



Comments of Andrew Ott, PJM Senior Vice President, Markets

Good afternoon, my name is Andrew Ott; I am Senior Vice President of Markets at PJM. I appreciate the opportunity to speak to you today regarding long term barriers to demand response participation in the PJM market. As you know, PJM and its stakeholders have worked diligently over the past several years to ensure that demand response resources have comparable participation opportunities to generation in PJM energy, capacity and ancillary services markets. Figure 1 and Figure 2 illustrate the growth of demand response participation in the aggregate PJM market and in the synchronized reserve market.

Figure 1 – Annual energy payments to curtailment service providers for economic activity.

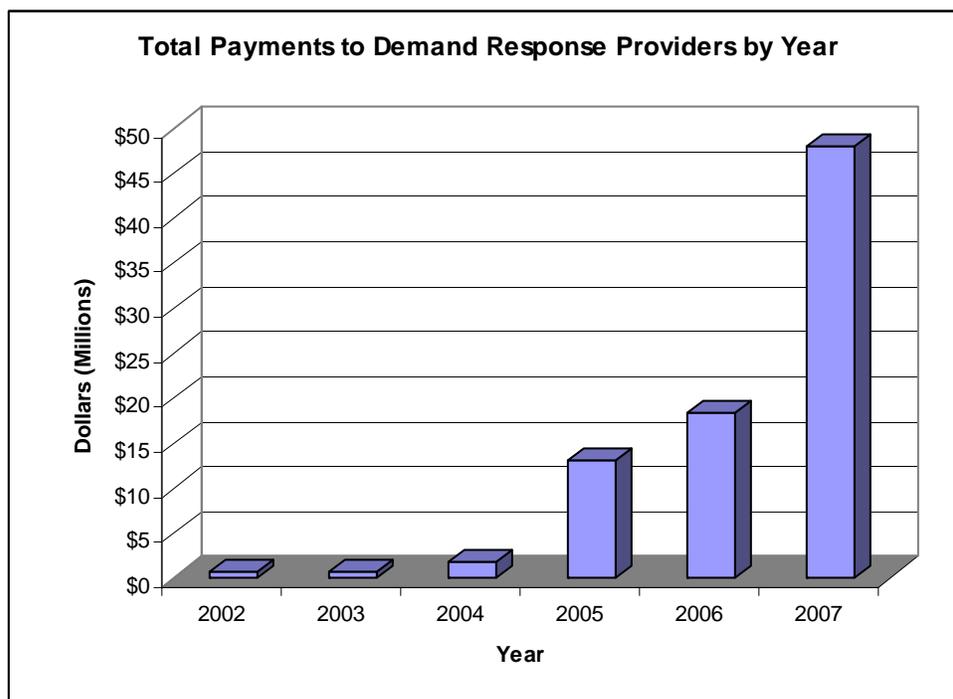




Figure 2 – Demand Response as Synchronized Reserve

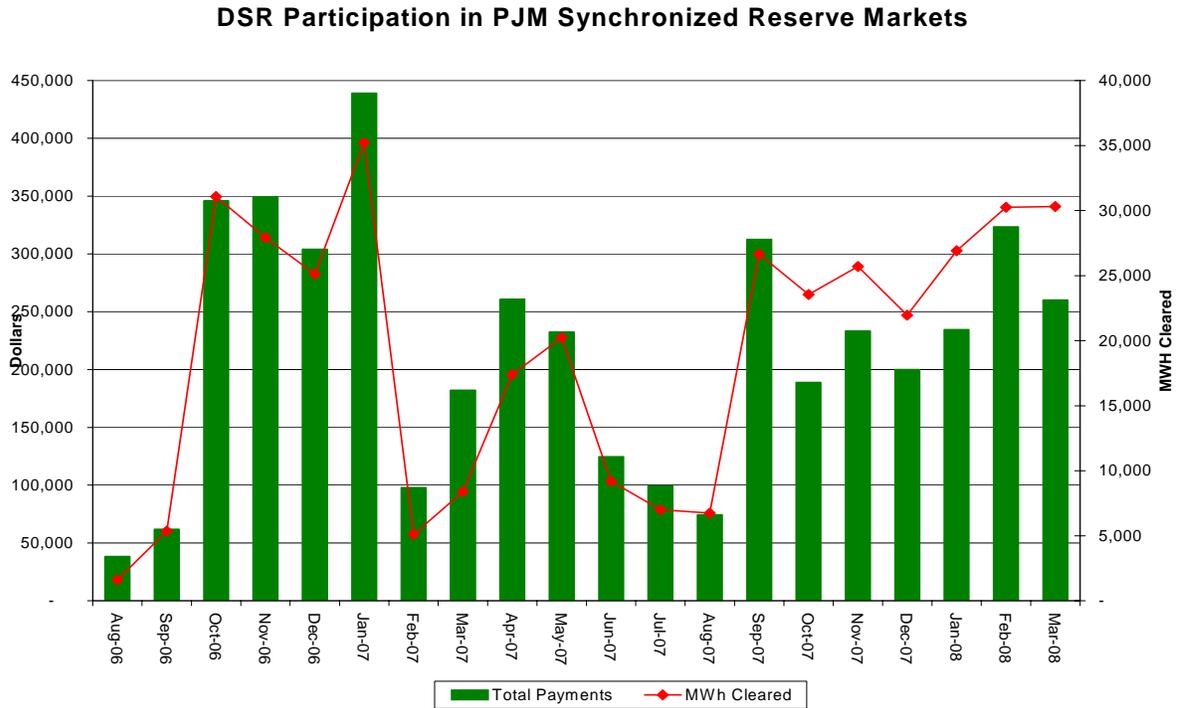


Figure 1 shows the growth in energy payments to Curtailment Service Providers (CSPs) for economic load reductions. Figure 2 shows the additional revenue stream now paid to Curtailment Service Providers for the growing number of demand resources that are qualified to provide synchronized reserve.¹ As illustrated by these charts, PJM has achieved significant progress in providing comparable access to demand response. PJM

¹ The first qualified demand resource participated in the synchronized reserve market on August 17, 2006. Today more than 75 demand resources are qualified to provide synchronized reserve.



has also worked with stakeholders to establish improved measurement and verification rules and procedures.

Many barriers to demand response participation in the wholesale electricity market are being addressed, but more remains to be done. My comments today will briefly cover barriers that remain and need to be addressed in the longer term along with potential solutions to these barriers.

Jurisdictional Clarity

