November 25, 2013

Mr. Howard Schneider, Chairman
PJM Interconnection LLC
955 Jefferson Avenue
Norristown, PA 19403

Mr. Terry Boston, President
CEO, PJM Interconnection LLC
955 Jefferson Avenue
Norristown, PA 19403

Re: Effect of PJM DR Clearing and Operability Proposals on Maryland Demand Response Policies and Programs

Dear Mr. Schneider and Mr. Boston:

I am reaching out to bring to your attention significant concerns of the Maryland Public Service Commission (Maryland PSC) regarding PJM’s Demand Response (DR) Clearing and Operability proposals. In 2008, the Maryland General Assembly enacted legislation establishing a program entitled “EmPOWER Maryland,” mandating the development and implementation of energy efficiency (EE) and DR programs. That legislation establishes targets for Maryland electric load reduction of 2089 MW by 2015.¹ The target covers all customer types and classes. For residential and smaller commercial customers, the Maryland PSC has developed programs to be implemented by its utilities that enable customers to participate in DR and EE technology and practices. During the most recent program year, these programs have reduced electricity demand in Maryland by approximately 1070 MW.²

These programs rely on PJM’s capacity market to partially fund incentives to customers for their voluntary participation in the program, resulting in reduction or modification in their normal electric usage. These activities yield reduced costs for PJM and electricity end-users. These monies are obtained from bidding Limited and Extended Summer DR products into the PJM capacity market. In the most recent completed program year, a total of $66.5 million was obtained from the sale of these products in this market, providing approximately 28% of the funding used for incentive payments and to defray expenses of these programs.³

PJM is considering several proposals to make significant changes in the level and conditions under which it will accept DR into its capacity market. First, PJM has proposed the adoption of a firm cap upon both the amount of Limited DR and Extended Summer DR that would be allowed to clear and thus receive revenues from the capacity market. Despite the consistently good record of these resources in responding to PJM dispatch instructions, PJM nonetheless proposes to place quite severe limitations

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³ Id. at 18.
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upon their use as a capacity resource. These limits, which various simulation studies of future BRAs provided by PJM indicate could reduce Limited and Extended Summer DR acquisition by as much as 35% in the MAAC LDA (in which most of Maryland is located), could cause EmPOWER Maryland programs to be curtailed or rendered considerably more costly.

PJM also is proposing (in its DR Operability Package) to change the characteristics of DR products to render their use more flexible in assuring reliability. For example, it is proposed that DR products be economically dispatched; be dispatched on a default notice time of as little as thirty minutes; with a minimum event duration of 1 hour; and upon a sub-zonal geographic basis. Each of these proposals, unless carefully crafted to avoid such a result, would impede the continued success of the EmPOWER Maryland Programs. Such results are unacceptable to the Maryland Public Service Commission. Unless PJM can assure the Commission that no such serious injury and diminution will be experienced by these programs, and that they will continue to be permitted to operate in an enabling environment, the Maryland PSC must vigorously oppose these PJM initiatives.

For these reasons, we appreciate PJM Senior Staff meeting with our Staff on November 6, to discuss our and Maryland utilities' concerns over the effect of the PJM proposals on this important Maryland policy. We understand that the PJM Staff participating in those discussions believe that reasonable accommodations can be developed to permit these programs to continue to benefit Maryland citizens. We further understand that you and your Staff propose to work with us and other States to develop necessary solutions. A list of the particular concerns discussed at our November 6 meeting is set forth in the appendix to this letter. We request that PJM provide responses to these concerns in writing in time to permit us to present these concerns to FERC if necessary. Also, if we have misunderstood your position on this matter, please advise us immediately.

Finally, although we have focused in this letter upon Residential and Small Commercial programs, the EmPOWER Maryland program is not limited to these programs, but also enables participation in DR by large commercial and industrial customers. Thus, the results of Competitive Service Provider (CSP) efforts to develop DR reductions in the load of these customer classes is of interest to the Maryland PSC, and the results achieved are considered a part of the EmPOWER Maryland program. Accordingly, we urge that any changes made that affect these CSP programs be fully demonstrated as needed and that unnecessary impediments from these PJM initiatives to their activities be avoided.

Sincerely,

[Signature]

W. Kevin Hughes
Chairman

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4 For example, in its Limited DR Clearing Package, PJM proposes a 4.8% of peak load limitation for Limited DR and a 10.5% limitation for the combination of Limited DR and Extended Summer DR. Indeed, the caps proposed are significantly lower than these stated levels in that PJM reduces the stated level by the 2.5% DR holdback on the assumption that that holdback is met entirely by Limited DR which we understand is not the case.
Appendix

1. PJM has proposed in its Demand Response (DR) as an Operational Capacity Resource Package that a new category of “Pre-Emergency” or “Capacity” DR be created (Proposal Matrix Item 1) and be dispatched based upon a selected strike price, but prior to the declaration of a supply emergency by PJM as is the present predicate for dispatching these resources (including EmPOWER Maryland DR). Utilities implementing EmPOWER Maryland programs have expressed concern that the dispatch rules ultimately adopted may fail to treat DR as effectively an “emergency” or “pre-emergency” resource, despite PJM’s assertion that this remains its intent. PJM is understood to be developing Manual and Rule language to clarify and codify its intent respecting dispatch for this new DR category, which will respond to utility concerns respecting these EmPOWER Maryland programs.

2. PJM has also proposed in this Operational Capacity Resource Package that DR be required to respond within 30 minutes of notification unless it is physically restricted from doing so (Proposal Matrix Item 2). Utilities implementing EmPOWER Maryland programs have explained that for their mass market residential and small commercial DR programs, the majority of customers require telephone contact to initiate response and, moreover, customer response is not sufficiently prompt to permit a 30 minute default standard, a one hour standard being required.

3. PJM has also proposed a minimum event duration of one hour. Again, Maryland utilities have advised that it requires 1-2 hours for mass market DR customers to be communicated with and to ramp up their response to meet targeted load reductions, and thus a four hour minimum duration is needed by these programs. The MD PSC understands that PJM has indicated a willingness to work with State Commissions and utilities to assure that its above described proposals (i.e. items 2 & 3) do not adversely effect or diminish participation in these important State policy programs.

4. PJM has proposed that DR programs be dispatched on a sub-zonal or zip code basis. An existing PJM Manual provision, Manual 35 at p. 100, provides an exemption from such dispatch for direct load control programs. However, it is not clear that all mass market programs fall within the Manual 35 exemption. We understand that these concerns will be reviewed and appropriate exceptions made by PJM as part of implementation of the Manual 35 exemption.

5. PJM has proposed a one year transition period before the DR as an Operational Capacity Source Package becomes effective. Utilities, pointing out that DR bids have already been submitted through the 2016-17 Delivery Year, have requested that a three year transition period be adopted. We understand that PJM is considering this request.

6. Utilities have expressed concern that firm caps proposed by PJM on Limited and Extended Summer DR permitted to clear the BRA under its Clearing Limited DR in RPM Package will permit insufficient DR to clear the BRA to support their EmPOWER programs. Data provided to date in response to this concern has not fully satisfied the Maryland PSC that this will not occur. Adequate and persuasive data to respond and refute this concern must be provided before the Maryland PSC can consider accepting these PJM proposed RPM changes.