



STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES



STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

August 29, 2008

Andrew L. Ott
Vice President, Markets
PJM Interconnection, LLC
955 Jefferson Ave.
Norristown, PA 19403

RE: PJM's Review of RPM and Participation of Energy Efficiency Resources

Dear Mr. Ott:

This letter is submitted on behalf of the Public Service Commissions of Maryland, the District of Columbia, and Delaware and the New Jersey Board of Public Utilities.

The above named regulatory commissions believe that PJM's capacity market should aggressively support and encourage investment in energy efficiency. RPM results have already demonstrated the value that demand response can provide in terms of enhancing reliability and in fostering a more competitive and efficient capacity market. We believe that energy efficiency can make comparable contributions, if it is treated comparably.

The current exclusion of energy efficiency measures from RPM creates a significant barrier to the deployment of energy efficiency – limiting the use of what promises to be among the most cost-effective capacity resources available. We believe that energy efficiency should participate in the capacity market on an equal footing with other capacity resources. That means that the reduction in peak demand that can be measured and verified for an energy efficiency measure throughout its life should be the basis for compensation in the capacity market. We note in this regard that proposals to provide compensation for short periods of time reflect only a small fraction of the value of energy efficiency as a capacity resource.

The states believe that capacity payments to energy efficiency should be for the useful life of the energy efficiency measure, provided it clears the auction, subject to sound and accurate measurement and verification. This approach fairly compensates the measure for the value it provides. We also accept as a reasonable aspect of the compensation the proposal to measure the peak load contribution of energy efficiency deployers, or their LSEs, based on actual metered loads. However, we do not consider it an absolutely necessary part of the compensation scheme.

Proposals that provide for capacity payments for the life of an energy efficiency measure have been characterized by some as providing double compensation to energy efficiency due to the actual metered load aspect. The data we have seen indicates that this aspect of the proposal increases compensation to energy efficiency somewhat beyond the amount paid to the resource by clearing the auction, but it does not appear to increase it by a great deal, or by anything approaching a doubling of the compensation. Therefore, so long as “additional” compensation is kept to a reasonable level, we do not object to this aspect of the proposal, although as previously noted we do not consider it indispensable either.

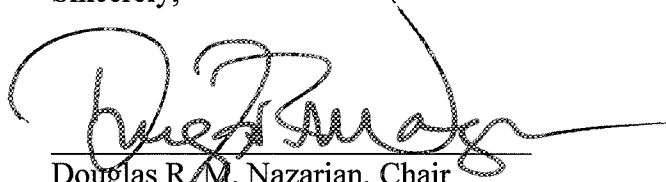
We further note with respect to the measurement of peak load that less than 50% of retail customers currently have individual PLC values that can be adjusted, and creating mechanisms to make such adjustments would be complicated. Using PJM’s current methodology for assigning capacity costs on a proportional basis provides a small additional incentive for customers who reduce their loads with EE measures in comparison to those customers who do not. Again, this is acceptable although not absolutely required, in our view. We consider the benefits accruing to all customers via the moderating effect on RPM clearing prices associated with aggressive deployment of energy efficiency as ample justification for this aspect of the proposal.

The rules ultimately adopted by PJM should respect State retail rate design and State jurisdiction. The rules should be designed to incent and compensate energy efficiency, over and above the levels that would have existed absent PJM’s policies or government mandates. Both of these principles are embedded in the “PJM Demand Response Steering Committee Energy Efficiency Guiding Principles.”

Needless to say, rigorous monitoring and verification protocols as well as qualification and contracting practices will have to be adopted. These will be among the many implementation details to be worked out. However, as a policy matter we believe

that the outcome and objectives of the system developed by PJM should be similar to that which now exists in the New England ISO. That is, we believe the rules should be sufficient to ensure that energy efficiency can make a lasting and meaningful contribution to reliability and to the competitiveness of the energy and capacity markets.

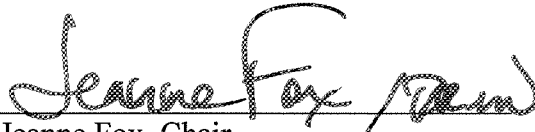
Sincerely,



Douglas R.M. Nazarian, Chair
Public Service Commission of Maryland



Arnetta McRae, Chair,
Delaware Public Service Commission



Jeanne Fox, Chair
New Jersey Board of Public Utilities



Agnes Yates, Chair
District of Columbia Public Service Commission