The PJM market area covers thirteen state retail regulatory jurisdictions which includes both restructured and regulated states. There is no established process under the PJM Tariff for states to determine whether end users in its jurisdiction should be able to participate through Curtailment Service Providers in the RTO's markets. This situation can create uncertainty in the registration process for demand response. Efficient registration processes are critical to the success and continued growth of demand response in organized markets. Any process that delays participation due to regulatory uncertainty creates a significant obstacle to the development of these programs.

To eliminate this uncertainty in registration procedures, the Commission should require each RTO/ISO to include in its tariff the provision for these state determinations to be accommodated with consideration of the following guiding principles:

- The state notification should be clear and unambiguous and represent formal action of the state Commission to avoid uncertainties as to whether the



- notification represents formal state Commission action;
- The state’s ruling should address the generic question as to whether end use customers can not participate in specific RTO/ISO markets. A clear generic ruling is needed to avoid uncertainties and administrative cost associated with case by case determinations;
 - To avoid issues of whether the state is effectively “regulating” a federal tariff, the state should issue a clear ruling if it elects to reject its customers’ participation in specific RTO/ISO markets rather than through orders with conditions that effectively relitigate market design issues already decided by the Commission.

Information Access

Curtailed service providers require efficient access to customer information (i.e. pricing node, peak load contribution, energy loss factor, etc.) in order to reduce overhead costs for the aggregation of groups of small customers. Currently, procedures for access to customer information may require the curtailment service provider to request information from distribution companies, state agencies or the RTO. The procedures may vary by state which also creates confusion and uncertainty. In order for demand response to continue to expand efficiently, customer information needs to be more accessible to the customers and to their curtailment service providers. The Commission should encourage RTO stakeholders to consider more streamlined methods to make customer data available.

