



**Statement of Terry Boston, President and CEO,
on behalf of the PJM Board of Managers**

Demand Response in the PJM Markets

June 26, 2009

As an operator of a regional transmission grid, PJM Interconnection recognizes that demand's ability to respond quickly and easily to prices adds great value to wholesale power markets. Demand Response gives PJM operators more flexibility to manage the regional transmission grid, making the grid more reliable and enhancing competition among market participants. PJM strongly supported stakeholder discussions on ways to enhance economic demand response in the PJM market.

Long-Term Solution

PJM's long-term vision is that "Price Responsive Demand", which allows more customers to respond directly to market prices and to voluntarily reduce their consumption when wholesale prices rise, is the ultimate solution to demand participation. The development of Smart Grid technologies promises to spread transparency to new levels through advanced metering devices that display electricity prices at every moment directly to end use customers. These technologies, coupled with innovative retail rate structures will enable electricity users to see and voluntarily react to prices in an automated fashion.

Interruptible load implemented through retail tariffs and RTO Demand Response programs are the established first and second generation of demand response improvements to electricity markets. To continue this evolution, the next generation -- price responsive demand -- needs coordinated effort between PJM and States who oversee retail rates, as well as utility and curtailment services companies who have direct relationships with end use customers and can deploy these new technologies at the distribution level.

Therefore, the PJM Board of Managers seeks the assistance of State regulators to take advantage of price responsive demand capabilities through their own retail rate structure. To grow demand response and establish its participation as an enduring feature of PJM markets, our region needs innovative retail rates that are linked to wholesale prices. PJM's market is well-suited to facilitate such demand participation because it already provides transparent price information at each location that is consistent with grid reliability requirements.

PJM will embark on a program to encourage individual States to promptly design their own dynamic rate structure -- in whatever way that best serves their own State. PJM is willing and able to support various retail rate structures with tools and systems that enable customer response to real-time wholesale prices and recognize demand response capabilities in reliable grid operations, transmission planning and capacity adequacy planning.



The Board has specifically directed PJM management to increase efforts in support of initiatives that help bridge the informational and structural gap between the wholesale market and retail rates. Over the long term, the development of more direct customer response to price will establish the majority of demand response in the market. PJM is committed to working with States and distribution companies to speed up this important transition.

Short-Term Solution

The Board of Managers also recognizes that there are significant differences among PJM Members about short-term ways to build and strengthen economic demand response until new metering capabilities and innovative rate structures are in place. The Board appreciates the ongoing efforts of all parties to engage in this extended debate and, when possible, to narrow their differences.

Because PJM is committed to establishing demand response as a strong participant in its energy markets, the PJM Board of Managers has approved the re-introduction of incentive payments as an interim measure to enhance progress toward the long-term solution. PJM management will shortly file a proposal to implement a modified version of the “PJM Compromise Proposal” in which incentive payments for demand response will be paid in the top 9% of the hours from the previous year based on full LMP.¹ The modified proposal also includes a performance-based provision that will terminate the incentive payment structure after achievement of a 1000 MW increase in the amount of load that is able to be price responsive in the PJM Market.

PJM expects this approach will incent demand response during the highest priced hours, when it is most needed, and should accelerate progress toward the long-term price responsive demand solution. Since PJM expects significant progress in developing price responsive demand within the next three years, the Board also directed management to produce a public report at the end of a three year period analyzing the progress toward price responsive demand and recommending modifications to the short-term solution based on progress achieved toward making demand resources full participants in electricity markets.

The PJM Board of Managers urges the entire PJM community to re-double efforts to strengthen demand response and take full advantage of the forthcoming technology improvements.

¹ The “PJM Compromise Proposal” was presented to the Members Committee on June 4, 2009, and is posted at: <http://pjm.com/committees-and-groups/committees/~media/committees-groups/committees/mc/20090604/20090604-item-04-pjm-straw-proposal-for-compensation.ashx> .