



DATE: October 22, 2010
TO: Market participants
FROM: PJM IMM
SUBJECT: DR as an unlimited product

Proposal: Unlimited only DR product to replace the 10x6 Limited Product

The MMU supports the development of an Unlimited Only DR capacity product to replace the 10 X 6 Limited Product currently in use.

The current 10x6 Emergency DR product participates in the RPM (capacity commodity) market as if it were an unlimited product. However, it has been recognized that 10x6 Limited Emergency DR is not equivalent to an unlimited capacity resource on a MW for MW basis. The probability of needing the DR product for reliability increases with the degree to which DR clears in RPM and is relied upon for reliability.

PJM has proposed to limit the total amount of limited DR purchased at an administratively determined saturation point rather than addressing the definition of the product. This approach focuses on limiting the total amount of limited capacity in the market and creating administrative price differences across products even as they trade on an equivalent MW basis.

The MMU proposal recognizes that sellers of DR are selling interruptibility. Sellers of DR are indicating that they are willing to get off the system whenever the capacity they are not willing to pay for is needed by customers who are willing to pay and have paid for such capacity.

The MMU proposal addresses the reliability issues presented in the saturation study by defining DR to be unlimited. Sellers of DR would have to get off the system whenever that capacity is needed by those customers who pay for it. To do otherwise would force other customers to partially subsidize the capacity needed by DR customers after their limited calls are exhausted.

The unlimited DR product would continue to represent Emergency DR, which would be called only to prevent the use of emergency procedures to maintain reserves and system reliability issues during periods of high demand. Unlimited DR represents non-firm load that will leave the system under the conditions indicated above. Unlimited DR is not an energy product and daily energy offers would not be required. There is no Day Ahead Offer

obligation associated with the unlimited product. Product cannot set price in Energy Market. It is the absence of load, and is sold as a reduction in capacity requirements in the RPM market on a MW of capacity equivalent (unlimited performance) basis.

The unlimited DR product could be provided based on portfolios of individual customers which might have very different characteristics and willingness to interrupt. The characteristics of the portfolio would meet the product definition. Portfolios would have locational characteristics based on how they clear in RPM auctions. Portfolios would have performance requirements analogous to generation facilities based on forced outage rates.