A potential solution is to encourage the states to allow the EDCs to provide, with customer consent, basic customer data such as, pricing node, losses and peak load contribution directly to the RTO upon each customer registration. PJM will also be



working through its stakeholder process to streamline the approval process for demand response settlements. PJM is also designing an improved demand response interface, which will be deployed by May 2009 to provide more automation in demand response interactions which should lower administrative overhead.

Advanced Metering Infrastructure

Deployment of Advance Metering Infrastructure (AMI) should be encouraged by the Commission because ultimately it will resolve many of the administrative and measurement and verification issues that have slowed demand response growth. The deployment of advanced meters coupled with adaptations to state retail rate designs can enable customers to see and respond to market based pricing. The FERC/NARUC Demand Response Collaborative is an important forum for sharing and leveraging the growing body of AMI deployment, acceptance, and impact experience.

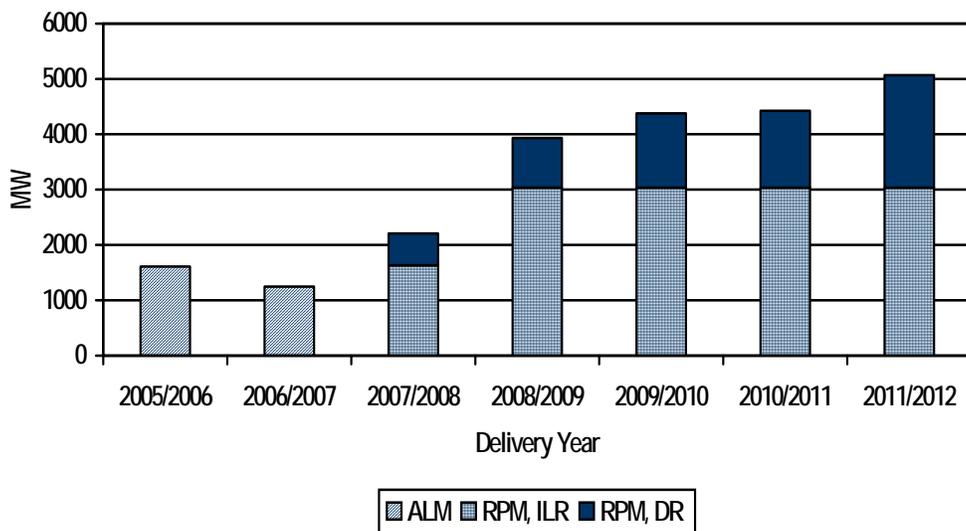
Demand Response in Planning and Forward Capacity Markets

The Reliability Pricing Model (RPM) expanded opportunities for demand response participation in the capacity market. Before June of 2006, only Load Serving Entities were authorized to aggregate load reduction capability for certification as Active Load Management. Today, both Load Serving Entities and CSPs can aggregate load reduction capability for Load Management. Traditional Load Serving Entities (those that are also EDCs) provided 73 percent of the Load Management for the 2007/2008 delivery year, with CSPs providing the balance. Traditional Load Serving Entities cleared 41 percent of



the Demand Resources (DR) in the July 2007 transition auction for the 2008/2009 delivery year, CSPs cleared 59 percent. The growth in demand response participation in the forward capacity auctions has continued as illustrated in Figure 3.

Figure 3 – Demand Resource Participation in Capacity Market



Despite the growth in demand resource participation in the forward capacity market, more can be done to enhance opportunities for demand response.

As ordered by the Commission in the approval of the RPM implementation, PJM is working through the stakeholder process to develop rules and procedures to allow Energy Efficiency to participate in the RPM auction process. We expect to file tariff amendments to implement this capability before the 2012/2013 auction to be held in May 2009.

As the deployment of Advance Metering Infrastructure continues to advance and as states adopt more rate structures that allow larger amount of customers to see and response to peak energy prices, the forward capacity markets and load forecasting must be adapted to



reflect the price response characteristics of the demand. The validated reduction in demand due to customer price response must be recognized in forward capacity markets and load forecasting without time lag in order for the significant savings to consumers from the investment in AMI to be realized as soon as possible. PJM will be working with state commissions to coordinate these efforts to ensure the forward planning process and the forward capacity markets can adapt to reflect the price responsive characteristics of retail load as it develops.

I appreciate the opportunity to speak before you today and I look forward to answering any questions you may have.