

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Demand Response in Organized Markets

Docket No. AD08-8-000

**TECHNICAL CONFERENCE
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Commonwealth Edison Company
On behalf of
Exelon Corporation**

:
Good morning. I'm Jim Eber, Director of Demand Response and Dynamic Pricing for Commonwealth Edison of Chicago. Thank you for this opportunity to present my comments to you today. I'm here on behalf of Exelon, which has three subsidiaries active in demand response programs.

Currently ComEd can reduce peak load by 1,100 MWs through its customer response programs. Forty-one hundred commercial and industrial customers participate, ranging from steel mills to convenience stores. Over 60,000 residential customers participate in our air conditioner direct load control program, and 5,000 residential customers purchase energy at real-time market prices. ComEd has more than tripled the demand resources available since the mid-1990's.

Currently PECO can reduce peak load by almost 350 MWs with the 130 commercial and industrial customers participating in its programs. About 84,000 residential customers are served on an off-peak rate. In the last 5 years PECO has tripled the amount of load reduction available through its customers.

These numbers do not include the substantial load reduction achieved by competitive curtailment service providers active in ComEd and PECO zones, which both ComEd and PECO fully support and facilitate.

In addition, Exelon Generation is actively developing demand resource products for the wholesale market, as well as demand response programs to offer customers through its competitive retail supplier business.

My involvement in demand response for over 10 years has taught me that the term "demand response" doesn't really tell the story. "Demand" really means "Customers," but customers don't view themselves as "demand." They view themselves as participants in electricity markets.

In my experience there are three crucial factors needed to encourage customers to participate in electricity markets:

- Customers must be able to see and react to wholesale prices for their products, either directly or through curtailment service providers;
- Prices must be competitively determined and reflect the value that results from the functioning of an efficient competitive market;
- Customers must have confidence that the wholesale pricing structure is stable and not vulnerable to constant regulatory change.

I'll expand on each of these elements.

First, customers need to be able to see and react to wholesale prices. Retail curtailment service providers offer the critical link between retail customers and the wholesale market. Retail curtailment service providers participate in wholesale markets and thereby enable retail customers to react to wholesale price signals, even when the retail customers do not directly experience the wholesale price signals. Demand response programs have flourished within competitive retail market structures in Illinois and Pennsylvania that dovetail well with the competitive wholesale market structure of PJM. By their very nature, retail and wholesale competitive market structures foster demand response participation because they offer greater opportunities for demand resources to compete with other resources.

Second, prices need to be determined by an efficient competitive market so that customers will see the actual value of the resource and react accordingly. Customers will participate in demand response programs when they will realize revenues from offering the demand resource – whether capacity, energy, or ancillary services - that are greater than the costs to offer that resource. But to make that assessment, customers must be able to predict what the value of the resource is to the market at any given time. Thus, the price the customer sees should not be skewed by either subsidies or mitigation. Rather the price for resources – whether generation or demand – should be the product of an efficient competitive market under whatever conditions exist at any given time, so that customers see the right price at the right time and are able to offer the right demand resources.

If we undervalue energy at the time of system peak, customers will not see the appropriate opportunity and the result will be participation at less than an optimal level. However, if we allow an efficient competitive market to set the price of energy resources, optimum participation of each resource will result in an efficient market to the benefit of all customers, not just those providing demand response.

And third, customers and providers of retail demand response products need certainty that the competitive pricing structure will be stable. Customers must have confidence that appropriate price signals will be sustained by a stable competitive pricing structure before they will make the investment in demand

resources. Customers understand that the value of demand resources will go up and go down, but if they have confidence that the market will be allowed to work, they will rely on their own forecasts to invest appropriately in infrastructure that will allow optimal participation of demand resources.

Another example that proves the point, customer participation in PJM's capacity market has tripled following implementation of the PJM Reliability Pricing Model in 2007. RPM price signals are eliciting a large increase in Interruptible Load Response, and forward price stability under the three-year forward auction is giving customers the price certainty they need to justify decisions for investment in demand resources.

In closing, Exelon believes the Commission will foster optimal demand response with policies that allow price signals to reflect the value of energy during shortages and that allow RPM to work to elicit optimal levels of customer response in capacity markets. We think the Commission should allow competition to work in electricity markets. Any necessary adjustments and improvements to PJM's energy and capacity markets should be made through stakeholder processes.

Again, thank you for allowing me to participate in this conference. I look forward to answering any questions.