of demand resources to PJM, but also the policy emphasis that demand response is receiving in Washington and the states. One of my goals is the development of new leaders. I have met few people that have the natural leadership skills that Stu has. He is well positioned for the role and will make good things happen.

In terms of demand participation in PJM, there are more than 6,000 commercial and industrials greater than 100 kW and more than 45,000 small commercial and residential sites across the region.

Now let me give a brief mention to some 2009 achievements:

- We integrated 530 megawatts of new generation, including 275 MW of new wind energy, in the first quarter of 2009.
- PJM gained leadership recognition for the highly successful PHEV Summit we held with EPRI in January, with FERC Chairman Jon Wellinghoff speaking at the event. You'll be hearing from the FERC chairman today. We also contributed to the CO<sub>2</sub> debate with the analysis of the impact of carbon-control legislation on wholesale electricity costs. We issued the report in February.

- Just last week, we issued our Renewable Energy Dashboard, which provides information on the amount of renewable energy in the PJM footprint as measured by the Generation Attribute Tracking System, based on the states' Renewable Portfolio Standards.

PJM's combined strengths -- the grid operator and the market operator integrated together will help us solve the challenges facing the industry – dealing with global warming, integrating renewable energy and expanding transmission infrastructure.

PJM can't do it alone, nor can our neighboring RTOs. Developing more transmission to deliver renewable energy to help combat climate change will require enhanced cooperation with **18** other Order 890 planning authorities to leverage the benefits of our existing regional planning programs.

PJM has been working with its peers and partners to apply for DOE stimulus funding for Transmission planning. As part of that effort, the ISO/RTOs and other planning authorities in the Eastern Interconnection are creating a roll up of regional plans to tie them together and to coordinate better with Canada, the Western Interconnection, and Texas.

We are continuing to explore this grass roots Eastern Interconnection Planning Collaborative and the benefits it would provide PJM's members, as well as the Eastern Interconnection as a whole. The collaborative will enable us to address national, regional and state policies in a broad-based, coherent way.

To reflect the heightened focus on and importance of planning, we have made a change to PJM's Vision statement. The new Vision now reads: "To be the electric

industry leader – today and tomorrow – in reliable operations, efficient wholesale markets and infrastructure planning.”

System operators can only play the hand that planners deal them.

On a related front, let me close by talking a little about the strategy development initiative for PJM. The three E’s -- the economy, energy and the environment – are on policymakers’ and legislators’ minds, and they’ve been asking what PJM can do to help in these three areas.

In my view, Washington won’t solve the three E’s by itself. It will take good old-fashioned free markets, with a push from Washington, to address issues like CO<sub>2</sub>.

We think PJM can help inform the debates that are underway with facts and analyses.

We are not in the policy business but efforts such as the CO<sub>2</sub> whitepaper present PJM as an information and analyses resource in the debate to help inform the energy policy decision-makers.

We believe PJM is well-positioned to help drive innovation and provide industry leadership. As a credible and respected independent organization, we have a platform to **communicate**, **educate**, **raise awareness** and share ideas with policymakers. We also have a track record in providing reliable service at an affordable cost.

The Perfect Dispatch computer model we put in place last year has lowered production cost by more than \$30 million in the first quarter of 2009.

In fact, as I'm happy to tell anyone who'll listen, that after years of being one of the lowest-cost RTOs measured in cents/MWh, PJM is now **the** lowest cost RTO in North America – benchmarked best in class – in cost/MWh.

To maintain our leadership, PJM must continue to demonstrate excellence. That's what's at the heart of PJM's vision. I've emphasized to our employees that excellence and industry leadership go hand in hand. We have to continue to show we're the world leader in: 1) reliability, 2) efficient markets, and 3) success in getting infrastructure planned and built.

We are the largest grid and electricity market operator in the world. We have the lowest cost in ¢/MWh of any RTO/ISO in North America.

Our goal is to strive for excellence --- To be seen by you, our members, as customer-focused and easy to do business with. To be seen by you as the best grid and market operator --- the best in customer service. How you see us is how I will measure our success.

Thank you for the opportunity to serve you.