

Pepco Holdings, Inc.

Remarks of Stephen Sunderhauf

FERC Demand Response Technical Conference – Sept. 13, 2010

[Docket No. RM10-17-000]

Mr. Chairman and Commissioners:

Good morning and thank you for the opportunity to speak to you today on behalf of Pepco Holdings, Inc. PHI brings a unique perspective to this conference. We own and operate three electric distribution companies – the Potomac Electric Power Company, the Delmarva Power & Light Company, and the Atlantic City Electric Company. Together, these companies serve approximately 1.9 million customers in our four jurisdictions with a combined zonal peak load in excess of 13,000 MW. All PHI distribution companies operate within the PJM Regional Transmission Organization (“RTO”), and are regulated by the Delaware, District of Columbia, Maryland and New Jersey Commissions. Electric generation is deregulated in each jurisdiction and our customers have a choice of suppliers. PHI no longer owns generation resources.

PHI distribution companies have offered an array of demand side management programs over the past years and the current status of utility provided programs varies by jurisdiction. At this time we are moving to deploy Advanced Metering Infrastructure in our Delaware, District of Columbia, and Maryland markets. We believe that deployment of this smart grid technology will strongly support increased demand response initiatives, including the introduction of dynamically priced electricity.

PHI offers the following comments on Demand Response compensation:

PHI supports FERC policy which encourages reliable demand response (“DR”) activities that are fairly compensated. There are several core issues to be addressed in the development and application of a national policy in this area:

1. Financial incentives for DR programs should be market-based.
2. When reviewing DR financial incentives, all revenue sources should be considered. (There are 3 primary DR revenue streams within the PJM market: energy, capacity, and ancillary services.)
3. If DR financial subsidies are established, a transparent net-benefits test should be established and applied. Traditional utility DSM tests should be looked to for guidance.
4. The development of DR market standards should be undertaken with explicit examination of the impact of these program standards on the reliability of RTOs.
5. National policy on DR should recognize regional differences in electricity markets.
6. DR costs should be assigned fairly across market participants.
7. Regardless of the manner that DR costs are assigned, electricity consumers will bear the ultimate costs of DR initiatives and therefore the electricity cost impact of national DR policy must be carefully considered before those policies are put in place.

Subsidy Issue

We do not believe that a load response program which pays full energy locational marginal price (“LMP”) for load reductions at every hour will

necessarily result in optimal levels of load response. In general, DR programs should be market-based and any incentives for load response programs above market prices should be limited to extreme conditions -- for example to mitigate high market prices and to provide additional resources when electricity supply is scarce. Paying full LMP for load reductions at any hour and without respect to wholesale energy market conditions is likely to result in excess incentives for DR, since the total compensation to DR participants could exceed the market-determined value of electricity. – (by the amount of the retail generation and transmission charges which the participants would save by reducing electricity consumption.)

We believe that if DR subsidies are established, that a net benefits test should be created. The net benefits test should be transparent, established upfront, and be readily understandable to all electricity market participants. In general, the principal decision criteria for a net benefits test should be that incentives above market based financial revenue streams produce market benefits at least equal to the incremental costs. Incentives that exceed benefits will result in resistance to demand response among consumer groups, thereby undercutting support for these programs. Finally, over time, DR subsidies may distort the optimal mix of demand and supply resources in the market.

RTO Policy Differences

PHI believes that FERC should not promulgate one set of rules for load response compensation for all RTOs. Each respective RTO is uniquely situated, with its own set of operating rules, unique load shapes, differing generation mixes, and a variety of specific local conditions. It is also

important to note that individual state DR policies will differ. However, it is important that similar demand response market design principles be applied across the RTOs to avoid the unintended effect of shifting available supply or demand resources across adjacent RTOs simply due to differences in philosophy.

In conclusion, PHI supports policy initiatives to foster greater participation in DR and the development of new programs, as evidenced by its sponsorship of a wide range of DR programs for retail customers over many years. Looking forward, market based policies that fairly incent existing and new forms of DR and assign costs appropriately will help to ensure that the appropriate mix of demand and supply resources are available.

Once again, thank you for the opportunity to speak. We look forward to our continuing participation in the development of DR market policy.